BRITISH AIRWAYS

2006/2007 ANNUAL REPORT & ACCOUNTS

British Airways Plc
Annual Report and Accounts for the year ended March 31, 2007
Registered in England and Wales No. 1777777
Registered Office: Waterside, PO Box 365, Harmondsworth UB7 0GB

Agent of the Company in the United States:
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KEY RESULTS

Group Results			2006-07	Restated 2005-06
Revenue	£m	up 3.4%	**8,492**	8,213
Operating profit	£m	down 13.3%	**602**	694
Profit before tax	£m	down 0.8%	**611**	616
Attributable profit for the year	£m	down 35.7%	**290**	451
Net assets	£m	up 16.2%	**2,411**	2,074
Basic earnings per share	p	down 36.9%	**25.5**	40.4
Key financial statistics				
Passenger yield	p/RPK	up 2.1%	**6.44**	6.31
Operating margin	%	down 1.4 points	**7.1**	8.5
Net debt/total capital ratio	%	down 15.1 points	**29.1**	44.2
Group operating statistics				
Passengers carried	'000	up 2.0%	**33,068**	32,432
Revenue passenger kilometres	m	up 2.9%	**112,851**	109,713
Revenue tonne kilometres	m	up 1.3%	**16,112**	15,909
Available tonne kilometres	m	up 0.7%	**22,882**	22,719
Passenger load factor	%	flat	**76.1**	76.1

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CHAIRMAN'S STATEMENT

We won the OAG Airline of the Year award in April. There is nothing unusual about that you might say. Normally we accept such accolades graciously and add them to the trophy cabinet. But on this occasion we were a little surprised.

While the year got off to a very promising start, it was subsequently marked by a series of events and disruptions that caused frustration for our customers. We are all very aware of the inconvenience caused by issues such as new government security measures, airport infrastructure failures and a threatened strike.

So what does this award say about British Airways, or, more accurately the frequent flyers, who voted for us over the likes of Singapore Airlines, Emirates and Lufthansa?

It says that despite these issues, they think our customer service is the best, and our products too. Equally important, it is an indication that they recognise our ability to manage through difficult periods.

Our full year results reflect the significant impact of the disruptions. We reported an operating profit of £602 million (after absorbing a fuel cost increase of £350 million), down £92 million on last year, giving us an operating margin of 7.1 per cent and a pre-tax profit of £611 million, down £5 million on the previous year.

Earnings per share were down 37 per cent to 25.5 pence, partially reflecting a higher effective tax rate. We are not recommending a dividend but anticipate reinstating the dividend next year when we will be seeking to achieve our ten per cent operating margin target.

Our revenue performance was good, up 3.4 per cent in financial year 2007, despite the threatened cabin crew strike after Christmas, which was felt in the fourth quarter. Total costs were up 5.5 per cent, driven mainly by fuel, up 22.1 per cent at £1.93 billion. Fuel continues to be a major cost and we expect our fuel bill next year to be just over £2 billion, some £100 million up on this year. Our cargo performance suffered due to operational and security related issues. We also flew one less dedicated freighter aircraft.

Security remains a big issue for us, and our passengers. To be effective, security has to be credible. Government has insisted on maintaining security requirements that are not. For example insisting on only one piece of hand baggage is irritating to passengers. This makes London an unattractive airport for transit passengers in particular and has no credibility as a security measure when it is not required in the US nor in any other European country.

Looking at one of the highlights of the year, I am particularly pleased that we tackled the £2.1 billion deficit in our New Airways Pension Scheme (NAPS). It was a very complex and emotional issue that management, staff, trustees and trade unions resolved together.

We took other steps during the year to further strengthen our business, laying the foundations for delivery of a ten per cent operating margin by March 2008. We disposed of the loss making regional airline business of BA Connect and made progress at Gatwick, particularly on cost, which has given us the confidence to renew our commitment to Gatwick and upgrade its fleet. We are transferring Airbus A319 aircraft to Gatwick to replace the oldest Boeing 737s and we have ordered eight new Airbus aircraft for our shorthaul fleet. These are the first steps towards a single shorthaul fleet.

Earlier in the year we ordered four Boeing 777s for delivery in 2009 and we expect to make a major order soon for new replacement and growth longhaul aircraft to be delivered in the next decade.

There has been much bid speculation around Iberia, our preferred partner in Europe for the last ten years. We are considering how to use our ten per cent holding in the best interests of our shareholders. However, any consortium bid would not involve further capital investment by us and we have ruled out an independent bid for the airline.

Public consultation on a third runway and mixed mode operation at London Heathrow airport is scheduled for the autumn. We believe the benefits from building the third runway at Heathrow can begin to flow through in 2015-2020, as the Government's 2003 Policy White Paper intended. We expect the public consultation will show conclusively that the tight limits set on the environmental effects of expansion can be met with confidence.

The environment and aviation's contribution to climate change remains high on the public and political agenda. Our progress in this important area is detailed on page 23.

We are absolutely committed to meeting our environmental costs in full. Our argument that carbon emissions trading is the most environmentally effective way of combating aviation's impact on climate change has now been accepted by the European Commission, and airlines will be included in the EU's carbon trading scheme from 2011. We wish it were sooner.

The Government's announcement in December to double Air Passenger Duty (APD) and position it as a green tax was disingenuous. The APD rise is a simple tax grab that produces no direct environmental benefit. The revenue is used simply to support general public expenditure. We have suggested to the Chancellor that APD could be reformed so that the proceeds are spent on offsetting flight emissions. It is worth noting that British Airways was the only airline to absorb the backdated cost of APD to passengers, of some £11 million.

The results include two one-off items. Arcane accounting rules created a pension credit of £396 million from the changes we made to our pension scheme. This makes a mockery of the traditional concept of true and fair accounting because in practice we merely reduced the unfunded pension deficit. We also made a provision of £350 million against settlement of the competition investigations into anti-competitive activity on longhaul passenger and cargo fuel surcharges.

The investigations by the US Department of Justice, the European Commission, the UK Office of Fair Trading and others, into anti-competitive activity on longhaul passenger and cargo fuel surcharges are continuing. We have a long-standing, clearly defined and comprehensive competition compliance policy, which requires all staff to comply with the law at all times. It has become apparent that there have been breaches of this policy in relation to discussions about these surcharges with competitors. This behaviour is both regrettable and totally unacceptable.

Under IAS 37 accounting rules the Company is required to make a provision for potential settlement of the competition investigations. The provision represents the estimate of the amount to settle all competition authority and civil claims at the Balance Sheet date, but recognises that the final amount required to pay all claims and fines is subject to uncertainty.

On a separate governance issue, we have applied to de-list and de-register from the New York Stock Exchange, which ends our US reporting obligations under the Securities Exchange Act of 1934. The move is possible because the US Securities and Exchange Commission (SEC) has recently revised its rules and now allows de-registration if a company has a low volume of shares traded.

It makes sense because only three per cent of British Airways shares are held in the American Depositary Receipt (ADR) programme and the average trading volume of shares held in the programme this year was less than five per cent of the total trading in BA shares. The move will save us around £10 million a year and is entirely consistent with our strategy of simplification without in any way detracting from the integrity of our governance and control processes.

We will of course retain our listing in London and comply with the UK Listing rules and report under IFRS. Corporate governance remains key to the business and we will ensure we maintain a strong and effective internal control environment. We also intend to maintain the Company's ADR facility as a level 1 programme. This means that the Company's shares will be traded only on the over-the-counter market.

Our uniform has always been a matter of keen interest because it is a symbol of our values, professionalism and British heritage. It became a matter of public debate when we were falsely accused of being anti-Christian although our uniform policy was consistent with many other airlines and organisations.

In view of the level of interest we initiated a review and sought views from staff, religious faith groups and an independent human rights organisation. After listening carefully we decided to amend our policy to allow crosses and other religious symbols to be worn openly.

The regulatory landscape shifted too. After years of negotiation a new air treaty was agreed between the EU and the US, which opens up Heathrow to more competition from March next year.

Our views have been well documented on this subject. Europe should have held out for access to the domestic US market and more importantly a change in foreign ownership rules. In terms of Britain's interests, the prize asset - access to Heathrow - was given away too lightly.

There was one consolation. Both sides have committed to resume second stage talks towards achieving an 'open aviation area' and Europe's transport ministers demanded an automatic termination clause giving Britain the ability to withdraw the right to fly into Heathrow in 2010 if the US does not deliver any progress on liberalisation by then.

The impact of the deal will be much less than some of the hype suggests. There are positives for us in the new treaty. We can move longhaul routes like Houston and Dallas from Gatwick to Heathrow next summer and we have filed an application with the US Department of Transport for permission to operate services between any point in the US and any point in the EU.

By the time the agreement is implemented our customers will be enjoying the benefits of Heathrow's magnificent Terminal 5, which is going to be something that Britain can be proud of – a really welcoming gateway to the UK. A vast, elegant building with facilities that make the travel experience effortless and give us a truly competitive advantage over our rivals.

At the same time our new industry-leading Club World cabin will be in place across the vast bulk of our longhaul fleet, offering customers more luxury, more space, more choice, more privacy and an even better sleep in fully-flat beds that are 25 per cent wider than the original version. The launch has gone very well.

We will never lose sight of our customer service goals or the value of our brand. To do so would be folly. I am encouraged that the marketing industry has once again voted us one of Britain's top ten best-loved brands and in a separate Readers Digest survey, the most trusted brand.

We were delighted to welcome Jim Lawrence to the board as a non-executive director. His range of experience, covering strategic consultancy, leading US multi-nationals in consumer products, and the US airline industry provides just the blend we were seeking.

Finally, it remains for me to thank our staff for their efforts during this year.

Martin Broughton, *Chairman*

CHIEF EXECUTIVE'S STATEMENT

Strong results despite operational challenges

It has been a challenging year for the operation and this took the gloss off what would have been some outstanding financial results. Even so we delivered a 7.1 per cent operating margin, which would be the envy of many other airlines.

We have faced serious operational issues during the year and recognise that on occasions we have fallen short of our customers expectations. Much of this has been outside our control. August will be remembered not because a plot to blow up aircraft was foiled but because of the new security measures which followed it. These measures have caused confusion and frustration which continue because the restrictions on the amount of hand baggage only apply within the UK. This was exacerbated by subsequent airport infrastructure failures, unwarranted increases in Air Passenger Duty, and the most severe fog for thirty years in the peak period before Christmas.

The threat of strike action in the New Year was averted but not before we had cancelled 1,300 flights.

The impact of all of these issues on our bottom line has been some £231 million and left us with operating profits of £602 million.

Customer benefits

We launched our new Club World service to critical acclaim and it is now on 96 flights per week to New York and increasingly across the network. We continue to lead the way with product innovation. We have enhanced First ahead of a major new investment in this flagship cabin.

The internet is delivering both cost benefits to the company and improved service for our customers. We have made ba.com simpler to use, adding new on-line options giving customers more freedom to manage their bookings. We continue to invest in and develop the website, which is a critical business tool that is very popular with our customers.

The number of self-served customers at Heathrow has grown sharply towards our 80 per cent target at Terminal 5. This is proof that our customers like the ability and freedom to take control of their own travel arrangements.

Following the sale of the regional business of BA Connect we launched a new subsidiary, BA Cityflyer, to operate services from London City airport. The airline flies to six destinations using RJ100 aircraft and is a vital part of our London airport portfolio.

Terminal 5

In less than 300 days time we will be welcoming the first customers through the doors at Heathrow's Terminal 5. Beginning in September 2007, the airline will be undertaking a vast array of proving trials and staff familiarisation sessions. This six month period of "operational readiness" will be critical to the overall success of our move into the terminal.

We have studied in great detail a wide range of previous airport moves and terminal openings around the world. Lessons have been learnt and it is clear that projects, which have failed to build in enough testing time, have run into major difficulties on opening.

The facilities will be better than any other hub in Europe, and flight connections will be smoother than they have ever been. The terminal is spacious, light and modern and offers fantastic views of the world's busiest international airfield.

There will be less queuing, genuine fast bag drops, accelerated boarding processes and better punctuality. The automated luggage systems will deliver bags to the carousels for pick-up as soon as immigration checks have been completed ensuring no waiting on arrival.

Our exclusive lounge complex in Terminal 5 will be the largest of any airport in the world and will raise the customer experience to new levels. Terminal 5 is a once in a lifetime opportunity for British Airways and will provide a launch pad for our future growth.

Investment

Earlier in the year we announced our investment in four Boeing 777-200 ERs to be delivered in 2009 to grow our longhaul business. These will be powered by Rolls Royce Trent engines. We have also taken the first steps towards a single shorthaul fleet with the order of eight additional Airbus A320 family aircraft. Following a strategic review of our shorthaul business at Gatwick, we are upgrading the shorthaul fleet there by replacing its older Boeing 737s with Airbus A319 aircraft from Heathrow. These steps will have a positive environmental impact.

We expect to announce a major longhaul order in the second half of the year for the replacement and expansion aircraft to be delivered in the next decade. Environmental performance will be one of the key criteria in our choice, ensuring greater fuel efficiency, reduced noise and emissions. We are considering the Airbus A380, A350, and A330 and Boeing 747-8, 777 and 787.

Airport charges and developments

We will continue to argue before the Competition Commission against the CAA's proposals to raise airport charges between 2008-13 by 4-8 per cent a year. In the current charges period, prices are rising by 50 per cent. To advocate another 50 per cent rise over the next five years cannot be justified.

Charges should increase no faster than inflation during the next five years with a lower cost of capital and greater operating efficiency. We believe that BAA can make the infrastructure investment needed at Heathrow with a cost of capital set at 5.6 per cent.

We are asking the CAA to accept that BAA can achieve an improvement of one per cent operating efficiency each year. This is not a challenging target and BAA should be pushed further and faster to become more efficient.

We also believe that robust service quality standards should be backed by higher financial compensation payments to airlines to ensure that the investment delivers a better experience for passengers.

We support the OFT's decision to refer BAA's UK airport market to the Competition Commission. We believe that separate ownership of Heathrow and Stansted would ensure decisions about new runways in South East England are not concentrated in the hands of one company and enable airlines to meet the needs of their passengers more effectively.

We do not believe that re-organisation within BAA, rather than separate ownership, would remedy competition issues among BAA's London airports. Effective regulation is key to preventing abuse of monopoly power, especially at Heathrow and Gatwick.

Environment

For the last seven years, we have led the way in advocating carbon emissions trading as the most environmentally effective means of dealing with aviation's climate change impact.

We are the only airline in the world to have experience of emissions trading – through our participation in the UK's voluntary scheme since its inception in 2002.

Carbon trading gives companies in all industries a simple choice: if you don't cut your emissions, you must pay for someone else to. If that extra cost makes you inefficient, you will face the commercial consequences.

The case we have made for carbon trading has steadily gained momentum.

We convinced the UK Government of the merits of the policy, and we reached a real milestone last December when the European Commission formally proposed draft legislation for aviation to be included in the EU's existing carbon trading scheme from 2011.

There is real momentum behind this project now. Emissions trading is no longer some vague, theoretical idea that airlines may or may not get involved in. It is going to happen.

Employees

The threat of industrial action is a reminder of just how vulnerable the airline is to disruption of any kind. Following the cabin crew dispute in January we have entered into new arrangements with our Trade Unions to improve our working relationships.

Ahead of our move to Terminal 5 we have made good progress on changes to working practices. All Heathrow staff have signed up to new ways of working.

The BA Way

Against this background we are re-affirming what we stand for as a company. We have updated our values with a more contemporary theme, retaining our British heritage and the best of our traditions, building on the theme of delivering service that matters.

Safety and security continues to underpin everything we do and the trust placed in us by our customers and employees.

We are committed to behave in a responsible way, to be a well managed company that is both socially and environmentally responsible. We are of course, professional and confident but also warm and welcoming.

Fixing the basics of our operation, particularly punctuality and baggage is absolutely key as is delivering the brilliance we are renowned for.

Looking ahead

Our results for this year are encouraging and give us confidence in our ability to achieve a ten per cent margin by March 2008. We have great opportunities ahead, exciting product developments and the chance to reap the rewards.

Willie Walsh, *Chief Executive*

DIRECTORS' REPORT AND BUSINESS REVIEW

The Directors present their Report, Business Review and Accounts for the year ended March 31, 2007. The accounts are set out on pages 52 to 100.

Results for the year

Profit for the year attributable to members of British Airways Plc ('the Company') amounted to £290 million, against a profit on the same basis of £451 million in the previous year. No interim dividend was paid during the year and no final dividend is proposed. The Board has already indicated its intent to return to the payment of dividends in the future as it reaches its target of a ten per cent operating margin.

OVERVIEW OF THE BUSINESS

Principal activities

The main activities of the Group are the operation of international and domestic scheduled air services for the carriage of passengers, freight and mail and the provision of ancillary services.

The Company is one of the world's leading scheduled international passenger airlines. The Group's principal place of business is Heathrow, one of the world's premier airport locations, which serves a large geographical area with a comparatively high proportion of point-to-point business. The Group also operates a worldwide air cargo business, largely in conjunction with its scheduled passenger services. The Group operates one of the world's most extensive international scheduled airline route networks, comprising some 147 destinations in 75 countries at March 31, 2007. In the financial year 2007, the Group carried more than 33 million passengers.

The Group's airline network generates economic value by meeting the demand for business and leisure travel. The Group provides vital arteries for trade and investment, as well as leisure travel opportunities for individuals and families. In the financial year 2007, the Group earned over £8.4 billion in revenue, 3.4 per cent up on the previous year. 85.5 per cent of this revenue was generated from passenger traffic, 7.3 per cent from cargo and 7.2 per cent from other activities. 762,000 tonnes of cargo was carried to destinations in Europe, the Americas and throughout the world. At the end of March 2007, it had 242 aircraft in service, compared to 284 in March 2006.

Objectives

Building a sustainable business remains key for the Group and the achievement of a ten per cent operating margin throughout the cycle remains the Group's key financial target. It will only achieve and sustain this if it can work successfully in partnership with all its key stakeholders and effectively manage the risks associated with the business.

Its key responsibility to shareholders is to ensure that it generates a sustainable return on the capital employed in its business and can invest for future growth. The Group has set a target of a ten per cent operating margin to ensure an adequate financial return and it continues to make progress towards this goal. The Group also has responsibilities to other stakeholders – its employees, its customers and the communities affected by its operations, as well as having regard to the impact its business has on the environment.

In conjunction with its employee involvement programme, the Group developed the 'BA Way' success formula supported by values and goals. During the year under review, these were revised with a view to making them simpler and more easily understood. The Company has adopted goals relating to customers, employees, financial performance and operational performance. Targets relating to each of these are set for customer recommendation, employee involvement, operating margin and punctuality. The success formula 'service that matters to people who value how they fly' has been further defined and is now focused on 'BA Basics and Brilliance'. In addition to a renewed focus on delivery of the basic elements of its service, such as punctuality and baggage delivery, the Group will develop the 'brilliant' aspects of its customer proposition, which provide competitive advantage where it really counts.

Other key, near-term objectives include the successful completion of the move to Terminal 5, a continued reduction of the Group's cost base and investing in growth where it can improve economic returns.

Strategic developments and investments

Background

In each of the years following September 11, 2001 the Group has operated with a series of rolling two-year business plans, which have established its priorities and focused resources for the following two-year period. The business plans have focused on establishing the right 'Future size and shape' for the business.

Although the particular focus areas of each plan have varied, the aim has been to move to a ten per cent operating margin with cost control remaining a key priority throughout. In recent years this has covered all of the Group's costs, including distribution costs and employment costs, delivering significant savings. During the financial year 2007 the Company has made significant strides towards its ten per cent operating margin goal by tackling its pension deficit, disposing of the loss making regional business of its subsidiary BA Connect and reducing employee numbers.

Business Plan 2007/10 (BP10)

On March 7, 2007 at its Investor Day, the Group launched its latest business plan for the three-year period to March 2010. This year a three-year outlook was chosen primarily to ensure that due consideration was given as to how the business would exploit the commercial and operational benefits of operating within a single campus following its move to Terminal 5.

BP10 builds on and evolves the themes of previous plans.

Firstly, as noted above, the period of the plan will see the airline move some 90 per cent of its Heathrow operations into Terminal 5, a phased move that will commence on March 27, 2008. Beyond the business achieving a successful move, this first theme will focus on extracting the full value of the once in a lifetime opportunity that the move to Terminal 5 offers. All these activities are positioned under the business plan theme 'Bring T5 Alive'.

Secondly, the business has redefined its customer promise under the banner of 'BA Basics and Brilliance'. This theme focuses on delivering the 'BA Basics' to customers day in, day out, and developing products and services that offer 'Brilliance' where it really counts.

The third theme, 'Invest in Growth', evolves from the previous 'Fit for Growth' theme as the Group begins to make investments in new longhaul growth aircraft. This investment programme has already begun with the announcement of four firm orders and four options for the purchase of Boeing 777-200ER aircraft for delivery in 2009 and 2010 respectively. This commitment to new aircraft followed the tackling of the pension fund deficit issue, which was always recognised as something that had to be resolved prior to the Group embarking on any major fleet reinvestment programme.

The final priority area remains the Group's commitment to achieving and maintaining a competitive cost base. This is supported by a large number of initiatives across the business to drive further cost efficiencies during the period of the plan.

Terminal 5

On March 27, 2008, after five and a half years of planning, design and construction, the Company will move the majority of its Heathrow flights to Terminal 5. The move will be in two planned stages, one month apart. The Company will locate a few services (around 8 per cent) with **one**world alliance partners in Terminal 3. By the time Terminal 5 opens with the first flight arrival (the early morning flight from Hong Kong) 16,000 people acting as passengers will have thoroughly tested every aspect of the building including car parking, check-in, baggage, IT systems and security and over 5,000 staff will have been thoroughly trained. Around 40,000 customers will go through the new terminal on its first day of operation.

Removing traditional airport processes will put customers in control of check-in and eliminate the need to queue. With more than 90 per cent of flights operating from a single terminal, punctuality will be significantly improved whilst the sophisticated high-speed baggage system will set new standards in baggage performance and reliability. It is planned that 80 per cent of Terminal 5 customers will use either online check-in or one of 96 self-service kiosks. There will be 140 customer service desks, including 96 fast bag drops. When it is in full operation, Terminal 5 will serve around 30 million passengers a year.

Fleet and Network Strategy

The Group's network strategy continues to reduce its exposure to unprofitable market segments whilst strengthening its position in profitable markets.

The Group has this year increased the number of flights in key markets (such as New York, India, Moscow, Barcelona and Nice), expanded global presence by restarting flights to Calgary, Port of Spain and Newquay, and started new services to Dresden and Sarajevo. Aircraft utilisation has also been increased, allowing the business to operate the same number of services in Summer 2007 as in Summer 2006 with one less operating aircraft.

Increased aircraft utilisation and network restructuring has allowed the Group to reduce its mainline fleet. In the financial year 2007 the number of mainline aircraft in service has reduced by one, with the retirement of an Airbus A320. Reductions in the BA Connect fleet, followed by the subsequent sale of the business, reduced the total fleet by 42 aircraft to 242 at March 31, 2007.

The Group's fleet strategy is to support profitable growth and to renew the oldest aircraft in the fleet with newer, more efficient and environmentally friendly, aircraft. For further information, see the Future Fleet Commitments section opposite.

Restructuring of the Shorthaul Business

The Group has made significant changes to its shorthaul business in recent years to improve the profitability of this segment. These cover a range of sales and marketing initiatives, including changes to the shorthaul pricing structure with the introduction of lower fares and greater flexibility through the removal of certain restrictions.

Further changes to shorthaul pricing saw the introduction in April 2006 of cheaper one-way fares and the ability to change bookings, for a fee of £30, up to the last day prior to travel. The launch of the new one-way fares was supported by a focused marketing and PR campaign to increase consideration of British Airways for shorthaul travel. Seat factors have significantly increased over the year as a result. The Group has also been able to make further reductions in distribution costs for its shorthaul business as a result of continued channel shift to ba.com. This has been supported by improvements to the functionality and ease of use of the site during the year.

Gatwick Operations

The Company operates a fleet of 43 aircraft from London Gatwick. Longhaul aircraft utilisation has been improved, driving more contribution from the fleet. In the financial year 2007 the Company continued its profitability improvement programme at Gatwick to improve profitability of the shorthaul operation through a range of initiatives to grow revenue and reduce costs. These initiatives have successfully increased seat factors, reduced cost-of-sale, decreased property costs and improved productivity. Further financial benefits of this programme will be seen over the next year.

BA Connect

On March 5, 2007, the Company completed the sale of the regional operations of its wholly owned subsidiary BA Connect to Flybe Group Ltd ("Flybe"). As part of the transaction, the Company received a 15 per cent shareholding, valued at £49 million, in Flybe. BA Connect's operations at London City airport were retained by the Company and put into a wholly owned subsidiary CityFlyer Express Limited ("BA CityFlyer"). BA CityFlyer has a fleet of nine RJ100 jets and flies to Glasgow, Edinburgh and various European business centres using the British Airways brand.

Future Fleet Commitments

During the financial year 2007, the Company converted options on four Airbus A320s to firm orders for delivery in 2008. In total the Company will now take ten Airbus A320s and four Airbus A321s between April 2007 and December 2008. These aircraft will replace older Airbus A320s and leased aircraft, which will be leaving the fleet.

The Company also has 27 option positions/purchase rights on Airbus A320 family aircraft.

The Company also placed orders for four Boeing 777-200ER aircraft for delivery in 2009 and took out options on a further four Boeing 777-200ER aircraft in 2010. The acquisition of these aircraft is in line with the Group's strategy of profitably growing its longhaul business. Environmental factors were considered as part of the selection decision.

The Company also launched tenders to manufacturers for longhaul fleet growth and replacement beyond 2010. These tenders included the potential replacement of the longhaul Boeing 767 fleet and the older Boeing 747-400s. The Company's oldest Boeing 747-400s and Boeing 767s are now 18 years old. Candidate replacement aircraft include Airbus A330s, A350s and A380s and Boeing 777s, 787s and 747-8s. The need to match aircraft capacity and costs to the Company's network and passenger demands remains paramount and environmental considerations will also be a major factor in selecting the new aircraft type. A decision is expected in 2007.

Aircraft fleet

	Number in service with Group Companies at March 31, 2007									
	On Balance Sheet Aircraft	Operating Leases Off Balance Sheet Extendible	Operating Leases Off Balance Sheet Other	Total March 2007	Changes since March 2006	Future Deliveries	Options	2006/07 revenue hours flown	Average hours per aircraft/day	Average age (years)
Airline operations (Note 1)						(Note 6)	(Note 7)			
Boeing 747-400	57			**57**				271,957	13.07	12.8
Boeing 777	40		3	**43**		4	4	223,699	14.25	8.3
Boeing 767-300	21			**21**				85,891	11.31	14.1
Boeing 757-200	13			**13**				34,454	7.26	12.5
Airbus A319	21	10	2	**33**				108,746	9.03	6.4
Airbus A320 (Note 2)	8	2	16	**26**	(1)	10		82,762	8.52	9.3
Airbus A321	7			**7**		4		20,241	7.92	2.4
Boeing 737-300			5	**5**				15,345	8.41	17.7
Boeing 737-400	19			**19**				64,370	9.28	14.6
Boeing 737-500			9	**9**				27,429	8.35	14.5
Turboprops (Note 3)					(8)					
Embraer RJ145 (Note 3)					(28)					
Avro RJ100 (Note 4)		9		**9**	(1)			10,197	2.85	7.9
British Aerospace 146 (Note 3)					(4)					
Hired aircraft								15,767		
Group Total (Note 5)	**186**	**21**	**35**	**242**	**(42)**	**18**	**4**	**960,858**	**10.82**	**10.7**

Notes:

(1) Includes those operated by the Company and BA Cityflyer.

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

(3) Aircraft disposed as part of the sale of BA Connect.

(4) Excludes one Avro RJ100 stood down pending return to lessor, and six Avro RJ100 sub-leased to Swiss.

(5) Excludes two British Aerospace ATPs stood down pending return to lessor, and 12 Jetstream 41s sub-leased to Eastern Airways.

(6) Future year deliveries of Airbus aircraft have increased by four to 14 to replace A320 aircraft due to leave the fleet, and four Boeing 777-200ER aircraft to grow the longhaul fleet.

(7) Options include four Boeing 777-200ER aircraft to grow the longhaul fleet.

Business Activities

Operations

Operational Centres

The Company's principal base is at Heathrow, where it carries an estimated 41 per cent of the airport's passengers. In addition, the Company has a second base of operations at Gatwick. As mentioned on page 7, the Company will consolidate the majority of its Heathrow operations into Terminal 5 during the financial year 2009. UK airport policy is discussed on page 13 Regulation — UK and International Airport Policy.

Offices, maintenance hangars and other support facilities used by the Company 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 and its subsidiaries. In addition, the Company occupies space and desks under lease or license in airports throughout the UK including, but not limited to, Manchester, Newcastle, Edinburgh and Glasgow.

The Company'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, the Company generally obtains premises as required on a short-term basis from the relevant authorities.

Operational Services

In the UK, the Company provides most of the operational services it requires for the handling of passengers and cargo. At overseas airports, the Company subcontracts the provision of the majority of its ground handling requirements. Runway, ramp and terminal facilities are provided by airport operators that charge airlines for the use of these facilities, principally through landing, parking and passenger charges. Following the sale of the regional business of BA Connect to Flybe in March 2007, the Group has agreed contractual terms to transfer its regional ground handling to aviance UK. 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.

Commercial

Sales

The Company develops and maintains relationships with key customer groups and intermediaries using account management teams around the world. These relationships include large corporations, small and medium sized enterprises, governments and individual customers. Product information, fares and schedules are distributed to these customer groups either through travel agents, both business and leisure, using global distribution systems or direct through the contact BA call centres and increasingly through the Company's website, ba.com.

The Company accepts payment through multiple mechanisms but credit card payments are a significant proportion of the total. The growth of internet selling worldwide provides a good opportunity to grow ba.com sales, providing customers with access not only to great value air fares but also offering ancillary products, including hotels and car hire. The growth of sales on ba.com has also enabled the promotion of the other services offered on the site such as online check-in, which can be accessed 24 hours before the flight departure time.

Marketing and Distribution

In the financial year 2007, the Company's marketing and distribution functions were brought together into a single department to provide a centralised, global approach to the Company's sales and marketing model in order to further reduce its selling costs and make more effective use of marketing spend.

Marketing and Distribution is responsible for the development, delivery and promotion of the Company's products and services as well the development of the Company's selling channels, including ba.com, the contactBA call centres and the Company's relationships with the major global distribution systems. It also includes the management of the Company's subsidiaries, British Airways Holidays and Air Miles Travel Promotions.

In November 2006, the Company re-launched its longhaul business class product 'Club World' and introduced a number of catering and soft furnishing improvements into First Class. The key changes in Club World centred on the in-flight experience. The new product involved a totally redesigned cabin, a new seat, an upgrade to the in-flight entertainment system with the introduction of Audio Video on Demand (AVOD) and changes to the onboard catering. The new Club World seat offers greater privacy, a wider bed with increased comfort and greater baggage stowage capacity. To date the changes to Club World have been very well received. The changes to First Class are the precursor to a total re-launch of First Class in the autumn of 2008.

The Company's competitive position is supported by its brand, award-winning products, and the strength of its London based network in terms of destinations and frequency. The Company's award-winning onboard product is regularly refreshed and continues to score highly with customers, and its strong profitability allows continued investment in its products to maintain its leadership position.

Cargo

British Airways World Cargo (BAWC) should be considered in terms of its network capability and its ground handling capability:

- Network - the majority of cargo is carried in the holds of passenger aircraft, with the balance on leased or part-chartered freighter aircraft where market conditions allow their deployment. This allows BAWC to maximise the use of the Company's scheduled route network to provide a worldwide cargo service. The cargo business also utilises trucks to feed cargo to its major hubs in Europe and the United States.
- Handling – there are three handling facilities at Heathrow: Ascentis (an 83,000 square metre, technologically advanced hub for the general freight products), Premia (opened in September 2006 specifically for the handling of premium products) and the Perishable Handling Centre. BAWC also handles freight at London's Gatwick and Stansted airports, all of which are connected by scheduled trucking services. At overseas airports, most handling operations have been contracted with third parties with the exception of the US where there remains a significant BAWC handling capability.

Airline Partners

Qantas

Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational co-operation on all of British Airways' and Qantas' flights that serve markets between the United Kingdom/Continental Europe and Southeast Asia/Australia. This co-operation provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers. In June 2005, the Australian Competition and Consumer Commission extended permission for both carriers to co-operate in this way for a further five years, valid from February 2005.

The Company and Qantas continue to coordinate sales and marketing activities worldwide and to share all costs and revenues on the JSA routes, providing both companies an incentive to improve the joint business.

American Airlines

The Company and American Airlines continue to codeshare on points behind and beyond the US and London gateways. The Company now places its code on more than 120 American Airlines routes, whilst American Airlines applies its code to more than 80 of the Company's routes. The Company continues to compete with American Airlines on North Atlantic routes. There were no significant changes to this relationship during the year.

Iberia

In December 2004, the Company and Iberia signed a Joint Business Agreement (JBA) to establish profit-sharing on two routes, Heathrow-Madrid and Heathrow-Barcelona. This was accompanied by joint selling and the coordination of schedules on these routes from Summer 2005. The Company and Iberia codeshare on more than 60 domestic and international routings.

The Company owns a 9.95 per cent shareholding in Iberia. In March 2007 the Texas Pacific Group informed the board of Iberia that they were considering an offer for the equity of the company. Following this announcement the Company is reviewing its options with regard to its stake. However, the

Company has ruled out an independent bid for the airline, and has indicated that any consortium bid would not involve further capital investment.

Alliance and Codeshare Relationships

At March 31, 2007 the **one**world alliance included eight airline members: British Airways, Aer Lingus, American Airlines, Cathay Pacific, Finnair, Iberia, LanChile and Qantas. Co-operation across the alliance in a number of areas benefits the customer and increases the airlines' effectiveness. **one**world offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

Royal Jordanian, Japan Airlines and Malev joined **one**world on April 1, 2007. At that time Aer Lingus left **one**world, taking the number of airline members to ten. The Company will maintain its bilateral codeshare relationship with Aer Lingus.

In addition to the aforementioned activities, during the financial year 2007 the Company maintained alliance and codeshare relationships with Cathay Pacific, LanChile, and Finnair, as members of **one**world, together with codeshare relationships with Japan Airlines and SN Brussels Airlines. There were no events of note during the year concerning these relationships.

Franchising

As at March 31, 2007, the Company had five franchise partner airlines: Loganair, GB Airways, British Mediterranean Airways (BMED), Sun Air of Scandinavia and Comair of South Africa. These five carriers carried more than 4.8 million passengers during the financial year to 91 destinations (some 69 destinations additional to the Company's mainline network) in the UK, continental Europe, the Middle East and Africa, using British Airways flight numbers. In addition to providing connecting passengers to the Company's mainline services, the franchisees pay a franchise fee and also pay for any services provided to them by the Company.

In February 2007 Bmi acquired 99 per cent of the share capital of BMED and in March 2007 announced that the franchise relationship with the Company will cease at the end of the Summer season 2007. Following the end of this franchise relationship, the Company will commence a codeshare relationship with Bmi on certain routes formerly operated by BMED.

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, in particular 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 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 specialised 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

The Company'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 the 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 changing 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, the Company must obtain the necessary operating permits from the foreign Governments concerned. These are unlikely to be withheld so long as the Company meets the required international safety standards. One ground on which a contracting government usually has the right to prevent the Company from operating the agreed services is if it is not satisfied that the Company 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, the Company's Memorandum and Articles of Association contain provisions that could be used to limit the rights of non-UK and non-European nationals who own shares in the Company.

In 2003 the EU Council granted two mandates to the European Commission, one to negotiate an Open Aviation Area with the US on behalf of all EU Member States, and the other to amend existing bilaterals between Member States and third countries to bring them into compliance with EU law. A general framework was developed covering all other third country relationships and the processes whereby Member States may continue to negotiate bilaterally whilst remaining within EU law as clarified by the judgement of the European Court of Justice of November, 2002. This judgement made it clear that Member States could no longer negotiate bilaterally with third countries on any subject covered by EU law. These subjects include ownership and control of airlines, pricing on intra-community routes and rules concerning computer reservation systems.

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 except Switzerland, although agreement has been reached, which has the effect of bringing Switzerland into the same arrangements.

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

The CAA grants global route licences for scheduled and charter air services. The absence of the necessary bilateral rights will not result in refusal to grant a licence application.

Specific route licences 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.

Open Skies

The European Commission began active negotiations with the US Government in September 2003 to agree the terms of a new multilateral agreement covering air services between the EU and the US. A text for the first stage of a new agreement was finalised in March 2007 which, inter alia, removed all restrictions on transatlantic flights by EU and US airlines, and granted rights for EU airlines to carry passengers and freight from the US to third countries on services that originate in the EU, and reciprocally for US airlines to carry passengers and freight from EU countries to third countries (both within and beyond the EU) on services that originate in the US. The draft agreement was endorsed by the EU's Transport Council on March 22, 2007 and will be effective from March 30, 2008.

Airport Slots

The Company's ability to obtain slots at airports for the purpose of producing schedules attractive to passengers is critical to its business. Allocation of slots at a significant number of airports where the Company 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). The Airport Coordinator makes the initial slot allocations within IATA guidelines, which give priority to the historic rights of existing users. Pursuant to Council Regulation (EC) No. 793/2004, which is implemented in accordance with UK regulations, the UK Government must ensure the Airport Coordinator advises the Company at the biannual IATA Schedule Coordination Conference of its slot allocations. These provide the basis for slot negotiations with the Airport Coordinator and other airlines. Coordination of European airports is governed by the Council Regulation. Pursuant to the Council Regulation, the UK Government must ensure that the Airport Coordinator acts independently and in a non-discriminatory manner. Regulations governing the allocation of slots in the US are different, but the US has stated that it is committed by its international obligations to treat all carriers in a non-discriminatory manner.

The Company 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.

Fare Setting

It is a provision of some bilateral air services agreements that the fares, rates and charges for scheduled services on the agreed routes must be filed with, and approved by, both governments concerned or their agencies. These requirements are increasingly being relaxed in accordance with UK Government policy. With effect from December 2006, the CAA removed any remaining fare regulation of UK carriers except for UK/US routes. It is anticipated that regulation of these routes will also be removed when the EU/US Aviation Agreement is fully implemented in March 2008. Some foreign governments still require all airlines to file and seek approval of their fares. Under some services agreements, airlines may still be required by foreign governments to coordinate fares through IATA (whose role in setting fares is described under Competition on page 13) though this is now rare. Pricing on intra-EU air routes is covered by EU Regulation. It is a widespread practice among airlines to sell a substantial proportion of seats and cargo space in many parts of the world at tariffs lower than the approved levels or on other unapproved special terms. The Company 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 harmonise their safety requirements through the Joint Aviation Authorities (JAA) and non-binding Joint Aviation Requirements. Certification of compliance by the state of registry is normally recognised by all other members of ICAO.

In September 2003, airworthiness and maintenance standards, based largely on ICAO and JAA standards, were adopted into EU law and a new independent European Aviation Safety Agency (EASA) 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.

In December 2006 EU-OPS 1 was published as Regulation 1899/2006. EU-OPS 1 basically transfers the operational requirements and procedures from non-binding JAA requirements into European law. It is anticipated that these will form the basis of EASA regulations when competence for operations and licensing is given to EASA. EU-OPS 1 comes into effect on July 16, 2008.

British airlines are still required, except in limited circumstances, to operate British registered aircraft. All British airlines are required to hold a UK Air Operator's Certificate (AOC) currently issued by the CAA acting as a member of the JAA. The AOC will continue to be issued by the CAA on behalf of the EU Commission or EASA. The AOC confirms the competence of the holder to operate and maintain its aircraft safely. Each aircraft operated under an AOC may only be flown if it has a certificate of airworthiness confirming compliance with the EU regulations. All flight crew and certain maintenance staff must be licensed.

Maintaining its high safety standards is a key priority for the Company. All departments, especially engineering, flight operations and ground 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 Head of Safety and Security. A formal safety management system is in place, and a comprehensive monitoring system exists within the Company 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. These measures often exceed both the international standards developed by ICAO and EU regulations, which set minimum required standards across the EU. 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 programmes, which place an onus on the Company to meet specified security standards. The Company's own security department continuously assesses the threat to its operations, develops policies for the protection of the Company'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 exist and continue to be introduced by various governments as a means of helping to control terrorism and illegal immigration. The Company has introduced passenger disclosure arrangements as required by the US and Canada. These arrangements have been approved by the European Commission and the Council. A new agreement with the US is expected during 2007. 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.

On August 10, 2006 the UK security level was raised to "Critical" following the uncovering of an alleged plot to blow up aircraft using liquid explosives. As a result of this plot the Department for Transport immediately introduced additional security precautions. Initially these prohibited any carry-on passenger luggage other than travel documents. The threat level was subsequently reduced to "Severe" and the current restrictions are that passengers may carry a single piece of baggage with maximum specified dimensions, and any liquids or gels must be carried in containers with a maximum capacity of 100ml placed in a re-sealable clear plastic bag with a maximum capacity of 1 litre. These unprecedented measures put both the hold baggage system and the airport's ability to search passengers in a timely manner under severe strain. The Company continues to actively engage with the UK Government and airports and seeks to minimize the inconvenience to its customers whilst maintaining the necessary level of additional security measures.

Disabled Passenger Legislation

Domestic US disabled passenger legislation has been extended to foreign airlines. The EU passed legislation setting out rules for treatment of disabled passengers, which will be introduced from July 2007.

Environmental Regulation

The Group's environmental management system commits it to working constructively with those concerned for the environment and to observing rules and regulations aimed at the 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 local and global atmosphere, disposal of solid waste and aqueous effluents, noise and other relevant parameters. The Group's strategy takes compliance as the baseline of environmental performance and aims to exceed standards and regulations in a number of key areas.

The Company's aircraft fleet betters existing internationally agreed noise standards and the Company is subject to departure noise and night flight restrictions at many airports worldwide. Major changes to current noise management systems are subject to the requirements of the 'Balanced Approach' established by ICAO, designed to ensure that noise management is balanced and well targeted. At the Company's main bases at Heathrow and Gatwick, the current night noise restrictions came into force from Winter 2006 and will run until Winter 2012. As with the previous regime, it imposes significant operating restrictions between the hours of 23:00 and 07:00, and now includes a ban on scheduling QC4 aircraft (high noise aircraft such as our B747-400) between 23:30 and 06:00. The Company is proactively involved in a number of areas aimed at mitigating the impact of aircraft noise, including voluntary measures to reduce noise on approach to and departure from airports.

The Company is playing an active role in promoting understanding of, and minimising the effects of, aircraft emissions to the atmosphere. This has included the sharing of 'best practice' to minimise fuel use and emissions, and championing emissions trading as the best possible way to mitigate emissions of greenhouse gases. The Company is a member of the UK emissions trading scheme and supports the inclusion of aviation in the EU scheme. The Company is also involved in discussions within ICAO to establish guidelines for international emissions trading within aviation.

Aircraft engines are also regulated for low altitude emissions, and areas around many airports have to meet stringent air quality limits. The Company is actively involved with defining aircraft emissions characteristics at ICAO, through the Government's Project for the Sustainable Development of Heathrow (PSDH) and through its support for a number of additional research programmes. The Company has also been one of the driving forces behind the UK's Sustainable Aviation initiative.

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 and "The Future of Air Transport Progress Report" published in December 2006. The Progress Report takes account of both the Eddington Report (on transport's role in sustaining the UK's productivity and competitiveness) and the Stern Report (on the economics of climate change) and restates government support for the sustainable development of commercial air transport and the expansion of several UK airports over the period to 2030. 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 early in the period 2015-2020, subject also to securing planning permission. The Progress Report acknowledges the progress made by the aviation industry in reducing the noise of the airline fleet and in addressing local air quality issues. The UK Government is committed to consulting in 2007 both on a new Heathrow runway and on fuller use of Heathrow's existing runways. The cost of airport expansion must be paid by the users of each airport through user charges.

Competition

Most of the markets in which the Company operates are highly competitive. The Company faces competition from other airlines on the same city-pair routes, from indirect flights, from charter services and from other modes 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, the Company's pricing decisions are affected by competition from other airlines, some of which have cost structures that are lower than the Company's or other competitive advantages and can therefore operate at lower fare levels.

It has been UK Government policy since at least 1984 to liberalise 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.

Tariff Coordination

The Company, along with many other airlines that participate in the multilateral interline system administered by IATA, participates in IATA tariff conferences to agree multilateral interline passenger tariffs for scheduled journeys and tariffs for cargo interline services where it is lawful to do so. The activities of IATA tariff conferences have operated with anti-trust immunity from regulators in the USA, Europe and Australia in particular. These immunities in the EU have either ended or have sunset dates already announced. In the EU, the dates for Passenger Tariff consultation exemptions were established by Regulation (EC) No 1459/2006;

- routes within the European Economic Area (EEA) were exempted until December 2006,
- routes between the EEA and Australia/USA are exempted until June 30, 2007, and
- routes between the EEA and all other third countries are exempted until October 31, 2007.

As a result IATA has developed two new mechanisms (e-tariffs to address procedural issues and FlexFares to address benchmark pricing issues) to maintain the multilateral interline system for passenger traffic by operating in a manner that does not require competition law immunity and is consistent with competition rules. The IATA FlexFares product has been implemented within the EEA and will be rolled out progressively on all routes to/from the EEA and beyond, where applicable, in order to meet this timetable.

Commercial Arrangements

The Company has commercial arrangements with other airlines covering scheduled passenger and cargo services on a small number of its international routes. Commercial arrangements can govern, among other things, capacity offered by each airline over flight approvals, the apportionment of revenues between airlines and the co-ordination of schedules. In very few cases, some commercial arrangements between the Company and other airlines are required under the relevant air services agreements. For further details on some of the Company's key commercial arrangements see the Airline Partners section on page 9.

KEY PERFORMANCE INDICATORS (KPIs)

KPIs for the Financial Year 2007

Prior to the outset of the financial year 2007 the Company's KPIs were derived from the measures set out in the success formula of the 'BA Way', and measures reflected in the performance criteria of certain of the management incentive and all employee reward programmes.

The following KPIs were applicable for the first half of the financial year 2007. The goals were refined to four in the second half of the year in preparation for formal introduction in the financial year 2008.

1. Operating Margin

Operating margin is defined as Operating Profit divided by Revenue expressed as a percentage, and is the Company's key measure of financial performance. The Group's financial target approved by the Board under the 'Future size and shape' (FSAS) review in financial year 2007 and in subsequent business plans is an average operating margin of ten per cent per annum across the business cycle.

The Group achieved an operating margin of 7.1 per cent in the financial year 2007, down from 8.5 per cent in 2006.

2. Customer Advocacy

Customer Recommendation is a key measure of the Company's success.

The Company measures Customer Recommendation through its Global Performance Monitor (GPM) survey, an onboard customer survey covering key stages of the flight experience. The GPM is augmented by a follow-up online survey that includes the arrival elements of the customer's journey. The survey is carried out among more than 50,000 customers each month. In order to ensure its accuracy and independence, the survey is run and data rigorously checked by GfK NOP, the independent market research company. The Customer Recommendation measure is based on the percentage of customers who, when surveyed, would highly recommend British Airways to friends, family or colleagues. Apart from being extremely important in its own right, the Company believes this measure provides a linkage between customer experience and future profitability. The target for the financial year 2007 was for 62-65 per cent of customers to be extremely likely or very likely to recommend the Company.

Customer Recommendation is driven by two factors: whether a customer is satisfied with their experience with the airline and whether they think it is good value for money. The result for the financial year 2007 was 61 per cent of customers who highly recommend the Company. Key elements of the journey that the Company needs to focus on to improve Customer Recommendation include the operational basics (punctuality, baggage delivery, cabin appearance, in-flight entertainment reliability and flight connections), and providing a quality onboard experience, including cabin crew service and catering.

3. Safety and Security

The Company places the utmost importance on ensuring the safety and security of its customers and employees both in the air and on the ground.

The events of last August, following the detection of the alleged 'liquid bomb' plot and the subsequent impact to the operation of Heathrow and other UK airports, show that the Company needs to continue to be vigilant in its delivery of effective security. The Company continues to work closely with the UK and overseas governments to ensure that its countermeasures are appropriate to the prevailing threat and that it retains the high importance it gives to its airport security assessments. Where necessary the Company implements supplementary measures where security standards are not sufficient to counter the threat. Where this is not possible, the Company ceases operation to that particular destination.

The Company continues to work closely with a number of like minded companies and organisations in sharing safety experiences to ensure it continues to learn and deliver the highest standards of safety in all that it does. A safety plan that covers all operational parts of the business compliments the Company business plan to ensure a drive for continual improvements in performance.

During the financial year 2007 the Company participated in an IATA Operational Safety Audit (IOSA), and final accreditation is expected later this year. The Company is also an active member in another IATA group that is working to standardise activities on the ground. It is intended that this will lead to a common standard for ground handling companies, which will reinforce consistent standards and simplify audit requirements.

In recognition of the importance of safety and security to its business, rather than considering it as a KPI, the Company has embedded the behaviour of being 'safe and secure' in everything it does by recognising it as a core Company value within the 'BA Way'.

4. Respected Company

It is key for the Company to have a strong and productive relationship with its key stakeholders, ranging from UK and European politicians to members of the Company's local communities. Each of the individual departments that own these relationships strives hard to ensure that they are maintained and grow in value.

In the previous financial year, the Company was pleased to have improved its perception amongst its key stakeholders – with an increase from 74 per cent to 83 per cent in those who recognise the Company as a respected company.

The Company has taken the decision to evolve this KPI further into a core part of its corporate responsibility behaviours. Similar to the approach taken to Safety and Security, rather than continuing with Respected Company as a company-wide KPI, the Company has translated the behaviour required for it to be regarded as a Respected Company into its core values of 'professional' and 'responsible' and embedded them as part of the 'BA Way'.

These behaviours will be measured and tracked as part of the delivery of the 'BA Way'.

5. Employee Motivation

Employee involvement is one of the Company's key corporate goals and, following research into best practice, it has been adopted as a business target instead of employee motivation. Involvement has been shown to be more closely linked than motivation with business benefits such as improved customer recommendation levels and financial performance.

Results from the Speak Up! corporate employee survey are used to measure employee involvement (reported as an index score) and to steer the Company's activities to drive it. From the financial year 2007, the Company plans to run two Speak Up! surveys per year: a full version in September and a shorter tracker version in March. The employee involvement index result for the financial year 2007 is 70 out of 100, against a target range of 69-73, though this does vary significantly across the business. The Speak Up! surveys are conducted and hosted by the independent research organisation Ipsos MORI, with full respondent anonymity guaranteed.

6. Incentive Plans

The incentive plans designed by the Remuneration Committee use the additional measure of Total Shareholder Return (TSR) to assess and incentivise management's performance.

For the purposes of the Long Term Incentive Plan, the Company's TSR was compared to the TSR of the FTSE 100 group of companies. The final grant under this plan was made in 2004 and will vest in June 2007. This will therefore no longer be a relevant measure. For the purposes of the Performance Share Plan the Company's TSR is measured against a comparator group of airline companies.

Full details of the Company's incentive plans can be found in the Remuneration Report on pages 39 to 47.

KPIs for the Financial Year 2008

During the financial year 2007 the Company carried out a detailed review of its KPIs and, as result, has introduced a new set of corporate goals against which its performance in four key areas will be measured.

Financial

Operating margin will continue to be the Group's key financial performance indicator, and a ten per cent operating margin target has already been set for the financial year 2008.

Customer

The Group will continue to measure customer advocacy through customer recommendation, and will set a target in line with the world's leading airlines in this area. The Company's GPM survey will continue to be used to measure levels of customer recommendation.

Operational

A new measure of punctuality, 'ready to go', will be introduced as the Group's key operational performance metric for the financial year 2008. 'Ready to go' is a measure of how many of the airline's flights are prepared for departure at three minutes before the scheduled time of departure.

Employee

As in the financial year 2007, the Group will determine the success of its relationship with its employees through its level of employee involvement, which it will endeavour to be comparable with leading service sector organisations. Once again this will be measured through the Speak Up! corporate employee surveys which will be conducted at two different times during the year.

Incentive Plans

In addition to the four key indicators above, senior management's performance will continue to be assessed and incentivised, through the Performance Share Plan, based upon a measure of Total Shareholder Return. For this purpose the Company's TSR will be measured against a comparator group of airline companies.

DEVELOPMENT AND PERFORMANCE OF THE BUSINESS

Financial Performance

The following discussion covers the two years ended March 31, 2007 and is based on the Group's Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

The relevant financial information for the financial year 2006 has been re-stated in accordance with IFRS 5 as a result of the disposal of the regional business of BA Connect.

Group profit before tax for the financial year 2007 was £611 million, compared with a £616 million profit in the previous year. Operating profit in the year, at £602 million, was £92 million worse than last year. The 7.1 per cent operating margin was 1.4 points worse than last year. The deterioration primarily reflects increased operating costs, in particular fuel, partially offset by a 3.4 per cent increase in revenue.

The operating profit for the year of £602 million was after a £396 million non-recurring credit arising as a result of agreed changes to the New Airways Pension Scheme (NAPS), and a provision for £350 million for settlement of competition investigations into alleged anti-competitive activity.

Segmental Information

	Continuing Operations			Year ended March 31, 2007	
(£ million)	Airline Business	Non-Airline Business	Total	Discontinued Operations	Total Group Operations
Sales to External Customers	8,294	198	8,492	233	8,725
Inter-Segment Revenue	36	1	37	3	40
Total Segment Revenue	**8,330**	**199**	**8,529**	**236**	**8,765**
Segment result	**600**	**2**	**602**	**(122)**	**480**

	Continuing Operations			Year ended March 31, 2006	
(£ million)	Airline Business	Non-Airline Business	Total	Discontinued Operations	Total Group Operations
Sales to External Customers	7,977	236	8,213	302	8,515
Inter-Segment Revenue	46	4	50	4	54
Total Segment Revenue	**8,023**	**240**	**8,263**	**306**	**8,569**
Segment result	**680**	**14**	**694**	**11**	**705**

Business Segments

Airline business

The airline business segment result for the financial year 2007 was a profit of £600 million compared with £680 million in 2006. The deterioration in the profit primarily reflects an increase in fuel costs, only partially offset by an increase in revenue, including fuel surcharges.

Non-airline business

Non-airline business segment profit for the financial year 2007 was £2 million compared with £14 million in 2006. This is mainly due to a reduction in revenue, following the Group's disposal of its investment in The London Eye Company Limited in February 2006.

Discontinued Operations

Discontinued operations, represented by the regional airline operations of BA Connect, produced a segment loss of £122 million in the financial year 2007 compared with a profit of £11 million in 2006. This is mainly due to an impairment charge of £106 million and restructuring costs of £18 million.

Geographical Analysis

The following table sets out the Group revenue by geographical area.

	Total Group Continuing operations By area of original sale	
(£ million)	2007	2006*
Europe	5,316	5,117
United Kingdom	*4,160*	*3,933*
Continental Europe	*1,156*	*1,184*
The Americas	1,731	1,602
Africa, Middle East and the Indian Sub-Continent	649	825
Far East and Australia	796	669
Total Group revenue	**8,492**	**8,213**

* Restated

Route Network

The Company's scheduled route network forms the basis of its business and is one of the world's most extensive. At March 31, 2007, the Company (including subsidiary carrier BA CityFlyer) served some 147 destinations in 75 countries. Including codesharing and franchise arrangements, flights with British Airways codes served some 345 destinations in 109 countries. Adding the services of the Company's alliance partners, the global network served some 629 destinations in 143 countries.

During the financial year 2007, services to Calgary, Port of Spain, Reykjavik, Salzburg and Newquay were restarted. New services to Izmir, Tirana, Varna, Dresden and Sarajevo were introduced.

Year on Year Analysis

Year ended March 31, 2007 compared with year ended March 31, 2006.

Revenue

Group revenue for the year was £8,492 million, up 3.4 per cent compared with last year, on a flying programme 0.7 per cent larger in ATKs.

Passenger revenue was up 4.9 per cent to £7,263 million. This was primarily driven by longhaul premium and 'World Traveller Plus', the Company's longhaul premium economy cabin. Passenger yields were up 2.1 per cent per RPK, and seat factor was in line with last year at 76.1 per cent on capacity 2.9 per cent higher in ASKs.

Cargo revenue at £618 million was down 3.1 per cent in the full year. Cargo volumes measured in CTKs were down 4.7 per cent in the full year, with yields up 1.7 per cent. The decline in volumes has been driven by a combination of capacity, competitive, market and operational factors. Operational issues in the second half of the year were a significant factor in the volume decline.

Overall load factor for the year was 70.4 per cent, up 0.4 points on last year.

Expenditure

Total expenditure on operations increased by 5.5 per cent compared to the financial year 2006. Unit costs (total expenditure on operations per ATK) were 4.8 per cent higher than 2006.

See footnote 6 to the operating statistics on page 33 for the calculation of total operating expenditure per RTK and per ATK.

The table opposite summarises total Group expenditure on operations and year on year changes in expenditure over the two financial years ended March 31, 2007:

(£ million)	2007	Restated 2006	Increase/ (decrease)
Employee costs	2,277	2,260	0.8%
Depreciation, amortisation and impairment	714	715	(0.1)%
Aircraft operating lease costs	81	90	(10.0)%
Fuel and oil costs	1,931	1,581	22.1%
Engineering and other aircraft costs	414	441	(6.1)%
Landing fees and en route charges	517	520	(0.6)%
Handling charges, catering and other operating costs	930	915	1.6%
Selling costs	436	438	(0.5)%
Currency differences	18	(19)	Nm*
Accommodation, ground equipment and IT costs	618	578	6.9%
Total Group operating expenditure	7,936	7,519	5.5%

* Not meaningful

Employee costs increased by 0.8 per cent compared with the financial year 2006 to £2,277 million. Redundancy costs to support the management restructuring programme announced in December 2005 and pension and wage increases were only partially offset by the non-recurrence of the Employee Reward Plan (ERP), which did not trigger in the financial year 2007. The average number of employees in the Group, measured in manpower equivalents (MPE), fell by 3.5 per cent to 43,501 and productivity (measured in ATKs per MPE) improved by 4.3 per cent.

Depreciation, amortisation and impairment costs reduced by 0.1 per cent compared with the financial year 2006 to £714 million.

Aircraft operating lease costs reduced by 10.0 per cent compared with the financial year 2006 to £81 million primarily due to lower lease rentals following negotiations on lease extensions and exchange benefits as a result of a weaker US Dollar.

Fuel and oil costs increased by 22.1 per cent compared with the financial year 2006 to £1,931 million due to an 11.4 per cent increase in fuel price. This increase was partially offset by hedging benefits and the favourable exchange impact of the weaker US Dollar.

Engineering and other aircraft costs reduced by 6.1 per cent compared with the financial year 2006 to £414 million primarily reflecting lower aircraft maintenance sub-contract costs, savings on fleet insurance costs and reduced cargo freighter activity.

Landing fees and en route charges were £517 million, 0.6 per cent lower when compared with the financial year 2006. Handling charges, catering and other operating costs increased by 1.6 per cent compared with financial year 2006 to £930 million. The year on year increase is principally due to increased airport authority and catering charges. Selling and marketing costs fell by 0.5 per cent compared with the financial year 2006 to £436 million. This primarily reflects the continued impact of savings on commission, partially offset by an increase in promotional spend.

Accommodation, ground equipment and IT cost increased by 6.9 per cent compared with the financial year 2006 to £618 million. This reflects an increase in IT development spend, higher legal fees, rates and utility increases and consultancy costs associated with Terminal 5 and the Group's Sarbanes-Oxley compliance programme.

Financial Derivatives

Net unrealised losses on fuel derivatives were £12 million (2006: £19 million gain), reflecting the ineffective portion of unrealised gains and losses on fuel derivative hedges required to be recognised through the income statement under International Accounting Standard (IAS) 39.

Net Finance Costs

Net finance costs for the financial year 2007 were £39 million, £83 million lower than in 2006. The reduction reflects lower levels of borrowing and higher cash balances.

Pension Financing Costs & Retranslation Expenses

Pension financing costs were £19 million in financial year 2007 compared to £18 million in 2006.

The retranslation of currency borrowings generated a credit of £13 million, compared with a charge of £12 million the previous year. The movement versus last year is primarily due to the weakening of the US Dollar in financial year 2007, compared with a strengthening US Dollar in the financial year 2006.

Profit on Sale of Fixed Assets and Investments

Profit on sale of fixed assets and investments for the financial year 2007 were £47 million, compared with profits of £27 million in 2006, which included a profit of £26 million on the disposal of the Group's interest in The London Eye Company Limited.

The profit on disposal in the financial year 2007 mainly reflects the £48 million profit on sale of the Group's holding in World Network Services (WNS).

Share of Post-tax Profits in Associates

The Group's share of post-tax profits in associates reduced by £23 million to £5 million during the financial year 2007. The financial year 2006 included £27 million for the Group's share of Iberia's after tax profit, which included the profit on sale of its investment in Amadeus.

Taxation

The analysis and explanation of tax on continuing operations is set out in Note 11 to the Financial Statements.

The Group has suffered a total tax charge on profits from continuing operations of £173 million (2006: £152 million) giving an effective tax rate for the year in relation to profits from continuing operations of 28 per cent (2006: 25 per cent). No tax relief has been assumed on the provisions for costs arising from competition investigations of £350 million and this has added ten per cent to the effective tax rate. The tax charge benefited from the recognition of Advance Corporation Tax of £72 million (2006: £20 million) previously written off. The Group paid corporation taxes totalling £128 million during the year (2006: £57 million) and has a corporation tax provision of £54 million at March 31, 2007 (2006: £75 million). The Group has a deferred tax provision at March 31, 2007 of £930 million (2006: £896 million).

Disposal of BA Connect

In accordance with IFRS 5, the disposal of the regional business of BA Connect has been treated as 'discontinued operations'. This is due to the fact that BA Connect represented a separate major line of business and the operations and cashflows could be clearly distinguished for financial reporting purposes.

The loss from discontinued operations was £134 million, which included a £122 million operating loss, £3 million of disposal transaction costs, a £28 million loss on disposal of the net assets, and net financing costs of £5 million. The operating loss included a £106 million impairment charge and £18 million of restructuring costs. The loss before tax benefited from a £24 million tax credit.

Earnings per Share

The total earnings attributable to shareholders for the year was £290 million, equivalent to 25.5 pence per share, a reduction of 36.9 per cent compared with last year's earnings per share of 40.4 pence.

Capital Expenditure

	2007	2006
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	258	239
Property and equipment	81	87
Landing rights and other intangible assets	41	8
Investments	0	7
	380	**341**

See Notes 13, 16 and 18 to the Financial Statements.

Working Capital

At March 31, 2007, net current liabilities were £194 million, compared to net current assets of £234 million in the financial year 2006. This change reflects a reduction in current assets to £3,431 million, down £235 million, and an increase in current liabilities to £3,625 million, up £193 million.

The change in current assets primarily reflects reductions in short term derivative financial assets, current interest bearing deposits and cash and cash equivalents. The increase in current liabilities primarily reflects the provision for settlement of the competition investigations, partially offset by lower accruals and deferred income.

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

Cash Flow

The net increase in cash and cash equivalents in the financial year 2007 was £331 million, an improvement of £483 million over 2006. Although the cash and cash equivalents increased in the year, the Group's cash flow was impacted by a number of factors. The disruption to the operation in August as a result of security issues and resultant restrictions to hand baggage had an impact on the operation in August and the following months. The threat of industrial action by the cabin crew during the month of January also had an impact on bookings and the Group's cash flow.

Net cash inflow from operating activities was £756 million, a reduction of £583 million over 2006. This was primarily due to a £92 million reduction in operating profit, a £240 million payment to the New Airways Pension Scheme (NAPS), a tax payment of £128 million, which was £71 million higher than the financial year 2006, and changes in working capital.

The £1,055 million improvement in net cash flow from investing activities was primarily due to a decrease in current interest bearing deposits, partially offset by the cashflow on disposal of the regional business of BA Connect.

The total of cash and cash equivalents and other interest bearing deposits at March 31, 2007 of £2,355 million was down £85 million versus last year. Net debt fell by £650 million during the year to £991 million, reflecting the reduction in borrowings, partially offset by a reduction in cash.

Leases and Other Financing Arrangements

The following table sets out the movements in loans and capital obligations under finance leases and hire purchase arrangements for the two-year period ended March 31, 2007 (see also Note 25 to the Financial Statements).

(£ million)	Bank and other Loans	Finance Lease and Hire Purchase Arrangements	Total 2007	Total 2006
Balance at April 1	1,116	2,965	4,081	4,492
Other non cash movements		9	9	11
Repayment of amounts borrowed	(97)	(388)	(485)	(479)
Disposal of BA Connect	(57)	(28)	(85)	
Effect of exchange rate changes	(16)	(158)	(174)	57
Balance at March 31	**946**	**2,400**	**3,346**	**4,081**

There were no aircraft deliveries during the year.

The Company extended its $420 million secured general purpose facility to $750 million and extended the drawdown availability period of the facility to 2012. Any amount drawn in 2012 is then repayable over 5 years. $735 million of this facility was utilised in March 2007 to procure guarantees of the Company's obligations to the NAPS and APS pension schemes.

For the purposes of the financial statements, foreign currency debt is translated into Sterling at year-end exchange rates. The majority of debt repayments in US Dollar and Yen are used as a hedge of the Group's exposure to fluctuations of the sterling value of future US Dollar and Yen revenues. As a result, gains and losses on translation of debt used as a hedge are taken to the fair value reserve and are released to the income statement on repayment of the debt. Gains and losses on translation of debt not used as a hedge are taken to the income statement. Net translation gains of £135 million on US Dollar and Yen denominated debt were taken to the fair value reserve during the year.

Net debt/total capital ratio

Net debt at March 31, 2007 amounted to £991 million, a reduction of £650 million compared with March 31, 2006. This is net of cash and cash equivalents and other interest bearing deposits totalling £2,355 million.

The net debt/total capital ratio at March 31, 2007 was 29.1 per cent, a 15.1 point reduction versus last year mainly due to the reduction in net debt and growth in retained profits. Including operating leases, net debt/total capital ratio was 39.6 per cent, a 13.4 point reduction from last year.

RESOURCES AND RELATIONSHIPS

Customers

The Company puts its customers at the heart of everything it does and in the financial year 2007 a number of new initiatives and product and service developments were introduced as part of its continued investment programme.

ba.com

ba.com is an increasingly important tool for the Company in terms of selling, servicing and the provision of information to all stakeholders. Four times as many people visit ba.com every day as fly with the airline. Sales through ba.com now account for 25 per cent of the Company's total bookings worldwide, with a new booking being made every eight seconds. Globally, 40 per cent of the Company's customers who booked online are also using ba.com to check in via the 'Manage My Booking' functionality.

In the financial year 2007 many of the developments on ba.com have been around preparing for Terminal 5, including improvements to online check-in, developing 'change booking for cancellations' to allow customers to make more changes themselves when their flights are cancelled, and the introduction of calendar-led selling for multiple sector journeys. The site now offers more customers the ability to book and pay for their tickets online, check-in, allocate seats and print their own boarding cards. In addition, the look and feel of ba.com has also been improved to make the site easier for customers to navigate.

Self-service Check-in Kiosks

In addition to improvements to online check-in, during the year the Company installed more easy to use self-service check-in kiosks at London Heathrow Terminals 1 and 4. There are currently over 200 kiosks in approximately 30 locations worldwide. The layout of the check-in areas at Heathrow and some European airports were also changed this year to make the kiosks more accessible.

In-flight Development

As detailed on page 9, during the financial year 2007 the Company re-launched its longhaul business class product, Club World (including the introduction of a new in-flight entertainment system), and introduced a number of improvements into First Class.

Seating Policy

In December 2006, the Company made changes to the way in which customers can request seats before they travel. The changes mean that there is a wider selection of seats available at check-in, with customers who check-in on ba.com having the best selection.

Suppliers

Terminal 5

The Company has already sourced suppliers for key operational and major construction projects and suppliers of critical services in Terminal 5 have already been appointed. Suppliers engaged with the terminal have completed a supplier risk questionnaire along with an inclusion of specific environmental clauses in their contracts. During the coming year suppliers will go through a series of programmes in order to prepare for the opening of Terminal 5.

Payment Performance

The Company has made good progress during the year, averaging 84 per cent on-time payment performance for the UK during the period April 2006 through to January 2007 versus 80 per cent in the financial year 2006.

The Company's worldwide on-time payment performance has improved to 83 per cent and the focus on existing US and European supplier payment terms will generate a further improvement in performance.

The focus in the next financial year will be to maintain the Company's momentum in improving payment performance to achieve the target of 90 per cent on-time payment worldwide. Key business initiatives for the coming year are an increase in e-invoicing and use of a Purchasing Card. Both initiatives increase the level of automation in the payment process and reduce error rates, consequently improving the efficiency of the process.

Payment Policy

The Company is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. Further information in respect of this code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU. The number of days' purchases in creditors as at March 31, 2007 in respect of the Company is calculated in accordance with the provisions of the Companies Act 1985 and was 34 days (2006: 39 days).

Supplier Performance

The Company's worldwide operation was subject to disruption in the summer of 2006 following a change in security requirements at UK stations and again in January and February due to the threat of industrial action by its workforce. During these periods, the Company's supplier community provided great support in minimising the impact to the Company's customers and then assisting them in quickly normalising the operation.

Supplier Risk

The Company's Procurement team records and measures risk across the Company's key suppliers. The Company currently identifies 15 suppliers who, if they ceased trading or experienced severe operational difficulties, would have a serious detrimental impact on the Company's ability to operate. For these suppliers, risk is measured across six dimensions, and an overall risk score is generated. This score determines the level of risk mitigation that needs to be in place.

In addition to risk measurement, Procurement also monitors the financial health of a number of suppliers using monthly Dun & Bradstreet company reports. This information is used to provide an early warning of increased risk.

Where appropriate, Business Continuity Plans (BCPs) are in place for all key suppliers. Clearly defining accountability for BCPs provides the key to effective and proactive response to preserve the operation. It is the role of Procurement to ensure the suppliers have acceptable contingency plans within their own businesses for supply failures, and that evidence of testing these plans can be demonstrated. It is the role of the relevant business area to ensure that there are contingency plans for the Company's response to any supply interruption, which could include a range of contingencies from securing alternative suppliers, switching to use the Company's own resources, or scaling down of services.

Employees

The Company has a people strategy that is directly derived from its strategic objectives, within which the theme of 'Involving and Developing our People' has been a key element. The people strategy has been delivered by putting appropriate policies, practices and initiatives in place. 'Fit For Five', an operational readiness programme for moving from the current terminals in Heathrow to Terminal 5 by March 2008, has been supported by a comprehensive people and Industrial Relations plan including changing working practices, training, and implementing new people systems and processes. The 'Owning Our Future' programme was instrumental in enabling the Company to deliver its business strategy and ensured a common awareness and understanding of the Company's financial goals and both the internal and external economic factors affecting the Company's performance and the delivery of a ten per cent operating margin. Communication and involvement were fundamental to the agreement that has been reached to change the NAPS pension scheme, which has ensured the containment of the Group's escalating pension costs. Key elements of the strategy and the associated achievements are outlined below.

Headcount

As at March 31, 2007 the Group employed 42,755 MPE. The senior management reduction programme, announced in November 2005, has now achieved a reduction of 32 per cent. The middle management reductions targeted at 30 per cent have also progressed well, achieving a reduction of 24 per cent to date. The reductions improve the Group's cost base and have been achieved through simplification and restructuring to achieve greater accountability in management roles. This has resulted in both management redundancies and redeployment.

Employee Involvement

The motivation and commitment of employees are key to the success of the Company and it seeks to foster them in a number of ways. The Company has a comprehensive internal communications programme to ensure that employees are well informed about matters that affect them, together with information about the business and the airline industry. BA News, the Company's in-house weekly news publication, is distributed free to all staff and there is extensive communication through face-to-face briefings, email, mobile phone SMS messaging and the Company's intranet. These communications help to achieve a common awareness among employees of the financial and economic factors affecting the performance of the Company.

In addition, the Company plans to run Speak UP! Surveys during the year to enable employees to share views and provide feedback on issues that are important to them (further details can be found on page 14).

The Company works constructively with its recognised trade unions and there are well-developed structures within the Company for appropriate trade union involvement (see below for further details).

The Company is committed to ensuring that employees share in the success of the business by way of the Employee Reward Plan detailed opposite.

Employee Relations

During the financial year 2007 joint work continued in developing the airline's industrial relations through the Industrial Relations Change Programme (IRCP). This was launched in 2003 to remove communication barriers between the Company and its trade unions and to improve understanding by working together. The airline continues to seek a permanent step change in employee and trade union involvement and is therefore closely aligning the employee involvement objectives, strategies and plans with those of the IRCP.

Achievements during the financial year 2007 included key development areas such as building on the ongoing success of the one-day 'Introduction to Industrial Relations' course with the 'Effective Industrial Relations Skills' course. This is a two-day practical-orientated course designed for managers, supervisors and trade union representatives. Additionally the Engineering Department has completed a further module of training designed to meet specific departmental relationships and issues.

Towards the end of 2006 and early 2007 major efforts were taken to avoid a dispute with one of the cabin crew unions. During the latter part of January 2007 an agreement was reached that avoided a damaging dispute. The key points of the settlement covered a number of areas of work for the future including pay, absence, crew numbers on board and strengthening the airline's relationship with the Transport and General Workers Union (TGWU) and the cabin crew branch, British Airways Stewards and Stewardesses Association (BASSA).

Both parties recognised that a fresh start was needed to the relationship and work has begun on developing a constructive and professional relationship, overseen by the Company's Chief Executive and the TGWU General Secretary.

In January 2007 the airline concluded lengthy discussions with trustees and the trade unions on the pensions deficit within the New Airways Pensions Scheme (NAPS). This has delivered a ten-year funding solution for the scheme and has maintained the final salary scheme for its members.

Employee Reward Plan

The Company operates an Employee Reward Plan (ERP) covering the non-management workforce. The plan was introduced in 2005 and enables employees to share in the success of the business by awarding amounts dependent on the Company's performance against a balance of financial and non-financial measures and KPIs (see KPIs section on pages 14 to 15). These measures cover operational, customer and financial performance. In this way, the plan helps to reinforce the importance of the various factors that affect the Company's overall performance.

The bonus schemes operated in respect of management grades operate using the same financial and non-financial performance metrics as the ERP, together with that of employee involvement.

Diversity and Inclusion

A key part of the BA Way is the commitment to diversity and inclusion that is an integral part of the corporate culture. The Company has a number of senior managers who champion diversity initiatives within their areas and who ensure the corporate diversity strategy is incorporated into local initiatives. One of the ways in which this is achieved is by forging partnerships with organisations that promote equality of opportunity in business and in the community. Among its memberships the Company includes Employer's Forum on Disability, Employer's Forum on Age, Opportunity Now and Race for Opportunity.

In this past financial year, the Company's diversity team has been preparing for the implementation of the Employment Equality (Age) Regulations 2006, which came into force in October 2006. This required a full review of current processes and policies as well as the introduction of the new 'right to request to continue' policy for employees who wished to work beyond the intended retirement age of 65 years.

The diversity team is also supporting the Department of Trade and Industry's dignity at work project, which brings together large organisations to share ideas and best practices on harassment and bullying in the workplace. This is part of the Company's ongoing plan to raise awareness of the impact of harassment and bullying within the Group – and this will form a key focus for the team in the next financial year.

As a result of the much-publicised issue of the wearing of a Christian cross with uniform, changes have been implemented in the Company's uniform policy so that uniformed staff will be able to openly wear religious and faith symbols within agreed uniform guidelines.

The Company was awarded its third Gold Award from Opportunity Now, an organisation committed to gender equality in the workplace. They also ranked the Company joint first in the female FTSE index 2007 for the second year running, with women making up 27 per cent of its Board of Directors.

The Company has been working with Stonewall – the UK's leading lobbying group on sexual orientation issues in the workplace – for the past three years, and for the second year running the Company has featured in the top 100 of their Workplace Equality Index survey, increasing the Company's score by 13 per cent.

The Company welcomes applications from people with disabilities and has a helpline number on ba.com to arrange any reasonable adjustments which may be needed, for example information in alternative format or extra time for tests. This also enables us to make adjustments to the workplace in advance of the employee taking up a position.

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

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

Training

The Company's training department delivers in excess of 175,000 training days per annum worldwide. Whilst mandatory and job essential training continue to ensure the maintenance of high standards of safety and security, customer service training will be a significant focus for the Company during the next few years. To support the delivery of the business plan the Company is committed to focusing on specific leadership and management development. Approximately one third of training is delivered online, offering improved access and flexibility in learning for employees worldwide. Terminal 5 will be a particular focus for the training team during the next two years, with over 5,000 Heathrow-based staff receiving training in preparation for the opening of the new terminal in March 2008. See page 4 for further details on Terminal 5.

Absence

Company-wide application of the absence policy has continued. The average number of absent days as at January 2007 was 11.7 days - above the previous year's reduced levels (2006: 10.5 days). This increase is due to a general resurgence in employee absenteeism and the impact of the cabin crew dispute. In the financial year 2008 there will be a renewed focus on the management of absence and use of absence data, in order to achieve a run rate in the month of March 2008 that equates to an annual target of ten days average absence. Changes to the ill health retirement arrangements have had a positive impact on ensuring appropriate use of this facility and in reducing costs.

Employment Tribunals

During the calendar year 2006, 45 new sets of Employment Tribunal proceedings were issued against the Company. Set against the size of the Company's workforce, this headline figure is low. It should be noted, however, that three sets of proceedings were multi-applicant claims from large groups of workers. These claims were all brought under the Working Time Regulations and relate to the payments to be made to employees during holidays. Two of these claims are identical (the second set being lodged at Tribunal for time limit reasons) and are brought by 2,566 pilots. The other multi-applicant claim was brought by 10,265 ground workers, but was struck out by the Tribunal.

The 45 sets of proceedings were brought under the protection offered by a broad range of employment legislation but, as is often the case, the majority included an unfair dismissal claim. Ten of the 45 cases are ongoing. Of the 35 other matters the Company has won two at final hearing and settled 13 more (only two exceeded £30,000). The remaining 20 were either withdrawn by the claimants, or struck out by the Tribunals at an early stage.

Health and Safety

There is a continuing reduction in the number of 'major' injuries sustained by employees. The definition of a 'major' injury is very broad and this year the injuries typically resulted from slips and trips, whereas in previous years vehicle related incidents and falls from height were more common.

Manual handling injuries feature highly in the 'serious' and 'minor' injury category. During the financial year 2007 the Company introduced a 23kg limit as the maximum weight of any single piece of hold baggage (the previous limit was 32kg). It is accepted that this new policy alone will not eradicate manual handling injuries, but when coupled with an on-going enhanced training initiative and a drive for further mechanisation, it is anticipated that there will be a substantial reduction in injuries.

Employee safety key performance indicators

Number of employee safety incidents by severity:

	Minor	Serious	Major	Fatal
2002/03	6,271	454	40	0
2003/04	5,677	405	22	0
2004/05	5,248	594	24	0
2005/06	5,461	741	15	0
2006/07*	6,167	880	11	0

* for year ended March 31, 2007 as recorded at April 26, 2007

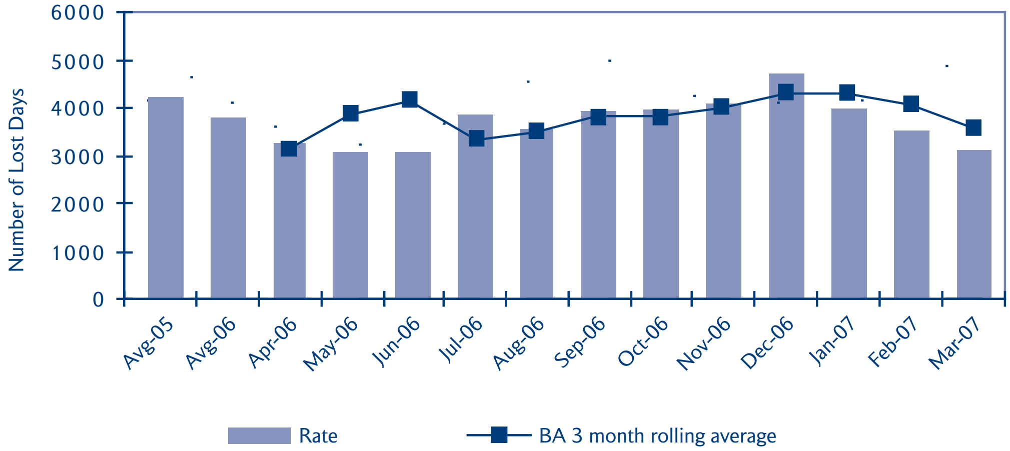
'Serious' and 'minor' injuries have shown an increase as the Company actively encouraged employees to report all incidents, no matter how minor, to ensure that measures can be put in place to prevent a recurrence. The rise in the number of 'serious' injuries is also attributable to changes in the way that injuries of this type are recorded. A 'serious' injury is one that has the ability to cause an absence. With the Company's focus on reducing absenteeism, the accuracy of recording of injury severity has become even more important because absence associated with a work related injury is typically discounted from an employee's absence record. Incidents are investigated and analysed for trends. There is no evidence to suggest that the increase in 'serious' incidents reflects a reduction in the personal safety of the Company's employees.

As reported below, the average number of days lost per month is continuing to reduce year on year. Although the safety strategy is one of incident prevention, there is a rehabilitation service available for employees injured at work.

The Company had no fatalities, health and safety prosecutions or improvement notices issued during the year.

During the financial year 2007 the average working days lost per month per 100,000 employees due to work related injuries was 3,665 days. This compares favourably with the averages for 2005 and 2006 of 4,214 and 3,767 respectively.

Working Days lost from Work Related Injury per 100,000 Employees



CORPORATE RESPONSIBILITY REPORT

Corporate Responsibility Board

The Corporate Responsibility Board met three times during the year having been revamped to mirror the changes in the organisation structure. As at March 31, 2007 the Corporate Responsibility Board comprised the Company Secretary (as Chairman), Baroness Kingsmill (non-Executive Director), Mark Goyder (Founder Director of Tomorrow's Company, as external adviser), the Commercial Director, the Head of Procurement and Finance Operations, the Head of Safety and Head of Community Relations and pending the appointment of a new Director for People, the Head of Resourcing Systems, Policy & Services.

The Corporate Responsibility Board has developed a formal Reputational Risk Register (RRR), which takes account of reputational risks and opportunities. The RRR is a tool to formalise reputational and ethical risks, which are, in turn, owned by the respective Directorates. It is their responsibility to manage the risks as appropriate.

The Company is a member of Business in the Community (BITC), a not-for-profit organisation promoting corporate responsibility, and has adopted BITC's four part framework as the basis for its standing instruction, the BA Way of Business. This looks at responsible corporate citizenship in four parts as follows: in the marketplace (see section on Customers and Suppliers within Resources and Relationships), in the work place (see section on Employees within Resources and Relationships), in the environment and in the community.

Strategy

The Corporate Responsibility Board is the guardian of the Company's commitment to being a responsible company and it oversees the Company's performance in this area. Corporate responsibility covers every area of the Company's work from the environment, to the community, the workplace (employees) and the marketplace (customers and suppliers). Performance in the financial year 2007 was tracked as per the measures referred to in the KPIs section on pages 14 to 15. For the financial year 2008, the Company's corporate responsibility strategy is being refined and will be re-issued in due course.

The Environment

The Group's environmental performance is a key priority for the business. Aviation and its impact on the environment have been increasingly in the spotlight during the last year. The overall contribution of UK aviation to global carbon dioxide (CO_2) is low (presently around 0.1 per cent) but is increasing. Climate change, noise, air quality and waste management continue to be the main priorities of the environmental management strategy.

The Company continues to work with the Sustainable Aviation Initiative, a cross-sectoral initiative to develop a strategy for the long-term development of UK aviation. The activities cover commitments on key environmental challenges including limitation of climate change, noise and local emissions.

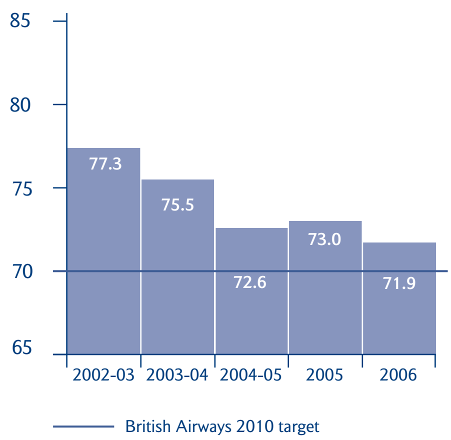
The Company acknowledges that its operations have an impact on the environment both locally and internationally. Its aircraft emit over 16 million tonnes of CO_2 emissions a year. In addition, its aircraft emit water vapour, particulates and nitrogen oxides. The Company also produces solid and liquid wastes as part of its airport and flying activities. However, these impacts need to be balanced against the overall economic benefits of aviation, together with the benefits that the Company itself specifically brings. By bringing people together, airlines contribute to business, to political understanding and to cultural interchange and stimulate economic growth and development. In the UK, aviation makes a £14 billion value added contribution to the UK economy and supports 675,000 jobs.

The Company's challenge is to balance the needs of the business with the need to improve environmental performance. To mitigate environmental impacts, the Company is continuing to develop programmes to deliver improved environmental performance. These include a variety of measures such as investment in new technologies (environmental performance is a key criteria in new aircraft purchases), partnering with suppliers, changing operational processes and working with industry groups. The Company was the first airline to participate in a formal emissions trading scheme and pioneered the introduction of a carbon offset scheme for its passengers in 2005. The Company plans to develop this further in the coming months.

Climate change

The Company is reducing the climate change impact of its aircraft fleet through investment in modern aircraft and operational measures to minimise fuel consumption. The Company's aircraft fuel efficiency has improved by 28 per cent from a 1990 baseline and remains on target to meet its fuel efficiency target of 30 per cent improvement by 2010. During the financial year 2008 a further long-term target will be set.

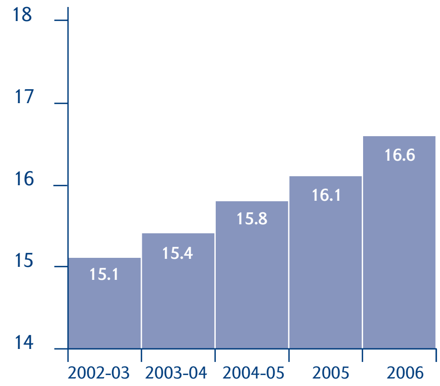
Aircraft fuel efficiency (index of fuel use per Revenue Tonne Kilometre, 1990=100)



The Company has successfully completed five years of participation in the voluntary UK Emissions Trading Scheme (UKETS). Emissions of CO_2 from UK properties and domestic flights have reduced by 23 per cent compared to the 1998-2000 baseline. Practical experience of emissions trading has enabled the Company to play a leading role in discussions to include aviation in the mandatory European Union (EU) Emissions Trading Scheme (EUETS). The Company welcomed the recent decision by the EU to incorporate aviation into the EUETS from 2011.

Increased aircraft utilisation resulted in emissions from its global flight operations increasing slightly in calendar year 2006.

Aircraft carbon dioxide emissions (million tonnes)



As noted opposite, the Company was the first airline to offer its customers the opportunity to participate in a voluntary carbon offset scheme and during the year introduced improvements to access the scheme by providing a link via the 'Manage My Booking' section of ba.com. The Company contributed to the Government's consultation on a Code of Best Practice for Carbon Offsetting. The Company's scheme will be reassessed in view of any new standards and a new product will be introduced later this year.

The trucking network of the Group's cargo business (BAWC) includes partnerships with a number of major specialist airfreight logistics providers in Europe, the UK and US. This network is procured in line with the Company's corporate objectives, which include compliance with and promotion of environmental legislation, programmes and procedures. BAWC focuses on managing its trucking network efficiently by maximising loads and minimising usage.

As noted on page 7, the Company has recently announced the purchase of four new longhaul aircraft for delivery from 2009, with options on four more. Environmental performance was one of the key elements taken into account in the evaluation and procurement decision. Evaluation of new aircraft types with newer engine technologies for the strategic replacement of the current longhaul fleet has now commenced and environmental performance will again be a significant determinant of the eventual choice.

Ground Transport

The Company has a large ground vehicle and equipment fleet at Heathrow and is working to reduce its atmospheric emissions and improve its efficiency. The Company is a member of the Heathrow Clean Vehicles Programme and has received the highest (Diamond) award for achievement. Telematics systems have been fitted to 53 of the larger specialist ground operations vehicles and the Company is committed to installing a further 167 units. This new technology allows the remote monitoring of vehicle performance and condition in order to optimise use.

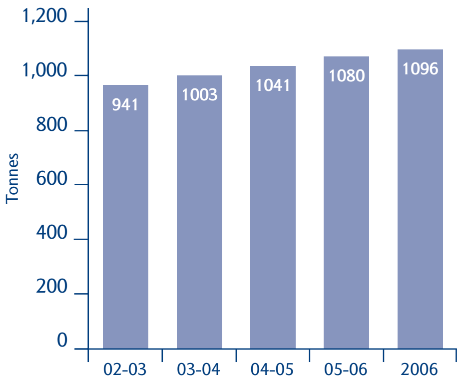
BAWC also recently took delivery of a fleet of new forklifts, including 21 electrically powered vehicles. As a major consideration was battery life, the supplier developed a combination of systems which maximised the battery life and also reduced unnecessary costs. This included a charger guard designed to eliminate "opportunity charging", which is harmful to the long-term life of the battery. BAWC is the first in the UK to utilise such a system. The regenerative braking system built into the forklifts also returns up to 20 per cent more energy back into the battery.

Local Air Quality

A number of operational practices can result in conflicting impacts on noise and local air quality. However, the Company is investigating a number of new initiatives designed to reduce, or limit, taxiing emissions that will also benefit ground noise. If successful, these will be fed into a wider forum so that other operators will be able to employ them to further reduce emissions.

Following on from the government sponsored Project for the Sustainable Development of Heathrow (PSDH), a new oxides of nitrogen (NO_X) indicator has been developed for operations at Heathrow. This uses the PSDH process, with additional information from actual flight operations, to calculate the total NO_X emitted below 1,000ft at Heathrow, which impacts local air quality. Overall NO_X levels generated by the Company's Heathrow based fleet have increased slightly during the year, reflecting increased aircraft usage.

British Airways Aircraft NOx emissions at height from operations below 1,000 feet



Approximately 75 per cent of the aircraft fleet meet the highest emission standards (ICAO CAEP/4).

Waste Minimisation

The Company has maintained its focus on waste minimisation and increased recycling. The total amount of waste managed through the Company's waste management contractors at Heathrow and Gatwick has decreased by 9 per cent. The Company is developing a new waste management initiative, the first of which is a newspaper recycling trial on aircraft arriving at Heathrow. During the year the Company has worked with Greenworks, a registered charity and social enterprise, to recycle surplus office furniture and provide joint workshops on waste minimisation and recycling to local school groups. The Company continues to seek opportunities to source recycled material and has recently introduced recycled paper to all the office printers at Heathrow.

The Company recycled 28 per cent of waste at its main operational hubs at Heathrow and Gatwick. This is less than the previous year (31 per cent), however, the reduction reflects reduced use of some packaging materials which would have been recycled and a service partner which now manages its own recycling. The Company has set itself a target of 50 per cent of its waste to be recycled by 2010. The proportion of waste at Heathrow and Gatwick disposed to landfill has continued to reduce and is less than 90 per cent of the amount disposed in the previous year. The Company is working to provide alternative means of disposal towards the target of zero landfill by 2010.

Terminal 5

'Bringing T5 Alive' is a key part of the Company's current business plan. Environmental considerations have featured strongly in the design and construction of Terminal 5, and will continue to be an integral part of its operation. The Company has striven to maximise environmental opportunities throughout the build of the project, with particular focus on improving noise and emissions, exploiting innovative design for energy, water and waste management and maximising the use of sustainable resources. Some of the Company's key achievements include:

- £25 million for investment in new vehicles and equipment to be delivered by March 2008. All vehicles are to the latest exhaust emission standards including 38 new buses to the future Euro 5 standard. BAWC's latest fleet additions, in preparation for Terminal 5, have Euro 4 engines, which are the latest production engines which meet all European emissions legislation;
- stricter start up and shut down times for the auxiliary power unit (the small engine used to generate electrical power and supply air conditioning to the aircraft cabin) on stands with fixed electrical power and pre-conditioned air. This will improve the Company's noise performance, and will reduce the level of CO_2 emitted by up to 60,000 tonnes;
- 85 per cent of the Company's construction waste is recycled and the Company continues to develop innovative ways of managing waste from its operations;
- all timber used in the Company's facilities has been sourced from sustainably-managed sources;
- a combination of non-potable water from rainwater harvesting and ground water has been used to reduce the demand on the public water supply by 70 per cent;
- the main heat source supplying 85 per cent of Terminal 5's heat demand is from waste heat from the existing airport heat and power station. Building management systems will ensure the most efficient energy usage in Terminal 5.

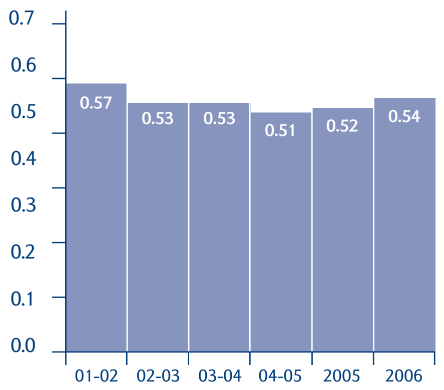
Noise

Significant progress has been made in reducing aircraft noise and modern aircraft are typically 80 per cent quieter than early jets. However, noise remains an issue among communities around airports and the Company continues to focus on developing and promoting low noise procedures. The Company has been active in the development of an Arrivals Code of Practice and the second edition of the Code has now been published. The Company is also chairing a new group looking at the potential for a similar Code for departing aircraft.

Continuous Descent Approaches (CDAs) are now performed by about 95 per cent of all the Company's flights into Heathrow. This technique, pioneered by the Company, involves starting a continuous steady descent from 6,000 feet rather than following a number of short descents as normally required by Air Traffic Control. The CDA flight-path is always higher – resulting in lower noise levels. The Company, along with NATS (National Air Traffic Services) and other stakeholders, is investigating the potential for optimising CDAs using equipment already embodied by the Company on its aircraft to further reduce the impact of aircraft noise.

The Company continues to focus on best practice techniques to mitigate the noise and emissions impacts from its aircraft. Absolute levels of noise and emissions have increased slightly as a result of the increased flying programme.

Total noise energy from British Airways aircraft worldwide operations (million "Quota Count" equivalents)



BA and the Community

The Company is committed to developing strong community partnerships. Investing in the communities in which it operates and being a good neighbour is fundamental to its business. The Company's priorities for Community Investment are education and youth development, supporting its employees, sustainable tourism, heritage and environment. These will be updated in line with the new BA Way values and the new corporate responsibility strategy during the financial year 2008.

The Company continues to be a member of both the London Benchmarking Group (LBG) and Business in the Community's (BITC) Percent Club. The LBG's benchmarking model is used to assess the Company's total contributions to the community.

BITC reported the Company's total contribution for the financial year 2007 as £6.3 million (2006: £5.4 million). The Company's direct charitable donations (cash donations to charity) for the financial year 2007 were £1.2 million (2006: £0.8 million).

Education and Youth Development

The British Airways Community Learning Centre, Heathrow

40,000 young people and adult learners have participated in education programmes since its opening in 1999.

The Community Learning Centre is located next to the Group's Waterside head office and works with local schools and community groups on programmes including global and environmental education weeks. 60 women from Hillingdon have attended a 10 week 'Return to Work' programme and 30 of the 60 participants have entered either full-time employment, education or voluntary work around Heathrow.

Pakistan and Kenya

The Company refurbished and donated over 460 computers and laptops to projects in Pakistan and Kenya. Software has been installed and full connectivity enables the systems to support education programmes for young people in both communities with a plan to further extend and develop the programme in the coming year. These donations have resulted in the setting up of an ICT learning centre for 4,000 children and a hairdressing training salon for young adults in the slum community of Mukuru in the heart of Nairobi.

South Africa

The Company has been a key partner in the development of a major youth diversion and safer schools project in Cape Town with the Metropolitan Police, Charlton FC, the British High Commission and the South African Police Service. The partnership team ran a sports and citizenship programme for young people from the townships of Mitchells Plain and Khyaleitsha. The Company also ran health and well-being workshops for over 1,500 young people and the Metropolitan Police facilitated activities on personal safety.

Emergency Relief

Pakistan

The Company chartered and paid for a cargo aircraft to transport 120 tonnes of aid to the earthquake affected areas in Pakistan. Employees raised in excess of £200,000 through fundraising to aid the relief effort. Through Change for Good, the Company donated £500,000 towards rebuilding 11 schools in north west Pakistan, constructing safer, earthquake-resistant buildings.

Ukraine

Change for Good donated £300,000 to a three-year programme focused on providing improved care for children who are affected by HIV/AIDs.

Supporting its Employees – the British Airways Giving Scheme

3,338 Company employees donated over £580,000 directly from their payroll to their chosen charities through the British Airways Giving Scheme.

In addition the Company hosted 11 fundraising events this year raising over £220,000 for employee supported charities including the construction of a teenage cancer patients' recreation area at Wexham Park Hospital in Slough.

Company employees have been taking part in Race for Life for 13 years raising over £560,000 for Cancer Research UK.

In 2006 BAWC employees collected and delivered over five tonnes of high quality gifts, donated by staff from around the airline. The goods were donated to a children's outreach centre for 2,000 children who are HIV/AIDs positive. Overall, in 2006, BAWC was responsible for the delivery of almost 50 charity-related shipments.

Merchandise

Over the past year more than £446,000 of surplus merchandise has been donated to charities in the Heathrow community as well as across London.

Change for Good

The Company continues to partner UNICEF and its passengers in the successful Change for Good programme. This partnership raised £1.4 million during the financial year 2007 and since the programme began in 1994 the total income raised has reached £23.5 million.

Sustainable tourism and the environment

In 2006 British Airways was awarded The Travel & Leisure Global Vision Award "In recognition of an organisation that is defending the cultural, ecological and historic treasures of the traveller's world".

During the financial year 2007 the Company supported 130 community and conservation programmes worldwide, providing over 1,000 travel awards, donating excess baggage and cargo.

For further information on the Company's contribution to the community go to ba.com/community.

PRINCIPAL RISKS AND UNCERTAINTIES

The operational complexities inherent in the Company's business, together with the highly regulated and commercially competitive environment of the airline industry, drive a number of risks for the Group. Many of these risks, though mitigated to a certain degree, remain outside of the Group's control. For example, the effects of changes in governmental regulation, acts of terrorism and the availability or otherwise of financing.

The Company has invested a significant amount of time during the financial year 2007 in identifying, with an assessment of their likelihood and impact, the principal risks within its business. In no particular order, these risks have been identified as follows:

Government Intervention

The airline industry is becoming increasingly regulated, both directly and indirectly. The scope of such regulation ranges from infrastructure issues relating to slot capacity and route flying rights, through to new environmental and security requirements. The Company's ability to both comply with, and influence any changes in, these regulations is key to maintaining its operational and financial performance.

Competition

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

Although lower cost 'no frills' competition has been prevalent for a number of years in the shorthaul market, more recently the longhaul market has seen the emergence of a significant number of new entrants in both the low cost and premium ends of the market.

Open Skies

Further to the agreement reached on Open Skies (as detailed on page 11), the Company must ensure that it responds in a timely manner with any necessary changes to the structure of its operations to avoid a significant impact on its business performance.

Industrial Relations

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

The Company's continued drive to reduce its employment costs, through increased productivity and competitive wage awards, increases the risk in this area.

Brand Reputation

The Company's brand is of significant commercial value. Erosion of the brand, through either a single event, or series of events, could adversely impact the Company's leadership position with its customers and ultimately impact its revenue and profitability and future long term growth.

Pandemics

Epidemics (e.g. SARS) and pandemics, as well as other health risks, may occur and would be beyond the Group's control. 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 travellers 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 those to/from the Far East.

Transition to Terminal 5

In 2008, the Company expects to move the majority of its Heathrow operations into Terminal 5. The construction of Terminal 5 is one of the largest construction projects in Europe. This project and the planned move bring with them significant risks and challenges, including infrastructure risk, risks associated with migration and risks associated with starting operations in a new facility with new working practices.

Safety Incident

The safety and security of the Group's customers and employees are fundamental values of the Group. Failure to prevent a major safety or security incident would adversely impact both the Group's operations and financial performance.

Capital Investment

A wrong decision in respect of the Company's planned fleet growth, in terms of timing, aircraft numbers or fleet type, could have a material adverse impact on the Group's future performance.

Financial Commitments

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

RECEIPTS AND RETURNS TO SHAREHOLDERS

Dividend

The Board has again decided not to recommend the payment of a dividend. The Company last paid a dividend in July 2001. The Board has indicated its intention to resume the payment of dividends as the Company achieves its operating margin target of ten per cent.

Share Issues/Buybacks/Treasury Shares

The authorised Share Capital is unchanged from the previous year, with a change in the issued capital. Details of the current authorised and issued share capital are set out in the section headed 'Shares and Shareholders' below.

The Board can be given authority to allot shares in the Company by the passing of an ordinary resolution at a general meeting of the Company. Under such an authority, given at the annual general meeting of the Company held on July 14, 2003, the Board currently has authority to allot shares in the Company up to an aggregate nominal value of £89 million.

Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued, any share in the Company may be issued with such preferred, deferred or other special rights, or subject to such restrictions, whether as regards dividend, return of capital, voting or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Board may determine) and, subject to the provisions of the Statutes, the Company may issue any shares which are, or at the option of the Company and/or the holder are, liable to be redeemed.

The Articles of Association of the Company can be altered by the passing of a special resolution by the shareholders at a general meeting of the Company.

The Board can be given authority to conduct share buy-backs by the passing of a special resolution at a general meeting of the Company. Authority is being sought from shareholders at the annual general meeting to be held on July 17, 2007 to conduct share buy-backs. Under this authority, the Company may purchase up to approximately ten per cent of its issued ordinary share capital, subject to certain limitations relating to the maximum and minimum prices that may be paid for any shares bought back. The authority will give the Company flexibility in managing its balance sheet. The authority will be exercised only if, in the opinion of the Board, this will result in an increase in earnings per share and would be in the best interests of shareholders generally.

The Articles of Association permit the Company to hold any shares, which are bought back in treasury. However, the Company is not able to do this without first seeking the authority from shareholders to conduct share buy-backs. Treasury shares can be sold quickly and cost effectively, giving the Company additional flexibility in the management of its capital base. Whilst in treasury, the shares are treated as if cancelled so that no dividends are paid on them and they have no voting rights.

Shares and Shareholders

The number of ordinary shares issued and fully paid as at March 30, 2007 was 1,151,575,000 (March 31, 2006 1,130,882,000). The increase over March 31, 2006 reflects the issue of new ordinary shares to satisfy the share options exercised during the year under the British Airways Share Option Plan 1999. See Note 29 to the Financial Statements.

Capital Structure and Shareholder Rights

The authorised share capital of the Company is £378,000,000 divided into 1,511,999,999 ordinary shares of 25p each and one special voting share of 25p. All ordinary shares have equal rights to dividends and capital and to vote at general meetings of the Company.

The Company maintains an American Depositary Receipt (ADR) programme in the US. Each ADR is the equivalent of ten ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary is the actual holder of the shares. As at April 30, 2007, the equivalent of 33.7 million shares were held in ADR form.

On April 25, 2007 the Company announced its intention to de-list its American Depositary Shares (ADSs) from the New York Stock Exchange (NYSE) and to de-register the Company and terminate its reporting obligations under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company's de-listing from the NYSE becomes effective on May 18, 2007. The Company intends to maintain its American Depositary Receipt facility as a Level I programme. This means that the Company's ADSs will be traded only on the over-the-counter market.

The special voting share has no dividend rights, deferred capital rights and limited voting rights. The sole function of the special voting share is to ensure that the votes capable of being cast by the UK shareholders of the Company, taken as a whole, need never fall below a majority. Its voting rights would only be triggered if the number of UK shares represent, or are reasonably likely to represent at the time of the next scheduled annual general meeting, 50 per cent or less of the issued ordinary share capital and if the Board considers that, as a result, any air service operating right which is currently granted to, or enjoyed by, the Company may be materially restricted, suspended or revoked. Once its voting rights have been triggered, the special voting share entitles the holder to such number of votes as, when aggregated with the votes which are capable of being cast by the UK shares, are equal to 50 per cent of the total number of votes which are capable of being cast on such resolution, plus one. The special voting share is held by The Law Debenture Trust Corporation Plc.

The Directors may, in the case of shares held in certificated form, in their absolute discretion and without assigning any reason therefore refuse to register a transfer of shares (not being fully paid shares) provided that, where any such shares are admitted to the Official List of the UK Listing Authority, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly.

The Directors may, in their absolute discretion, refuse to register any transfer of the Special Voting Share whatsoever.

Where, under the Articles of Association, a person has been served with an Affected Share Notice, the shares which are the subject of such notice may, subject to the specific terms of the relevant notice, no longer confer on the holder any right to exercise any rights conferred by membership in relation to general meetings, including to attend or vote either personally or by proxy at any general meeting of the holders of any class of shares. In addition, the rights to attend, speak and demand a poll which would have attached to the shares, but for the Affected Share Notice, shall vest in the chairman of the relevant meeting.

The person on whom an Affected Share Notice has been served may also be required to dispose of the shares which are the subject of such notice, in accordance with the provisions of the Articles of Association.

Where, under the Articles of Association, a person has been served with a direction notice after failure to provide the Company with information concerning interests in shares held by them required to be provided under the Companies Act, those shares shall no longer confer on the holder any right to exercise any rights conferred by membership in relation to general meetings, including to attend or vote either personally or by proxy at any general meeting of the holders of any class of shares.

In addition, if the person served with a direction notice holds at least a 0.25 per cent interest in the Company, then the Board may also withhold payment of all or part of any dividends payable to such person and refuse to register any transfer of the shares which are the subject of the direction notice.

Where shareholders choose to appoint proxies to vote on their behalf on a poll at shareholder meetings (or any adjournment thereof), such appointments must, under the Articles of Association of the Company, be received (whether sent by post or by electronic communication) at such office or address as may be specified in the relevant notice of meeting not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof).

For the annual general meeting to be held on July 17, 2007, shareholders can vote online using the Company's website or by posting the Proxy form to the address set out in the notice of meeting. Proxies (online or postal ones) must be submitted or arrive before 11am on Sunday July 15, or 11am on Saturday July 14, 2007 if the shares are held in British Airways Investor Services, the Company Nominee.

In order to protect the operating rights of the Company, the number of ordinary shares held by non-UK nationals is monitored, as is the number of ordinary shares held by persons who are not nationals of states comprising the European Economic Area. At March 30, 2007, 39 per cent of the ordinary shares of the Company were held by non-UK nationals (2006: 39 per cent) and 16 per cent of the ordinary shares were held by persons who were not nationals of states comprising the European Economic Area (2006: 16 per cent). Although there are no large interests of single or associated non-UK nationals, the directors cannot rule out the possibility that they may be required to exercise their powers to restrict non-UK or non-EEA share ownership in order to protect the Company's operating rights.

Shareholder Analysis

As at April 30, 2007 there were 217,727 shareholders (May 2006: 232,863). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1-1,000	88.30	4.75
1,001 - 5,000	10.36	3.63
5,001 - 10,000	0.74	0.93
10,001 - 50,000	0.31	1.12
50,001 - 100,000	0.06	0.81
100,001 - 250,000	0.08	2.40
250,001 - 500,000	0.04	2.54
500,001 - 750,000	0.02	2.58
750,001 - 1,000,000	0.02	2.51
Over 1,000,000	0.07	78.73
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	98.23	9.56
Bank or Nominee	1.45	87.95
Insurance companies	0.01	0.02
Pension trusts	0.01	0.26
Investment trusts	0.02	0.01
Other corporate bodies	0.28	2.20
	100.00	100.00

Significant Holdings

Name of Shareholder	Percentage of Holding	Direct %	Indirect %
Deutsche Bank AG	3.34	3.34	Nil
Vidacos Nominees	7.14	4.15	2.99
AMVESCAP Plc	6.74	Nil	6.74
Legal & General Group Plc	3.34	3.34	Nil
Barclays PLC	6.90	6.90	Nil

TREASURY POLICIES AND OBJECTIVES

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

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

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

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

As part of its Treasury and fuel risk management programme, 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 and collars in the currency, interest rate and fuel markets.

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, 2007, the Group had more US Dollar payments than US Dollar revenues, principally as a result of its fuel requirements being purchased in US Dollars.

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

The Group has substantial liabilities denominated in Yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2007 and 2011. These purchase option payments total £561 million (Yen 130 billion) but of this £325 million (Yen 75 billion) has been refinanced and will be repaid over five years commencing on the original purchase option date. The Group utilises its Yen purchase option and debt repayments as a hedge of future Yen traffic revenues.

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

(£ million)	All Expected to Mature before March 31, 2008	2007 Notional Gain/(Loss)	2006 Notional Gain/(Loss)
To hedge future currency revenues against Sterling - Pound Sterling equivalents	144		(1)
To hedge future operating payments against US Dollars - US Dollars	261	(2)	5
To hedge future currency revenues against US Dollars - US Dollars	73		(3)
To hedge debt against Japanese Yen - Pound Sterling equivalents	16		

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

Financing and Interest Rate Risk

Most of the Group's debt is asset related, reflecting the capital-intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium to long-term maturity profiles of the Group's loans, finance leases and hire purchase arrangements. Low capital expenditure has meant that the requirements for new financing have been limited.

At March 31, 2007 54 per cent (2006: 53 per cent) of the Group's gross borrowings (after swaps) were at fixed rates of interest and 46 per cent were at floating rates.

The Group's borrowings are predominantly denominated in Sterling, US Dollars and 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 currency and interest rate mix of the Group's borrowings is as follows:

(£ million, except percentages)	Expected final maturity date before March 31 2008	2009	2010	2011	2012	After March 31, 2012	Total	Fair Value	2006	Fair Value
Fixed rate principal (Pounds Sterling)	42	62				872	976	1,011	1,140	1,193
Weighted average fixed rate	6.2%	10.9%				6.6%	6.9%		6.9%	
Floating rate principal (Pounds Sterling)	18	82	326	11		689	1,126	1,126	1,398	1,398
Weighted average floating rate	6.1%	5.9%	5.9%	5.7%		5.6%	5.7%		4.9%	
Fixed rate principal (US Dollars)	123					140	263	272	297	289
Weighted average fixed rate	3.5%					5.4%	4.5%		4.5%	
Floating rate principal (US Dollars)	(123)		11	29	8	495	420	420	532	532
Weighted average floating rate	5.4%		5.8%	5.7%	5.7%	5.9%	6.1%		5.5%	
Fixed rate principal (Japanese Yen)	78	53	231	199			561	561	714	714
Weighted average fixed rate	1.1%	1.3%	1.3%	1.3%			1.3%		1.3%	

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-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, 2007. Fair values of the Euro-Sterling notes and Euro-Sterling Bond 2016 are based on the quoted market values at March 31, 2007. The fair values of floating rate borrowings are deemed to be equal to their carrying values.

The Yen denominated portions of hire purchase arrangements carrying fixed rates of interest relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked-to-market basis and, accordingly, a fair value cannot be determined. The carrying value has therefore been included as the fair value above.

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

Single currency interest rate swap agreements

Notional principal balance	$240 million
Termination dates	2007 - 2008
- Fixed rates payable	2.95% - 3.57%
- Floating rates payable	5.33% - 5.36%
Unrealised Profit	£2 million

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

Fuel Price Risk

The Group's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial fall in the price of fuel. In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives available on the Over The Counter (OTC) markets with approved counterparties and within approved limits. Derivatives traded on regulated exchanges in London (the ICE Futures Exchange) and New York (the New York Mercantile Exchange) are also used.

Set out below are the outstanding fuel contracts at March 31, 2007, which all mature on or before December 31, 2008.

	Expected to mature before March 31 2008	2009	2007 Total	2006 Total
Swaps				
volume (barrels millions)	7.6		7.6	6.8
- open acquisition value ($ millions)	595.2		595.2	480.0
- Unrealised gain ($ millions)	86.0		86.0	137.9
Collars				
volume (barrels millions)	15.3	2.8	18.1	23.0
- open acquisition value ($ millions)	1,143.3	205.9	1,349.2	1,622.7
- Unrealised gain ($ millions)	31.8	4.2	36.0	214.2
Total				
volume (barrels millions)	**22.9**	**2.8**	**25.7**	**29.8**
- open acquisition value ($ millions)	**1,738.5**	**205.9**	**1,944.4**	**2,102.7**
- Unrealised gain ($ millions)	**117.8**	**4.2**	**122.0**	**352.1**
- Unrealised gain (Sterling equivalent millions)	**60.2**	**2.1**	**62.3**	**202.7**

Derivative Financial Instruments

The Company uses derivative financial instruments (derivatives) 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.

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, 2007 are summarised in Note 28 to the Financial Statements.

The Group 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.

Accounting for Derivative Financial Instruments

Under IAS 39 derivative financial instruments are recorded initially at fair value. Subsequent measurement of those derivatives at the balance sheet date reflects the designation of the derivative. The measurement of fair value is based on market observable data, where such information is available, or alternative valuation methods that can involve the use of judgements and estimates.

Gains and losses on derivatives designated as cash flow hedges and assessed as effective for the period, are taken to equity in accordance with the requirements of IAS 39. Gains and losses taken to equity are reflected in the income statement when either the hedged cash flow impacts income or its occurrence ceases to be probable. As a result of the requirement to measure the effectiveness of the hedging instruments, changes in market conditions or the Group's hedging strategy can result in the recognition in the income statement of unrealised gains or losses on derivative financial instruments designated as hedging instruments. During the financial year 2007 derivatives were generally found to be effective. The only ineffectiveness related to fuel hedges, where the unrealised loss recognised in the income statement for ineffective hedges was £12 million in the financial year 2007, compared with a recognised realised hedging profit of £19 million for financial year 2006.

Interest Cover

The Group's interest cover for the year ended March 31, 2007 was 16.7 times. The increase in interest cover from last year (6.0 times) primarily reflects a reduction in net interest payable.

Debt and other Contractual Obligations

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

(£ millions)	Less than 1 year	1 - 5 years	More than 5 years	Total	2006
Long-term debt obligations	68	275	603	946	1,116
Capital lease obligations	349	1,048	1,003	2,400	2,965
Operating lease obligations	169	322	1,510	2,001	2,126
Total	**586**	**1,645**	**3,116**	**5,347**	**6,207**

See also Notes 25 and 28 to the Financial Statements.

Capital Commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £554 million for the Group (2006: £249 million) and £553 million for the Company (2006: £249 million).

The outstanding commitments include £452 million for the acquisition of four Boeing 777 aircraft scheduled for delivery in 2009 and 14 Airbus A320 and A321 family aircraft scheduled for delivery during financial year 2008.

Liquidity

At March 31, 2007 the Group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £2,355 million (2006: £2,440 million). In addition, the Group had undrawn long term committed aircraft financing facilities totalling approximately US$352 million, further committed general facilities of $15 million and Yen 75 billion and undrawn uncommitted overdraft lines totalling £79 million.

The Group continued to build liquidity throughout the year as it prepared to make a one-off contribution to its UK defined benefit pension schemes. The payment to the pension schemes of £800 million was made in two tranches, the first payment of £240 million was made in February 2007 thereby resulting in a reduction in year end cash. The second payment of £560 million was made in April 2007 resulting in a reduction of cash balances immediately after the balance sheet date to around £1,800 million. The Group continually reviews its liquidity requirements.

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

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

OPERATING AND FINANCIAL STATISTICS

For the five years ended March 31, 2007

Total Group operations		2007	2006*	2005	2004	2003
Traffic and capacity						
Revenue passenger km (RPK)	m	**112,851**	*109,713*	*107,892*	*103,092*	*100,112*
Available seat km (ASK)	m	**148,321**	*144,194*	*144,189*	*141,273*	*139,172*
Passenger load factor	%	**76.1**	*76.1*	*74.8*	*73.0*	*71.9*
Cargo tonne km (CTK)	m	**4,695**	*4,929*	*4,954*	*4,461*	*4,210*
Total revenue tonne km (RTK)	m	**16,112**	*15,909*	*15,731*	*14,771*	*14,213*
Total available tonne km (ATK)	m	**22,882**	*22,719*	*22,565*	*21,859*	*21,328*
Overall load factor	%	**70.4**	*70.0*	*69.7*	*67.6*	*66.6*
Passengers carried	'000	**33,068**	*32,432*	*35,717*	*36,103*	*38,019*
Tonnes of cargo carried	'000	**762**	*795*	*877*	*796*	*764*
Frequent flyer RPKs as a percentage of total RPKs (Note 2)	%	**2.6**	*2.8*	*3.2*	*4.0*	*4.4*
Revenue aircraft km	m	**637**	*614*	*661*	*644*	*635*
Revenue flights	'000	**276**	*280*	*378*	*391*	*413*
Break-even overall load factor	%	**65.0**	*63.6*	*64.3*	*63.6*	*63.9*
Financial						
Passenger revenue per RPK	p	**6.44**	*6.31*	*6.02*	*6.30*	*6.58*
Passenger revenue per ASK	p	**4.90**	*4.80*	*4.51*	*4.59*	*4.74*
Cargo revenue per CTK	p	**13.16**	*12.94*	*9.73*	*10.38*	*11.50*
Average fuel price (US cents/US gallon)		**209.60**	*188.22*	*136.44*	*94.49*	*86.01*
Operations						
Average manpower equivalent (MPE)		**43,501**	*45,072*	*47,472*	*49,072*	*53,440*
RTKs per MPE		**370.4**	*353.0*	*331.4*	*301.0*	*266.0*
ATKs per MPE		**526.0**	*504.1*	*475.3*	*445.4*	*399.1*
Aircraft in service at year end		**242**	*284*	*290*	*291*	*330*
Aircraft utilisation (average hours per aircraft per day)		**10.82**	*10.29*	*9.83*	*9.21*	*8.91*
Unduplicated route km	'000	**589**	*574*	*623*	*657*	*693*
Punctuality – within 15 minutes	%	**67**	*75*	*76*	*81*	*76*
Regularity	%	**98.5**	*98.8*	*98.8*	*98.8*	*98.2*

		2007	2006	2005	2004**	2003**
Financial**						
Interest cover (note 3)	times	**16.7**	*6.0*	*3.8*		
Dividend cover	times	**n/a**	*n/a*	*n/a*		
Operating margin (note 4)	%	**7.1**	*8.5*	*7.2*		
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	**1,549**	*1,666*	*1,552*		
Net debt/total capital ratio (note 5)	%	**29.1**	*44.2*	*67.7*		
Net debt/total capital ratio including operating leases	%	**39.6**	*53.0*	*72.4*		
Total traffic revenue per RTK	p	**48.91**	*47.53*	*44.4*		
Total traffic revenue per ATK	p	**34.44**	*33.28*	*30.94*		
Total expenditure on operations per RTK (note 6)	p	**49.26**	*47.26*	*40.85*		
Total expenditure on operations per ATK (note 6)	p	**34.68**	*33.10*	*28.48*		

* Restated for the disposal of the regional business of BA Connect.

** Financial ratios are only available under comparative IFRSs from the Group's transition date of April 1, 2004.

n/a = not applicable

Notes:

1. Operating statistics do not include those of associates undertakings (Iberia and Comair) and franchisees (BMED, GB Airways, Loganair and Sun Air (Scandinavia)).
2. The carriage of passengers on Frequent Flyer Programme is evaluated on a ticket by ticket basis.
3. Interest cover is defined as the number of times profit/(loss) before tax excluding net interest payable covers the net interest payable. Interest cover is not a financial measure under IFRS. However, management believes this measure is useful to investors when analysing the Group's ability to meet its interest commitments from current earnings. The following table shows a reconciliation of net interest payable for each of the two most recent financial years:

	Year ended March 31	
	2007	*2006*
(£ million (except ratios))		
Profit before tax	611	*616*
Net interest payable (a)	(39)	*(122)*
Profit adjusted for interest payable (b)	650	*738*
Interest cover (b)/(a)	16.7	*6.0*

4. Operating margin is defined as operating profit as a percentage of revenue. Revenue comprises: passenger revenue (scheduled services and non scheduled services), cargo services and other revenue.
5. Net debt as a percentage of total capital. Net debt is defined as the total of loans, finance leases and hire purchase liabilities, net of short-term loans and deposits and cash less overdrafts. See Note 22 to the Financial Statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests, and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. Similarly, net debt adjusted to include obligations under operating leases is not a financial measure under IFRS. However, management believe these measures are useful to investors when analysing the extent in which the Group is funded by debt rather than by shareholders' funds. The following table shows a reconciliation of total capital to total shareholders' funds and the net debt/capital ratio for each of the two most recent financial years:

	Year ended March 31	
	2007	*2006*
(£ million (except ratios))		
Capital and reserves	2,211	*1,861*
Add minority interests	200	*213*
Total shareholders' equity	2,411	*2,074*
Net debt (a)	991	*1,641*
Total capital (b)	3,402	*3,715*
Net debt/total capital percentage (a)/(b)	29.1	*44.2*

6. Total expenditure on operations, total expenditure on operations per RTK and total expenditure on operations per ATK are not financial measures under IFRS. However, management believes 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 these measures internally on a monthly basis as an indication of management's performance in reducing costs. The following table shows a reconciliation of total expenditure on operations per RTK and total expenditure on operations per ATK for each of the two most recent financial years:

	Year ended March 31	
	2007	*2006*
(£ million (except ratios))		
Total expenditure on operations	7,936	*7,519*
RTKs	16,112	*15,909*
ATKs	22,882	*22,719*
Total expenditure on operations per RTK (p)	49.26	*47.26*
Total expenditure on operations per ATK (p)	34.68	*33.10*

THE BOARD OF DIRECTORS

The names and details of the current directors are set out below. All served throughout the financial year with the exception of James Lawrence who was appointed on November 1, 2006, and Martin George, who served as an Executive Director until October 9, 2006.

Board members as at May 17, 2007.

CHAIRMAN

Martin Broughton

Board Member since May 2000. Deputy Chairman from November, 2003 becoming non-executive Chairman in July 2004. At the time of his appointment, Martin met the independence criteria set out in paragraph A.3.1 of the Combined Code on Corporate Governance. Chairman of the Nominations Committee. Martin Broughton is President of the CBI and was Chairman of the British Horseracing Board until April 2007.

CHIEF EXECUTIVE

Willie Walsh

Executive Board Member since May 2005, becoming Chief Executive on October 1, 2005. Formerly Chief Executive of Aer Lingus, he is a non-executive director of Fyffes Plc and an honorary board member of Flight Safety International.

CHIEF FINANCIAL OFFICER

Keith Williams

Executive Board Member since January 2006. Having joined the airline in 1998 as Head of Taxation and additionally appointed Group Treasurer in 2000, Keith was appointed Chief Financial Officer on January 1, 2006. He is a chartered accountant.

NON-EXECUTIVE DIRECTORS

Maarten van den Bergh

Independent non-executive director since 2002, senior independent non-executive director since July 2004. Nominations, Remuneration and Safety Review Committees. He is Chairman of Akzo Nobel NV, Deputy Chairman of BT Group and a non-executive director of Royal Dutch Shell plc.

Baroness Kingsmill

Independent non-executive director since November 2004. Audit, Nominations and Safety Review Committees. Until December 2003, she chaired the Department of Trade and Industry's Accounting for People task force and was deputy chairman of the Competition Commission. She is a senior advisor to The Royal Bank of Scotland.

James Lawrence

Independent non-executive director since November 2006. Audit and Safety Review Committees. James is Vice Chairman and Chief Financial Officer of General Mills, Inc., serves on the Board of Avent, Inc., and is a non-executive director of Physicians Formula, Inc.

Chumpol NaLamlieng

Independent non-executive director since November 2005. Audit and Safety Review Committees. He is a member of the Board of Directors and Chairman of the Management Advisory Committee of the Siam Cement Public Company Limited, non-executive Chairman of Singapore Telecommunications Ltd and non-executive director of The Siam Commercial Bank Public Co. Ltd.

Dr Martin Read

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

Alison Reed

Independent non-executive director since December 2003. Chairman of the Audit Committee. Remuneration Committee. Alison Reed was previously Group Finance Director of Marks & Spencer plc and Standard Life plc. She is a chartered accountant.

Ken Smart

Independent non-executive director since July 2005. Chairman of the Safety Review Committee. Audit Committee. He is a member of the Board of Trustees of the UK Confidential Human Factors Incident Reporting Programme and a Visiting Professor at Cranfield University.

Baroness Symons

Independent non-executive director since July 2005. Audit and Safety Review Committees. The Right Honourable the Baroness Symons of Vernham Dean is a senior member of the House of Lords. Created a life peer in 1996, she served as a Minister in the Foreign and Commonwealth Office, the Ministry of Defence and the Department of Trade and Industry and was Minister of State for the Middle East and Deputy Leader of the House of Lords until she resigned from the Government in May 2005.

COMPANY SECRETARY

Alan Buchanan

Joined the airline in 1990 as Principal Legal Adviser Finance, becoming Company Secretary in April 2000. He is also Head of Corporate Responsibility, the Environment and Risk Management.

All directors are subject to retirement every three years and are eligible for re-election by the shareholders. In accordance with the Company's Articles of Association, Alison Reed will retire and seek re-election and James Lawrence who was appointed to the Board in November 2006 will seek election by shareholders at the annual general meeting to be held on July 17, 2007. Biographical notes about the directors seeking re-election and election are set out in the explanatory notes of the notice of annual general meeting.

Details of the directors' remuneration and share interests are set out in the Report of the Remuneration Committee on pages 39 to 47.

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. The Company has complied throughout the year with the code of best practice set out in Section 1 of the Combined Code (issued in June 2006) appended to the Listing Rules of the Financial Services Authority (the 'Combined Code').

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

The Board of the Company routinely meets eight times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the Company, and for these purposes the Board has drawn up a schedule of matters reserved for Board decision. Broadly, the Board has reserved to itself major strategic and financial decisions, including investment and divestment decisions, approval of significant alliance or codeshare partnerships and capital commitments of greater than £10 million. The Board has also drawn up a schedule of matters which must be reported to it. These schedules are reviewed at least annually. A statement of the directors' responsibilities in respect of the financial statements is set out on page 50 and a statement on going concern is given on page 49.

The Board is led by the Chairman and the executive management of the Company is led by the Chief Executive. Their respective roles are more fully described in the corporate governance section of the Company's website bashares.com. Of the 11 members serving at the year end, excluding the Chairman, two were executive directors and eight were non-executive directors. The eight non-executive directors are drawn from a diversity of business and other backgrounds, bringing a broad range of views and experiences to Board deliberations. Maarten van den Bergh is the Board's senior independent director. The Board has included seven or more fully independent non-executive directors throughout the year under review. Although they are eligible for non-contractual travel concessions in addition to their fees, this is not considered to affect their independence.

All directors receive regular information about the Company so that they are equipped to play as full a part as possible in Board meetings. Papers for Board and Committee Meetings are typically distributed in the week prior to the relevant meeting. All Board members have access to the Company Secretary for any further information they require. In addition, the Secretary ensures that the Board members receive an appropriate induction and further training as necessary. The appointment and removal of the Secretary is a matter for the Board as a whole. Non-executive directors are encouraged to visit the Company's operations and to speak to customers and employees. They are also encouraged to attend the annual investor day to meet major shareholders. Independent professional advice would be available to directors in appropriate circumstances, at the Company's expense. All directors are required to submit themselves for re-election every three years. New directors are appointed to the Board on the recommendation of the Nominations Committee whose terms of reference are available at bashares.com.

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

In the day-to-day running of the Company, the Chief Executive is supported by the Leadership Team, the members of which are:

Leadership team

Robert Boyle

Commercial Director. Joined the airline in 1993 in Corporate Finance, becoming Commercial Director in October 2006, prior to this he was Director of Planning.

Paul Coby

Chief Information Officer. Joined the airline in 1996 as Information Management Systems Supply Board Manager, becoming Chief Information Officer in 2000.

Garry Copeland

Director of Engineering. Joined the airline in 1989. Having held various positions including Chief Powerplant Engineer and GM Engineering and Quality Services, he became Director of Engineering in September 2006.

Lloyd Cromwell Griffiths

Director of Flight Operations. Joined the airline in 1973 as a pilot, becoming Director of Flight Operations in 2001.

Gareth Kirkwood

Director of Operations. Joined the airline in 1986 in its Purchasing Division, becoming Director of Operations in October 2006.

Roger Maynard

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.

Geoff Want

Director of Ground Operations. Joined the airline in 1976 as an Aircraft Performance Engineer, becoming Director of Ground Operations in September 2005.

Robert Webb QC

General Counsel. Joined the airline in 1998 and has responsibility for Legal, Government and Industry Affairs, Safety, Security and Corporate Responsibility, including Community Relations, External Communications, British Airways Health Services and the Environmental departments of the airline.

Keith Williams

Chief Financial Officer, details can be found on page 35.

The Company is currently in the process of recruiting a Director for People following the retirement of Neil Robertson on January 31, 2007.

The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers. The Company has 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. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs. A specimen indemnity is available for view on the Company's website, bashares.com, by clicking on the heading Corporate Governance.

The Board has four specific Board Committees, which meet regularly under terms of reference set by the Board. Copies of these are also available on bashares.com. Each of the Committees has authority to take external advice as required. A Standing Committee, consisting of the Chairman or senior independent non-executive director, one executive and one non-executive director, is also available when necessary.

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

Director	Board Meetings attended in the period or period of service	Audit Committees attended in the period or period of service	Nominations Committees attended in the period or period of service	Remuneration Committees attended in the period or period of service	Safety Review Committees attended in the period or period of service
Total in period	9	4	1	4	4
Martin Broughton	*9/9*		*1/1*		*4/4*
Willie Walsh	*9/9*				
Keith Williams	*9/9*				
Martin George *	*1/5*				
Maarten van den Bergh	*9/9*	*3/3*	*1/1*	*3/4*	
Baroness Kingsmill	*9/9*	*4/4*			*4/4*
James Lawrence **	*3/4*	*1/1*			*1/1*
Dr Martin Read	*9/9*		*1/1*	*4/4*	
Alison Reed	*9/9*	*4/4*		*4/4*	
Ken Smart	*9/9*	*4/4*			*4/4*
Baroness Symons	*9/9*	*4/4*			*4/4*
Chumpol Nalamlieng	*9/9*	*4/4*			*4/4*

* resigned from the Board October 2006

** joined the Board November 2006

Maarten van den Bergh missed a Remuneration Committee meeting due to a commitment at Lloyds TSB Group plc (of which he was chairman at the time). James Lawrence had prior commitments when he joined the Board and was therefore unable to attend one meeting. Martin George was on a leave of absence from June 2006 until his resignation in October 2006.

Report of the Audit Committee

Members: Alison Reed (Chairman), Maarten van den Bergh (until December 31, 2006), Ken Smart, Baroness Symons, Baroness Kingsmill, Chumpol NaLamlieng, James Lawrence (from January 1, 2007).

The Committee consists solely of independent non-executive directors. The Board is satisfied that Alison Reed has recent and relevant financial experience for the purposes of paragraph C.3.1 of the Combined Code. The external and internal auditors, Head of Internal Control, the General Counsel and the Secretary normally attend meetings of the Committee and have rights of access to it. Executives attend as required. In addition, the Committee has held closed meetings and has also met privately with each of the external and internal auditors.

The Audit Committee is responsible for exercising the full powers and authority of the Board in accounting and financial reporting matters. The full terms of reference are available on the Company's website at bashares.com.

The **key duties** of the Committee include:

- To monitor the integrity of the Company's financial statements prior to their submission to the Board and any formal announcements relating to the Company's financial performance.
- To review 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.
- To keep 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.
- To oversee the performance, as well as the objectivity and independence, of the external auditor which it does by requiring reports from the auditor, a requirement to pre-approve fees for non-audit work and by ensuring that fees for non-audit work remain lower than those for audit work.
- Responsibility for the oversight of the Company's policy on whistle-blowers and the risk management process (see Internal Control on page 48).

Items reviewed during the year include:

- *Financial reporting:* The Committee reviewed the draft annual and interim reports before recommending their publication to the Board. The Committee discussed with the Chief Executive, Chief Financial Officer and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.
- *Internal controls:* The Committee has an ongoing process for reviewing the effectiveness of the system of internal controls. During the year it considered reports from the Head of Internal Control summarising the work planned and undertaken, recommending improvements and describing actions taken by management. The Committee also sought the views of the external auditors in making its assessment.
- *Internal audit:* The Committee evaluated the performance of

internal audit from the quality of reports and recommendations from the Head of Internal Control.

- *Risk group:* The Committee reviewed the reports produced by the risk management process during the year and recommended that there should be an annual half day risk management workshop carried out by the Board.
- *Whistleblowing:* The Committee reviewed the Group's procedures for staff to raise concerns in confidence about possible financial misreporting and other misconduct. The Company has established procedures which encourage staff members to raise concerns with their line managers, with the Secretary or through a confidential helpline run by Safecall, an independent call bureau, whose reports are immediately forwarded to the Secretary.
- *Reappointment of external auditors:* In appropriate circumstances the Committee may make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditors.

Auditor Independence

The Committee reviews the work undertaken by the external auditor and assesses annually its independence and objectivity taking into account relevant British and American professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Committee monitors the auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, as well as assessing annually their qualifications, expertise, resources and the effectiveness of the audit process which shall include a report from the external auditor on its own internal quality procedures.

Audit Committee Effectiveness

The Committee prepares and reviews with the Board an annual performance evaluation of the Committee. The findings of the review ensure that the Committee is satisfied that it is operating effectively, meeting all applicable legal and regulatory requirements.

Other Issues

Details of the fees paid to the external auditor during the financial year 2007 can be found in Note 6 in the Financial Statements.

The terms of reference of the Committee are reviewed at least annually and any changes are recommended to the Board.

Report of the Nominations Committee

Members: Martin Broughton (Chairman), Maarten van den Bergh, Martin Read and Baroness Kingsmill (from January 1, 2007).

All members of the Committee are independent non-executive directors. All non-executive Board members are invited to attend its meetings and the Chief Executive Officer attends as necessary however, no Board member participates in any discussion of his or her own performance. The Committee has written terms of reference covering the authority delegated to it by the Board. The full terms of reference are available on the Company's website at bashares.com.

The Nominations Committee meets at least once a year, and additionally if required, to consider the balance of the Board's membership, to identify any additional skills or experience which might enhance the Board's performance, and to interview candidates and recommend appointments to or, where necessary, removals from, the Board. The Committee also reviews the performance of any director seeking re-election at the forthcoming annual general meeting. The Committee's remit also includes review of corporate governance.

In relation to the appointment of new Board members, the process used for the nomination of new candidates commences with the identification of the skills and experience needed to maintain or enhance the diversity of skills and experience on the Board. Whilst in most cases this will result in the use of an independent search firm, this is not always the case.

During the period under review, the Committee met once resulting in the appointment of James Lawrence on November 1, 2006 as a non-executive director. External search consultants were used to draw up a short list of which James Lawrence was considered to be the best candidate. Mr Lawrence was the only non-executive appointed since the last annual general meeting, he will seek election by shareholders at the annual general meeting to be held on July 17, 2007. Full biographical details of James Lawrence are set out in the explanatory notes of the Notice of annual general meeting.

Having come to the end of her three year term, Alison Reed is submitting herself for re-election this year. Her biographical details, set out in the explanatory notes of the Notice of annual general meeting, demonstrate the skills and experience which she brings to the benefit of the Company and following formal evaluation, the Chairman has confirmed that Mrs Reed's performance continues to be effective and continues to demonstrate commitment to the role.

Martin George resigned as an executive Board Member on October 9, 2006.

Report of the Remuneration Committee

Information not subject to audit

Members: Martin Read (Chairman), Maarten van den Bergh, Alison Reed.

Committee and Advisers

The Company's Remuneration Committee determines on behalf of the Board, within the agreed terms of reference, the overall remuneration packages for the executive directors, the members of the Leadership Team (listed on page 36), the Chairman and the Company Secretary. Its members are all independent non-executive directors of the Company, none of whom has any personal financial interest, other than as a shareholder, in the matters to be decided.

The Company currently participates in four main salary survey sources – run by Hay, Monks (PWC), New Bridge Street Consultants and Towers Perrin. Data is extracted from each of these in determining the Company's approach to base pay market rates, and identifying competitive market practice in respect of the other remuneration elements. The Remuneration Committee is cognisant of the risk of an upward ratchet of remuneration that can result from the use of pay surveys.

New Bridge Street Consultants LLP are advisers to the Remuneration Committee and gave advice to the Committee that materially assisted it. Their terms of reference are available for inspection on the Company's website bashares.com. Towers Perrin also gave advice to the Committee that materially assisted it. The Chairman, Chief Executive, Company Secretary, Neil Robertson, Director for People (until January 31, 2007 and thereafter David Lebrecht as acting Director for People) and Christopher Hunt, Reward Manager, all assisted the Committee in its deliberations but none of them participated in any decisions relating to their own remuneration. None of those who materially assisted the Committee in its deliberations was appointed by the Remuneration Committee other than New Bridge Street Consultants. New Bridge Street Consultants, Towers Perrin, Hay and Monks (PWC) provided no other services to the Company other than advice on remuneration matters during the financial year.

Where appropriate, the Committee would consult with investors about its proposals. The terms of reference of the Committee are available on the Company's website.

Executive Directors

Policy

The Company's remuneration policy was first approved by shareholders at the annual general meeting in 2001 and remains unchanged both in relation to the year under review and the financial year 2008 as well as for the foreseeable future.

The Company's remuneration policy is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate managers. The remuneration packages offered by the Company are comparable with other UK based international businesses of similar size and nature to the Company.

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

Remuneration Package

The Committee reviewed the remuneration package for executive directors during the year to ensure that it remains consistent with this policy and concluded that, subject to the changes referred to below, the structure of the existing package remains appropriate for this purpose. The package for the executive directors for the financial years 2007 and 2008, therefore, consists of a basic salary, benefits in kind (including private health care, a car and fuel and non-contractual travel concessions), pension, an annual bonus scheme (including a deferred element payable in shares) and participation in the Performance Share Plan. The proportion of performance related variable remuneration, through the bonus scheme and awards under the Performance Share Plan, is approximately 50-55 per cent of total target remuneration (excluding pension arrangements).

The policy in relation to base salaries aims to target base salaries at around the market median. The strategy for incentive pay is intended to increase the expected value to make the package more market-competitive for executive directors, but to retain as its aim the achievement of a market median value, subject to the achievement of stretching targets. Between them, the elements of the remuneration package provide a good balance between the achievement of short and longer-term goals linked to the creation of shareholder value.

Basic Salary

The basic salary reflects the level of responsibility of the executive director, his or her market value and individual performance. The Committee's objective is to offer basic salaries around the market median level. In reviewing basic salary, independent external advice is taken on salaries for comparable jobs in companies similar to the Company from the survey sources referred to previously. The Committee has regard to pay and employment conditions elsewhere in the Company when determining annual salary increases.

The Committee has recently reviewed base salaries, recognising that they were significantly behind the market median for companies of similar market capitalisation. The Committee considers that it is necessary that base salaries are competitive and decided that, from July 1, 2007, Willie Walsh's base salary will be £700,000 and Keith Williams' will be £415,000. In determining these increases, the performance of the individuals was also taken into account.

Annual Bonus

The amount of annual bonus available for distribution to senior executives for the financial year 2007 was subject to a maximum limit of 100 per cent of salary. No bonus was payable unless the minimum operating margin target threshold was achieved. If this threshold was achieved, bonus potential was determined by a mixture of an operating margin target, a customer recommendation target, a punctuality target (relating to mainline network punctuality performance) and an assessment of employee involvement in the mainline business. In addition to the above targets, the Remuneration Committee had to be satisfied that the performance of, and outlook for, the business was satisfactory. Since the Company did not achieve the minimum operating margin target of eight per cent, no annual bonuses were paid in relation to the financial year 2007.

The Remuneration Committee reviewed the annual bonus plan during the year and has restructured it to create a common bonus architecture across the Company's management group and to support the increased focus on individual accountability following the recent management restructuring. Therefore, for the financial year 2008, an executive director would potentially be able to earn up to ten per cent of salary based on their personal contribution against objectives. In addition, whatever is earned for personal performance is then subject to a multiplier based on the Company's performance against the following measures:

Performance Measure	Potential Multiplier
Operating Margin	Up to 4.5 x
Customer Recommendation	Up to 1.5 x
Punctuality	Up to 1.5 x
Employee Involvement	Up to 1.5 x

No multiplier will be applied unless the minimum operating margin target is achieved. The Committee has retained discretion to prevent any bonus payments if the Company's performance is judged by it to be inadequate.

The maximum bonus is therefore ten times the personal contribution payment, meaning that the maximum bonus potential remains at 100 per cent of salary. If only the personal contribution element is payable then it will be delivered entirely in cash. Otherwise, half of any bonus will be payable in the form of deferred shares (under the British Airways Deferred Share Plan) which vest after three years (as detailed on page 41), normally subject to continued employment over that period. On vesting, executives would receive the benefit of any dividends paid over the deferral period.

Long Term Incentive Arrangements

British Airways Performance Share Plan 2005

The British Airways Performance Share Plan (PSP) is the long-term incentive plan awarded to key senior executives of the Company, those most directly involved in shaping and delivering the medium to long-term business goals of the Company. The plan was approved by shareholders at the annual general meeting in 2005. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions (see below) in full or in part at the third anniversary of award. No payment is required from individuals when the shares are awarded or when they vest. The Remuneration Committee supervises the operation of the PSP. Awards worth up to 150 per cent of an executive's base salary can be granted. For the 2007 award, the Chief Executive will receive this level of award and the Chief Financial Officer will receive an award at the 125 per cent level. Other members of the Leadership Team will receive awards at the 100 per cent of base salary level.

There are two performance conditions and these operate independently of each other. This means that meeting either of the conditions would trigger a payment without the need to meet the other performance condition. 50 per cent of each award will be subject to a Total Shareholder Return (TSR) market-based performance condition, measured against a group of other airline companies, and the other 50 per cent will be subject to an average operating margin performance condition. The use of two separate but complementary performance conditions creates an alignment to both the airline industry (via the TSR measure) and also the Company's internal financial performance measure (via the operating margin measure). Both of these performance conditions will be measured over a single three-year performance period which begins on April 1 prior to the award date. The awards will not vest until the third anniversary of the date of award as mentioned below. The Remuneration Committee selected these performance conditions because they are challenging and aligned to shareholders' interests.

TSR measures the financial benefits of holding a company's shares and is determined by share price performance along with any dividends which are paid. None of the shares that are subject to the TSR market-based performance condition will vest unless the Company's TSR performance is at the median (50th percentile) of the airline comparator group. If median performance is achieved, 25 per cent of the shares (i.e. 12.5 per cent of the total award) vest. There is then a sliding scale at the top of which all of the shares vest in full (i.e. the full 50 per cent of shares which are subject to the TSR market-based performance condition) if the Company's TSR `performance is at or above the upper quintile (top 20 per cent) of the comparator group. The comparator group of airlines used in the 2005 and 2006 awards is shown in the table below:

AIR CANADA	IBERIA
AIR FRANCE	LUFTHANSA
AIR NEW ZEALAND	NORTHWEST AIRLINES
ALITALIA	QANTAS AIRWAYS
ALL NIPPON AIRLINES	RYANAIR
AMERICAN AIRLINES	SAS
CATHAY PACIFIC AIRWAYS	SINGAPORE AIRLINES
CONTINENTAL AIRLINES	SOUTH WEST
DELTA AIRLINES	UNITED AIRLINES (2005 award only)
EASYJET	US AIRWAYS

It is currently intended that the same comparator group used in 2006 will be used for any awards that are made in 2007.

For the 50 per cent of the shares that are subject to the operating margin performance condition, vesting will be as follows:

Award	Performance Period	Average Annual Operating Margin over Performance Period		
		0% vests	25% of shares (i.e. 12.5% of total award) vest	100% of shares (i.e. 50% of total award) vest
2005 award	2005/06 – 2007/08	Less than 7%	7%	10%+
2006 award	2006/07 – 2008/09	Less than 8%	8%	10%+
2007 award	2007/08 – 2009/10	Less than 8%	8%	11%+

A sliding scale of vesting operates for performance between the minimum and maximum vesting points.

Shareholding Guideline

A shareholding guideline has been adopted, linked to the two share based incentive schemes introduced in 2005, the Deferred Share Plan and the Performance Share Plan. Executives will be expected to retain no fewer than 50 per cent of the shares (net of tax) which vest from these two schemes until they have built up a shareholding equivalent to 100 per cent of basic salary. This policy aims to further align the interests of executives and shareholders.

British Airways Deferred Share Plan 2005

The British Airways Deferred Share Plan (DSP) was adopted by the Board on September 16, 2005 and is the mechanism for delivering the deferred element of the annual bonus. The first awards under the DSP were made in November 2006. An award of deferred shares to the value of one half of the bonus earned was made to qualifying executives. Other than on retirement or redundancy the shares will be subject to forfeiture if the executive leaves during the three-year deferral period. On vesting, executives will receive the benefit of any dividends paid over the deferred period.

For further information regarding these schemes, see pages 45 to 47 which contains details of awards to executive directors granted this year and in prior years under current and historic share incentive schemes and also see Note 30 to the Financial Statements.

British Airways All Employee Share Ownership Plans

In July 2000, the Company obtained shareholders' approval to implement any aspect of the new all employee share plans now known as share incentive plans. The approval permits the Company to operate a partnership share plan which would allow employees in the UK to buy shares from their pre-tax salary and would allow the Company to give matching or free shares to those participants in the share plan. Financial limitations would apply to any new plan. No plans are currently in operation.

Service Contracts

The two executive directors serving at the year end each have a rolling contract with a one-year notice period. As a matter of policy, in the event of new external appointments, the length of service contracts would be determined by the Remuneration Committee in the light of the then prevailing market practice. However, the Remuneration Committee recognises that, in some cases, it may be necessary to offer a contract with a notice period in excess of one-year in order to attract a new executive director. In these circumstances, the Remuneration Committee acknowledges that the notice period should reduce to one-year after the initial period in accordance with paragraph B.1.6 of the Combined Code.

The service contracts for the serving directors include the following terms:

Executive Director	Date of contract	Unexpired term/ notice period
Willie Walsh	*March 8, 2005*	*terminable on 12 months notice*
Keith Williams	*January 1, 2006*	*terminable on 12 months notice*

There are no express provisions for compensation payable upon early termination of the executive directors' contracts other than normal payments due during the notice period. In the event of early termination, the Company's policy is to act fairly in all circumstances and the duty to mitigate would be taken into account. The Remuneration Committee has noted the ABI/NAPF joint statement; "Best Practice on Executive Contracts and Severance". The executives' contracts include a pay in lieu of notice provision and are subject to mitigation provisions during the second six-months of the notice period. Neither of the contracts provides for compensation to be paid in the event of a change of control of the Company. Copies of the two service contracts can be viewed on the Company's website.

The service contract for the executive director who left the business during the year (and therefore has no unexpired term) was as follows:

Executive Director	Date of contract	Notice period
Martin George	*February 1, 1997*	*terminable on 12 months notice*

External Non-Executive Directorships

The Board encourages executive directors to broaden their experience outside the Company by taking up non-executive appointments from which they may retain any fee. The Company's consent is required as a matter of contract before an executive can accept such an appointment and permission will only be given in appropriate circumstances. During the year in question Willie Walsh earned fees of €45,000 as a non-executive director of Fyffes Plc.

Pension Schemes

The Company has three main pension schemes. Two of these, Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS), are defined benefit schemes and are closed to new members. The third scheme, the British Airways Retirement Plan (BARP), has been available to new joiners since April 1, 2003 and is a defined contribution scheme. Martin George was a member of NAPS. Willie Walsh is a member of BARP and receives a contribution of 12 per cent of salary. Keith Williams is a member of both NAPS and an unfunded unapproved retirement scheme. Provision for payment of a surviving dependant's pension on death and lump sum payments for death in service is also made. Only basic salary is pensionable. Further details of pension provision are set out on page 44.

Non-Executive Directors

Policy

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

Chairman's and Non-Executive Directors' Fees

The Chairman's fee is determined by the Remuneration Committee. It was set at £300,000 in September, 2004 and was recently reviewed by the Committee, taking into account the level of fees payable in similar companies and recognising his above average time commitment. As a result, his fee will be £350,000 from July 1, 2007.

Fees for the non-executive directors are determined by the executive directors on the recommendation of the Chairman. For the year in question, the fees (which were reviewed in October, 2006) were £40,000 per annum, with the chairmen of the Audit, Remuneration and Safety Review Committees and the senior independent non-executive director each receiving £10,000 per annum in addition to these fees. No other fees are paid for attendance at Board committees. The Chairman and the non-executive directors' fees are not pensionable. They are, however, eligible for non-contractual travel concessions.

Service Agreements

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

Non-executive	Date of appointment	Date of election/ last re-election	Expiry date
Martin Broughton	*May 12, 2000*	*July 18, 2006*	*2009*
Maarten van den Bergh	*July 16, 2002*	*July 19, 2005*	*2008*
Baroness Kingsmill	*November 1, 2004*	*July 19, 2005*	*2008*
James Lawrence	November 1, 2006	July 18, 2007	*2007*
Chumpol NaLamlieng	*November 1, 2005*	*July 18, 2006*	*2009*
Dr Martin Read	*May 12, 2000*	*July 18, 2006*	*2009*
Alison Reed	*December 1, 2003*	*July 20, 2004*	*2007*
Ken Smart	*July 19, 2005*	*July 19, 2005*	*2008*
Baroness Symons	*July 19, 2005*	*July 19, 2005*	*2008*

Except where appointed at a general meeting, directors stand for election by shareholders at the first annual general meeting following appointment and stand for re-election every three years thereafter under Article 95. Either party can terminate on one month's written notice. None of the Chairman or the non-executive directors has any right to compensation on the early termination of their appointment. Copies of the letters of engagement for the Chairman and the non-executive directors are available for inspection on the Company's website.

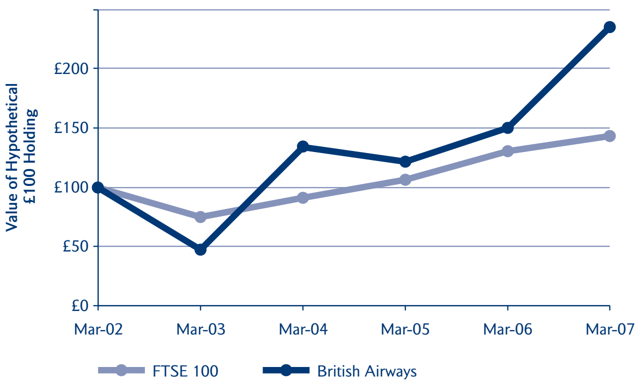
Performance Graph

The graph shows the total shareholder return (with dividends reinvested where applicable) for each of the last five financial years of a holding of the Company's shares against a hypothetical holding of shares in the FTSE 100.

The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent.

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

FTSE 100 Comparison Based on 30 Trading Day Average Values



Information subject to audit

Directors' remuneration

	Basic salary and fees	Taxable benefits[1]	Payments relating to termination of employment	Performance related bonuses		Total 2007	Total 2006
				Cash	Value of deferred shares		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors							
Willie Walsh	611	14		0	0	625	887
Keith Williams	382	14		0	0	396	261[5]
Martin George[2]	198	6[3]	263[4]	0	0	467	425
Non-executive Directors							
Martin Broughton	300	30				330	331
Maarten van den Bergh	46	0				46	43
Baroness Kingsmill	38	1				39	36
James Lawrence[5]	17	0				17	0
Dr Martin Read	46	0				46	43
Alison Reed	46	0				46	43
Chumpol NaLamlieng	38	1				39	16[5]
Ken Smart	46	0				46	30
Baroness Symons	38	1				39	26
Aggregate emoluments	1,806	67	263	0	0	2,136	2,141

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

[2] Resigned from the Board on October 9, 2006.

[3] Martin George's defence costs in relation to the competition law investigations referred to on page 2 are covered by the Company's Directors' and Officers' Liability Policy, however, the policy is subject to an excess which is payable by the Company. In the year to March 31, 2007, the Company paid £356,000 in relation to his defence costs. This is not a taxable benefit and is in addition to the figures shown above.

[4] The Company did not wish Martin George to work out his notice and accordingly made a termination payment in lieu of the first six months of his contractual notice period to April 2007. The figure above also includes a payment in lieu of annual leave. Further payments will be made for the remaining six months of the notice period, subject to deductions to reflect alternative income earned by Mr George.

[5] Figures shown from date of appointment.

The base salaries for the executive directors are currently £614,400 for Willie Walsh and £384,000 for Keith Williams.

The pension entitlements of the executive directors were:

	Accumulated accrued benefits March 31, 2007 £	Increase in accrued benefits during the year £	Increase, before inflation, in accrued benefits during the year £	Transfer value* of increase before inflation, less director's contributions £
Keith Williams	73,686	31,546	30,029	338,497
Martin George	139,054	18,218	16,062	118,362

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

	March 31, 2007 £	March 31, 2006 £	Director's contributions during the year £	Movement, less director's contributions £
Keith Williams	857,064	447,506	19,616	389,942
Martin George	1,166,204	944,260	17,896	204,048

Keith Williams is a member of both the New Airways Pension Scheme (NAPS) and an unfunded unapproved retirement scheme which, under the terms of his service contract, will provide a total retirement benefit at age 60 equivalent to 1/56th of pensionable pay for each year of service up to March 31, 2007. It is intended that from April 1, 2007, this will be reduced to 1/60th for each year of service, payable at age 65 in line with the changes to NAPS, however, in line with other NAPS members, Mr Williams would be entitled to buy back to 1/56th payable at age 60 should he so elect. Martin George is a member of NAPS which provides 1/56th of pensionable pay for each year of service.

* Transfer value represents a liability of the company, not a sum paid or due to the individual. It is calculated in accordance with "Retirement Benefit Schemes – Transfer Value (GN11)".

Willie Walsh is a member of BARP, a defined contribution scheme and the Company paid contributions during the year of £73,296 (2006: £65,713).

Directors' beneficial interests in shares

	British Airways Plc Ordinary Shares	
	March 31, 2007	*April 1, 2006 **
Current Board Members		
Martin Broughton	49,090	*49,090*
Willie Walsh	0	*0*
Keith Williams	0	*0*
Maarten van den Bergh	2,000	*2,000*
Baroness Kingsmill	2,000	*2,000*
Chumpol NaLamlieng	10,000	*0*
Dr Martin Read	8,000	*8,000*
Alison Reed	10,000	*10,000*
Ken Smart	0	*0*
Baroness Symons	0	*0*
Total	81,090	71,090

	British Airways Plc American Depositary Shares	
	March 31, 2007	*April 1, 2006**
James Lawrence	1,000**	*0*

	British Airways Plc Ordinary Shares	
	March 31, 2007***	*April 1, 2006*
Board Members who resigned during the year		
Martin George	6,619	*6,619*

* or date of appointment ** each American Depositary Share is equivalent to 10 ordinary shares *** as at date of resignation

There have been no changes to the shareholdings set out above between the financial year end and the date of the report.

No director has any beneficial interest in any subsidiary undertaking of the Company. As potential beneficiaries under the British Airways Employee Benefits Trust ('the Trust'), the executive directors are deemed, for Companies Act purposes, to be interested in all of the shares held by the Trust which, at March 31, 2007, amounted to 1,994,079 shares.

Directors' Share Options

The following directors held options to purchase ordinary shares in the Company granted under the British Airways Share Option Plan 1999. The Plan was closed after the final grant in 2005/2006. The Plan provided for the grant of options to acquire ordinary shares in the Company or the Company's American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options. Options granted under the plan are subject to a performance condition as detailed below:

British Airways Share Option Plan 1999

	Date of Grant	Number of Options as at April 1 2006	Exercise Price	Options Exercised during the year	Options lapsed during the year	Market price at date of exercise	Gain Made on exercise £	Options Granted during the year	Exercisable from	Expiry date	Number of Options as at March 31 2007
Martin											
George	Aug 26, 1999	36,598	394p		36,598				Aug 26, 2002	Oct 9, 2006	Nil
	June 28, 2000	43,421	380p		43,421				June 28, 2003	Oct 9, 2006	Nil
	June 26, 2001	77,024	321p		77,024				June 26, 2004	Oct 9, 2006	Nil
	June 25, 2003	162,420	157p		162,420				June 25, 2006	Oct 9, 2006	Nil
	June 25, 2004	100,248	262p		100,248				June 25, 2007	Oct 9, 2006	Nil
	June 23, 2005	100,905	276p		100,905				June 23, 2008	Oct 9, 2006	Nil
Total		**520,616**			**520,616**						**Nil**
Keith											
Williams	Aug 26, 1999	30,456	394p						Aug 26, 2002	Aug 26, 2009	30,456
	June 28, 2000	26,315	380p						June 28, 2003	June 28, 2010	26,315
	June 26, 2001	38,940	321p						June 26, 2004	June 26, 2011	38,940
	July 1, 2002	91,160	181p						July 1, 2005	July 1, 2012	91,160
	June 25, 2003	114,649	157p						June 25, 2006	June 25, 2013	114,649
	June 25, 2004	72,480	262p						June 25, 2007	June 25, 2014	72,480
	June 23, 2005	69,927	276p						June 23, 2008	June 23, 2015	69,927
Total		**443,927**									**443,927**

The performance condition applicable to share options granted in June 2004 and June 2005 listed above requires the Remuneration Committee to be satisfied that there has been an increase in the EPS of the Company which is at least four per cent per annum more than the increase in the Retail Price Index during three consecutive financial years. EPS is calculated as set out in the Statement of Investment Practice No. 1 of the Institute of Investment Management and Research (IIMR).

Under the performance condition of the plan, the options granted in 2004 were tested at the end of the financial year 2007. In 2003/04, the Company's EPS under the IIMR definition was below the threshold of 17.3p set by the Remuneration Committee which was therefore the applicable base. EPS for the financial year 2007 using the IIMR definition was 31.4p. The Remuneration Committee therefore determined that the performance condition had been satisfied in relation to the grants made in 2004. These options will become exercisable on the third anniversary of the original grant, June 25, 2007.

There is no retesting of the options granted in 2005.

The performance conditions in relation to options granted in prior years have been satisfied and those options vested accordingly.

Directors' Conditional Awards

The following directors held conditional awards over ordinary shares of the Company granted under the British Airways Long Term Incentive Plan (LTIP) and the British Airways Performance Share Plan (PSP). The LTIP operated from 1996 to 2004 and was replaced by the PSP in 2005.

	Plan	Date of Award	Number of awards as at April 1 2006	Awards Vesting During the year	Options Exercised during the year	Market price at date of exercise	Gain made on exercise £	Awards lapsing during the year	Awards made during the year	Number of awards as at March 31 2007
Willie Walsh	PSP	August 30, 2005	319,148							319,148
	PSP	Nov 24, 2006							185,950	185,950
Total			**319,148**						**185,950**	**505,098**
Martin George	LTIP	June 8, 2001	16,814					16,814		Nil
	LTIP	June 9, 2003	136,607	123,862	123,862	448.50p	555,397	12,745		Nil
	LTIP	June 16, 2004	77,250					77,250		Nil
	PSP	August 30, 2005	98,758					98,758		Nil
Total			**329,429**	**123,862**	**123,862**			**205,567**		**Nil**
Keith Williams	LTIP	June 9, 2003	51,429	46,631				4,798		46,631
	LTIP	June 16, 2004	29,788							29,788
	PSP	August 30, 2005	34,219							34,219
	PSP	Nov 24, 2006							77,479	77,479
Total			**115,436**	**46,631**				**4,798**	**77,479**	**188,117**

LTIP awards are subject to the Company's TSR performance relative to the constituents of the FTSE 100. No awards vest for below median performance. For awards granted in 2003 and 2004, 30 per cent vest for median performance, 65 per cent vest for upper quartile performance and 100 per cent vest for upper decile performance.

- In respect of outstanding awards granted in 2001, the Company ranked below median in the comparator group over the period 2001-2006 so all of the remaining awards lapsed.
- In respect of awards granted in 2003, the Company was the 13th highest performing company out of the 93 remaining FTSE 100 companies over the performance period April 1, 2003 to March 31, 2006. This placed the Company on the 86th percentile meaning that 90.67 per cent of the shares originally awarded vested and the remainder of the awards lapsed.
- In respect of awards granted in 2004, the Company was the 20th highest performing company out of the 92 remaining FTSE 100 companies over the performance period April 1, 2004 to March 31, 2007. This placed the Company on the 79th percentile meaning that 74.33 per cent of the shares originally awarded will vest on June 25, 2007 and the remainder of the awards will lapse.

Upon vesting of an LTIP award, subject to the Remuneration Committee considering that underlying financial performance is satisfactory, participants are granted an option for no payment and no payment is due upon exercise of options. Options are exercisable for seven years from the date of vesting of the relevant LTIP award.

PSP awards granted in 2005 and 2006 are subject to the performance conditions outlined earlier in this report on page 40. Both of these performance conditions will be measured over a single three-year performance period which begins on April 1 prior to the award date.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2006 PSP award, (November 24, 2006), was 484 pence.

Deferred Share Plan

The following directors held conditional awards over ordinary shares of the Company granted under the British Airways Deferred Share Plan:

	Relates to bonus earned in respect of performance in	Date of award	Number of awards as at April 1, 2006	Awards released during the year	Awards lapsing during the year	Awards made during the year	Number of awards as at March 31, 2007
Willie Walsh	2005/06	Nov, 24, 2006				27,800	27,800
Keith Williams	2005/06	Nov, 24, 2006				16,991	16,991

The value of the deferred share awards outlined above was previously included in the Directors' Remuneration table for the financial year to which the bonus relates.

The highest and lowest prices of the Company's shares during the financial year and the share price at March 31 were:

	2007	2006
At March 31	486.00*	353.25
Highest in the year	577.50	362.50
Lowest in the year	320.00	236.25

* closing price of the ordinary shares as at March 30, 2007

Approved by the Board and signed on its behalf by

Dr Martin Read
Non-executive Director and Chairman of the Remuneration Committee

May 17, 2007.

Report of the Safety Review Committee

Members: Ken Smart (Chairman), Martin Broughton (to January 2007), Baroness Kingsmill, Chumpol NaLamlieng, Baroness Symons, James Lawrence (from January 2007), and Maarten van den Bergh (from January 2007).

The Safety Review Committee meets at least four times per year to consider matters relating to the operational safety of the airline and subsidiary airlines as well as health and safety issues. The full terms of reference are available on the Company's website at bashares.com.

The Safety Review Committee reviews reports from the various safety boards within the airline as well as relevant reports published by the UK Air Accident Investigation Branch (AAIB), major incidents to other operators and external reports such as the BP Texas City report. During this reporting period issues raised at the Safety Review Committee include:

- Problems associated with two languages being spoken by ATC in France, resulting in a runway incident when another operator was allowed to take off whilst a British Airways aircraft was crossing the active runway.
- Issues arising from the aural warnings used in TCAS (traffic collision avoidance system). Here the Company, together with Air France and Lufthansa, has lobbied the regulators EASA) to improve this vital system.
- The Board has received presentations on various topics including a presentation from NATS on safety issues and one on the Ramp Safe project, which is an internal initiative to improve safety on the ramp.

The Chief Executive is the named Accountable Manager for the Company for the purposes of the Air Operators Certificate and the Joint Airworthiness Requirements - Operations (JAR-Ops). As the Accountable Manager, he chairs meetings at bi-monthly intervals of the five Nominated Postholders (the executives responsible to the Civil Aviation Authority (CAA) for safety in the various operational departments of the Company) along with the General Counsel, the Head of Safety and Security and the General Manager Air and Corporate Safety. These meetings review operational compliance, quality and safety, monitor the effectiveness of the corporate safety management system and agree cross-departmental policy as appropriate. The Accountable Manager's meetings allow him to review any issues with the Nominated Postholders and seek the necessary assurances that the Company is compliant with the relevant regulations.

Internal Control

The directors are responsible for the Company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against unauthorised use or disposition, and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The Company has a Statement of Business Principles applicable to all employees. The Company also has a Code of Business Conduct and Ethics which applies to all employees. These are two of a number of Standing Instructions to employees of the Group designed to enhance internal control. Along with the Finance Standing Instructions, these are regularly updated and made available to staff through the Company's intranet. Following the Company's decision to de-list from the NYSE, the Statement of Business Principles and the Code of Business Conduct and Ethics will be combined into a crisper, more effective statement.

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

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

The business agenda is determined by the business plan which represents the operational and financial evaluation of the corporate strategy, setting out the agreed targets for financial return and service standards, identifying and prioritising improvement opportunities to deliver those targets, and the agreed capital and manpower requirements. The business planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The business plan is approved by the Board on an annual basis.

A comprehensive management accounting system is in place providing financial and operational performance measurement indicators to management. Detailed management accounts are prepared monthly to cover each major area of the business. Variances from plan are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Leadership Team to discuss performance with specific projects being discussed as and when required. Throughout the year under review, both the Capital Investment Committee (including the External Spend Group) and the Manpower Control Group were instrumental in maintaining tight control of capital expenditure, external expenditure and headcount. In March 2007 the two committees were merged under the chairmanship of the Chief Financial Officer. All major corporate projects are audited regularly.

During the financial year 2007 essential work necessary to achieve compliance with Section 404 of the Sarbanes-Oxley Act of 2002, to which the Company was subject by virtue of its listing on the New York Stock Exchange, continued. This work has resulted in the continued strengthening of the Group's internal control systems. The key controls necessary in each of the business' core processes and core IT systems have been identified and tested. On April 25, 2007 the Company announced its intention to de-list from the New York Stock Exchange and to de-register and end its US reporting obligations under the Securities Exchange Act of 1934, therefore removing the need to comply with the provisions of Sarbanes-Oxley Section 404 on internal controls over financial reporting. However, at March 31, 2007, the Company tested its internal financial controls, in so far as they were relevant to the production of these accounts, in accordance with the related framework and no material weaknesses were found. Corporate governance remains key to the business and the Company will be reviewing its future internal control framework to ensure it maintains a strong and effective internal control environment. The Group will continue to comply with the combined code on Corporate Governance and the UKLA listing rules.

Business controls are reviewed on an on-going basis by the internal audit function which operates internationally and to a programme based on risk assessment. The department is managed by professionally qualified personnel with experience gained from both inside and outside the industry. The department includes dedicated resources for regular audits of major projects, arrangements with third parties (suppliers, agents, partners), IT controls, and internal departments and processes. An annual audit plan for the calendar year 2007, which provides assurance over key business processes and commercial and financial risks facing the Company, was approved by the Audit Committee in November 2006.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that appropriate action is taken by management.

The directors have reviewed the effectiveness of the Company's internal control system considering the processes set out above and make this statement pursuant to the revised guidance for directors issued in October, 2005.

Risk Management Approach

The Company has put in place a structure and process to facilitate the identification, assessment, and management of risks. This process has been in place throughout the year to which these statements apply and up to the date of their approval.

Each of the Leadership Team directors (detailed on page 36) has appointed a senior member of their team as a Risk Leader to coordinate the risk management activity for the directorate and to record the risks in the corporate risk register. The ten Risk Leaders, who report to the Risk Group, meet quarterly under the chairmanship of the Head of Risk Management to discuss the management of risk, in particular those risks that may have an impact in more than one directorate. The Risk Leaders also highlight to the Risk Group any changes to risks.

The Risk Group consists of the Leadership Team and the Heads of Internal Control and Risk Management. Meeting quarterly, it reviews the Company's key risks contained in the corporate risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Group also provides policy and guidance to the Risk Leaders. The management of each major area of corporate risk is subject to review by an appropriate 'assurance body'. This includes a review of the controls in place to mitigate the risks and the further actions being taken by management. The Risk Group reports bi-annually to the Audit Committee and the Board to assist them in the management of risk in accordance with the revised guidance for Directors on the Combined Code (October 2005).

During the year under review, the Company put in place new arrangements to enable staff to raise concerns about possible improprieties in matters of financial reporting or other matters. This can be in confidence through a third party helpline if the staff member so chooses.

Communications with Shareholders

The Company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chief Executive, the Chief Financial Officer and the Chairman as well as annual institutional investor events. The Board receives regular feedback on investors' views. The presentations from these institutional investor events are also available to private shareholders through the Company's website, bashares.com. The annual Investor Day in March, 2007 was attended by the Chairman and three other non-executive directors and major investors were given the opportunity to discuss corporate governance matters with those directors in one-to-one meetings. Private shareholders receive the Company's shareholder magazine twice annually and are encouraged to attend the annual general meeting and to express their views by completing and returning a freepost Issues of Concern card, the main themes of which are reported to the Board and responded to in the Chairman's address at the annual general meeting. Since 2000, all voting at the annual general meeting has been by way of a poll to ensure that the views of all shareholders are taken into account.

Political Donations

At the annual general meeting in 2006, shareholders passed a resolution to approve donations to EU political organisations and EU political expenditure (as such terms are defined in section 347A of the Companies Act, 1985 (as amended)) not exceeding £100,000 per annum for four years. The Board has repeatedly stressed that it does not make donations to political parties in the ordinary meaning of those words and that it has no intention of doing so. The amount expended in the period from April 1, 2006 to March 31, 2007 was £nil (2006: £nil).

Going concern

After making enquiries, the directors consider that the Company has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who are members of the Board at the time of approving the Directors' Report and Business Review are listed on page 35. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief there is no information relevant to the preparation of their report to which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA(2) of the Companies Act 1985.

Approved by the Board and signed on its behalf by

Alan Buchanan
Company Secretary

May 17, 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors are required to prepare financial statements for each financial year, which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently; and
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH AIRWAYS PLC

We have audited the Group and parent company financial statements (the "financial statements") of British Airways Plc for the year ended March 31, 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Change in Shareholders' Equity and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and IFRS as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and that the information given in the Directors' Report and Business Review is consistent with the financial statements.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and Business Review, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at March 31, 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at March 31, 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report and business review is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
London

May 17, 2007

Group consolidated income statement

For the year ended March 31, 2007

£ million	Note	Group 2007	Group 2006 Restated
Traffic revenue			
Passenger		7,263	*6,924*
Cargo		618	*638*
		7,881	*7,562*
Other revenue		611	*651*
Revenue	3	8,492	*8,213*
Employee costs	7	2,277	*2,260*
Depreciation, amortisation and impairment		714	*715*
Aircraft operating lease costs		81	*90*
Fuel and oil costs		1,931	*1,581*
Engineering and other aircraft costs		414	*441*
Landing fees and en route charges		517	*520*
Handling charges, catering and other operating costs		930	*915*
Selling costs		436	*438*
Currency differences		18	*(19)*
Accommodation, ground equipment and IT costs		618	*578*
Total expenditure on operations before non-recurring items		7,936	*7,519*
Operating profit before non-recurring items		556	*694*
Credit arising on changes to pension scheme	32	396	
Provision for settlement of competition investigations	27	(350)	
Operating profit	4	602	*694*
Fuel derivative (losses)/gains		(12)	*19*
Finance costs	8	(168)	*(214)*
Finance income	8	129	*92*
Net financing expense relating to pensions	8	(19)	*(18)*
Retranslation credits/(charges) on currency borrowings	8	13	*(12)*
Profit on sale of property, plant and equipment and investments	9	47	*27*
Share of post-tax profits in associates accounted for using the equity method	18	5	*28*
Income relating to fixed asset investments	10	14	
Profit before tax		611	*616*
Tax	11a	(173)	*(152)*
Profit after tax from continuing operations		438	*464*
(Loss)/profit from discontinued operations (after tax)	5	(134)	*3*
Profit after tax		304	*467*
Attributable to:			
Equity holders of the parent		290	*451*
Minority interest		14	*16*
		304	*467*
Earnings per share			
Continuing operations:			
Basic	12	37.2p	*40.1p*
Diluted	12	36.8p	*39.5p*
Discontinued operations:			
Basic	12	(11.7)p	*0.3p*
Diluted	12	(11.7)p	*0.3p*
Total:			
Basic	12	25.5p	*40.4p*
Diluted	12	25.2p	*39.8p*

Balance sheets

At March 31, 2007

£ million	Note	Group 2007	Group 2006 Restated	Company 2007	Company 2006 Restated
Non-current assets					
Property, plant and equipment	13				
Fleet		6,153	*6,606*	5,957	*6,232*
Property		932	*974*	876	*914*
Equipment		272	*302*	266	*292*
		7,357	*7,882*	7,099	*7,438*
Goodwill	16	40	*72*		
Landing rights	16	139	*115*	139	*96*
Software	16	33	*46*	34	*46*
		212	*233*	173	*142*
Investments in subsidiaries	18			1,185	*1,350*
Investments in associates	18	125	*131*		*1*
Other investments	19	107	*33*	41	*29*
Employee benefit assets	32	116	*137*	116	*137*
Other financial assets	19	28	*89*	18	*56*
Total non-current assets		7,945	*8,505*	8,632	*9,153*
Non-current assets held for sale	15	8	*3*	8	*3*
Current assets and receivables					
Inventories	20	76	*83*	74	*77*
Trade receivables		654	*685*	635	*664*
Other current assets	21	346	*458*	414	*518*
Other current interest bearing deposits	22	1,642	*2,042*	1,639	*2,040*
Cash and cash equivalents	22	713	*398*	662	*326*
		2,355	*2,440*	2,301	*2,366*
Total current assets and receivables		3,431	*3,666*	3,424	*3,625*
Total assets		11,384	*12,174*	12,064	*12,781*
Shareholders' equity and liabilities					
Shareholders' equity					
Issued share capital	29	288	*283*	288	*283*
Share premium		933	*888*	933	*888*
Investment in own shares		(10)		(10)	
Other reserves	31	1,000	*690*	683	*653*
Total shareholders' equity		2,211	*1,861*	1,894	*1,824*
Minority interest	31	200	*213*		
Total equity		2,411	*2,074*	1,894	*1,824*
Non-current liabilities					
Interest bearing long-term borrowings	25	2,929	*3,602*	3,121	*3,697*
Employee benefit obligations	32	1,142	*1,803*	1,134	*1,750*
Provisions for deferred tax	11	930	*896*	855	*792*
Other provisions	27	153	*135*	114	*102*
Other long-term liabilities	24	194	*232*	156	*177*
Total non-current liabilities		5,348	*6,668*	5,380	*6,518*
Current liabilities					
Current portion of long-term borrowings	25	417	*479*	405	*453*
Trade and other payables	23	2,744	*2,822*	3,942	*3,877*
Current tax payable		54	*75*	38	*72*
Short-term provisions	27	410	*56*	405	*37*
Total current liabilities		3,625	*3,432*	4,790	*4,439*
Total equity and liabilities		11,384	*12,174*	12,064	*12,781*

Willie Walsh *Chief Executive Officer*
Keith Williams *Chief Financial Officer*

May 17, 2007

Cash flow statements

For the year ended March 31, 2007

£ million	Note	Group 2007	Group 2006	Company 2007	Company 2006
			Restated		*Restated*
Cash flows from operating activities					
Operating profit		**602**	*694*	**607**	*709*
Operating (loss)/profit from discontinued operations		**(122)**	*11*		
Credit arising on changes to pension scheme		**(396)**		**(396)**	
Depreciation, amortisation and impairment					
(Group includes £120 million (2006: £2 million) from discontinued operations)		**834**	*717*	**695**	*686*
Operating cash flow before working capital changes		**918**	*1,422*	**906**	*1,395*
Decrease/(increase) in inventories, trade and other receivables		**61**	*23*	**(136)**	*(65)*
(Decrease)/increase in trade and other payables and provisions		**(15)**	*150*	**(18)**	*182*
Cash payment to NAPS pension scheme	32	**(240)**		**(240)**	
Provision for settlement of competition investigation	27	**350**		**350**	
Other non-cash movements		**(2)**	*12*	**(2)**	*12*
Cash generated from operations		**1,072**	*1,607*	**860**	*1,524*
Interest paid		**(188)**	*(211)*	**(170)**	*(187)*
Taxation		**(128)**	*(57)*	**(127)**	*(31)*
Net cash flow from operating activities		**756**	*1,339*	**563**	*1,306*
Cash flows from investing activities					
Purchase of property, plant and equipment	13	**(331)**	*(275)*	**(326)**	*(268)*
Purchase of intangible assets	16	**(36)**	*(8)*	**(36)**	*(8)*
Purchase of interest in associate			*(5)*		
Purchase of subsidiary undertaking				**(13)**	
Purchase of minority interest		**(13)**			
Purchase of other investments			*(2)*		*(2)*
Proceeds from sale of associated companies		**3**			
Proceeds from sale of other investments		**52**	*1*	**52**	*1*
Proceeds from sale of property, plant and equipment		**7**	*9*	**7**	*6*
Cash outflow from disposal of subsidiary company	5	**(149)**	*(6)*		*(6)*
Proceeds from sale of interest in the London Eye Company Ltd			*78*		*100*
Interest received		**113**	*78*	**112**	*76*
Dividends received		**1**	*22*	**20**	*4*
Decrease/(increase) in interest bearing deposits		**389**	*(911)*	**390**	*(910)*
Net cash flow from investing activities		**36**	*(1,019)*	**206**	*(1,007)*
Cash flows from financing activities					
Repayments of borrowings		**(97)**	*(64)*	**(77)**	*(44)*
Capital elements of finance leases and hire purchase arrangements repaid		**(388)**	*(415)*	**(383)**	*(417)*
Exercise of share options		**50**	*21*	**50**	*21*
Purchase of own shares		**(12)**		**(12)**	
Distributions made to holders of perpetual securities		**(14)**	*(14)*		
Net cash flow from financing activities		**(461)**	*(472)*	**(422)**	*(440)*
Net increase/(decrease) in cash and cash equivalents		**331**	*(152)*	**347**	*(141)*
Net foreign exchange difference		**(16)**	*1*	**(11)**	
Cash and cash equivalents at April 1		**398**	*549*	**326**	*467*
Cash and cash equivalents at March 31	22	**713**	*398*	**662**	*326*

Statements of changes in equity

For the year ended March 31, 2007

Group £ million	Issued capital	Share premium	Investment in own shares	Other reserves (Note 31)	**Total shareholders' equity**	Minority interest	**Total equity**	Non-equity minority interest
At April 1, 2006	283	888		690	**1,861**	213	**2,074**	
Profit for the period				290	**290**		**290**	
Exchange differences and other movements				(3)	**(3)**		**(3)**	
Net movement on cash flow hedges				(4)	**(4)**		**(4)**	
Cost of share based payment				10	**10**		**10**	
Tax effect of share options				18	**18**		**18**	
Share of other movements in reserves of associates				8	**8**		**8**	
Purchase of minority interest						(13)	**(13)**	
Total income and expense for the period				319	**319**	(13)	**306**	
Exercise of share options			2	(12)	**(10)**		**(10)**	
Issue of shares	5	45			**50**		**50**	
Purchase of own shares			(12)		**(12)**		**(12)**	
Net gains on available-for-sale financial assets				3	**3**		**3**	
At March 31, 2007	**288**	**933**	**(10)**	**1,000**	**2,211**	**200**	**2,411**	

For the year ended March 31, 2006

Group *£ million*	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (Note 31)*	*Total shareholders' equity*	*Minority interest*	*Total equity*	*Non-equity minority interest*
At April 1, 2005	*271*	*788*	*(26)*	*152*	*1,185*	*12*	*1,197*	*200*
Effect of adopting IAS 39 and IAS 32				*183*	*183*	*200*	*383*	*(200)*
Profit for the period				*451*	*451*		*451*	
Exchange differences and other movements				*2*	*2*	*1*	*3*	
Net movement on cash flow hedges				*(117)*	*(117)*		*(117)*	
Cost of share based payment				*12*	*12*		*12*	
Tax effect of share options				*7*	*7*		*7*	
Share of other movement in associates				*5*	*5*		*5*	
Total income and expense for the period				*360*	*360*	*1*	*361*	
Exercise of share options			*26*	*(5)*	*21*		*21*	
Conversion of Convertible Capital Bonds 2005	*12*	*100*			*112*		*112*	
At March 31, 2006	*283*	*888*		*690*	*1,861*	*213*	*2,074*	

For the year ended March 31, 2007

Company £ million	Issued capital	Share premium	Investment in own shares	Other reserves (Note 31)	**Total equity**
At April 1, 2006	283	888		653	**1,824**
Profit for the period				18	**18**
Cost of share based payment				10	**10**
Tax effect of share options				18	**18**
Net movement on cash flow hedges				(4)	**(4)**
Total income and expense for the period				42	**42**
Exercise of share options			2	(12)	**(10)**
Issue of shares	5	45			**50**
Purchase of own shares			(12)		**(12)**
At March 31, 2007	**288**	**933**	**(10)**	**683**	**1,894**

For the year ended March 31, 2006

Company *£ million*	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (Note 31)*	*Total equity*
At April 1, 2005	*271*	*788*	*(26)*	*138*	*1,171*
Effect of adopting IAS 39 and IAS 32				*189*	*189*
Profit for the period				*429*	*429*
Cost of share based payment				*12*	*12*
Tax effect of share options				*7*	*7*
Net movement on cash flow hedges				*(117)*	*(117)*
Total income and expense for the period				*331*	*331*
Exercise of share options			*26*	*(5)*	*21*
Conversion of Convertible Capital bonds	*12*	*100*			*112*
At March 31, 2006	*283*	*888*		*653*	*1,824*

Notes to the accounts

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended March 31, 2007 were authorised for issue by the Board of Directors on May 17, 2007 and the balance sheets were signed on the Board's behalf by Willie Walsh and Keith Williams. British Airways Plc is a public limited company incorporated and domiciled in England & Wales. The Company's ordinary shares are traded on the London Stock Exchange.

From April 1, 2005, as required by the European Union's IAS Regulation and the Companies Act 1985, the Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs)* as adopted by the European Union (EU). IFRSs as adopted by the EU differ in certain respects from IFRSs as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRSs as issued by the IASB. References to 'IFRS' hereafter should be construed as references to IFRSs as adopted by the EU. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

* For the purposes of these statements, IFRS also includes International Accounting Standards (IAS).

2 Accounting policies

Accounting convention

The basis of presentation and accounting policies set out in this Report and Accounts have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), which also include International Accounting Standards (IAS), as issued by the International Accounting Standards Board (IASB) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

The comparative information presented for the year ended March 31, 2006 has been restated to reflect fuel surcharges of £519 million, previously presented within 'other revenue', reclassified and included within 'traffic revenue'. In addition, cash and cash equivalents has been restated to reflect a reduction of £509 million, with an offset to other current interest bearing deposits, due to a change in accounting policies. Previously the Group classified deposits with a qualifying financial institution maturing within three months of the balance sheet date as cash and cash equivalents. The Group now only classifies deposits maturing within three months of the acquisition date as cash and cash equivalents.

These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets, that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The Group and Company financial statements are presented in Pounds Sterling and all values are rounded to the nearest million pounds (£m) except where indicated otherwise.

Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, each made up to March 31, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform with British Airways' accounting policies. The Group's share of profits less losses of associates is included in the Group income statement and its share of the post-acquisition results of these companies is included in interests in associates in the Group balance sheet. Certain associates make up their annual audited accounts to dates other than March 31. In the case of Iberia, published results up to the year ended December 31 are included. In other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

The Group has consolidated The London Eye Company Limited for the period to February 8, 2006 when, as a result of the sale of the Group's interest to The Tussauds Group, the Group lost control (see Note 15). Prior to this, the substance of the relationship between the Group and The London Eye Company Limited indicated that it was controlled by the Group, through a combination of voting rights and the rights available to it as the main provider of funding, whereby it was able to control its financial and operating policies.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected.

Subsidiaries are entities controlled by the Group. Control exists when we have the power either directly or indirectly to govern the financial and operating policies of the entity so as to obtain benefit from its activities. Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intercompany account balances, including intragroup profits, have been eliminated in preparing the consolidated financial statements. Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group, and is presented separately within equity in the consolidated balance sheet.

2 Accounting policies continued

Revenue

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

Revenue recognition - Mileage programmes

The Group operates two principal loyalty programmes. The airline frequent flyer programme operates through the airline's 'Executive Club' and allows frequent travellers to accumulate 'BA Miles' mileage credits which entitle them to a choice of various awards, primarily free travel. The estimated direct incremental cost of providing free redemption services, including British Airways' flights, in exchange for redemption of miles earned by members of the Group's 'Executive Club' is accrued as members of the scheme accumulate mileage. These costs are charged to cost of sales.

In addition, 'BA Miles' are sold to commercial partners to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The incremental cost of providing free redemption services is recognised when the miles are redeemed.

The Group also operates the AIRMILES scheme, operated by the Company's wholly-owned subsidiary Airmiles Travel Promotions Limited. The scheme allows companies to purchase miles for use in their own promotional activities. Miles can be redeemed for a range of benefits, including flights on British Airways and other carriers. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The incremental cost of providing free redemption services is recognised when the miles are redeemed.

Segmental reporting

The Group's primary reporting segments comprise business segments and the secondary format is based on geographic segments. Business segments are based on the internal management structure and system of internal financial reporting. They reflect components of the Group with distinguishable revenues, costs and assets and are subject to risks different from those of other reportable segments due either to the products they provide or the markets in which they operate. The nature of the primary business segments is set out below.

a Business segments

The airline business segment comprises the Group's main scheduled passenger and cargo operations and revenues ancillary to the provision of those services. The airline business utilises the Group's aircraft assets flexibly across the worldwide route network.

The regional airline business segment comprises the Group's scheduled regional operation and revenues ancillary to the provision of those services. The regional airline business utilises a dedicated fleet of aircraft to provide services from United Kingdom regional airports principally to shorthaul destinations within the UK and Europe. The regional airline business segment has been re-presented as discontinued operations.

Non-airline businesses include principally Airmiles Travel Promotions Ltd, BA Holidays Ltd, Speedbird Insurance Company Ltd and The London Eye Company Ltd.

Transfer prices between business segments are set on an arm's length basis.

b Geographical segments

i) Turnover by origin: The analysis of turnover by origin is derived by allocating revenue to the area in which the sale was made.

ii) Geographical analysis of net assets: The major revenue-earning asset of the Group is the aircraft fleet, the majority of which are registered in the United Kingdom. Since the Group's aircraft fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Intangible fixed assets

a Goodwill

Where the cost of a business combination exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and, in addition, whenever indicators exist that the carrying value may not be recoverable. Prior to the adoption of IFRS 3, which was applied prospectively from April 1, 1999, any goodwill that had been recognised on acquisition was amortised over a period not exceeding 20 years. Prior to March 31, 1998 goodwill was set off against reserves on the acquisition of a business or an equity interest in an associate. Such goodwill is not recognised on transition to IFRS. Any goodwill arising on the acquisition of equity accounted entities is included within the cost of those entities.

b Landing rights

Landing rights acquired from other airlines either directly or as a result of a business combination are capitalised at cost or at fair value and amortised on a straight line basis over a period not exceeding 20 years.

2 Accounting policies continued

c Software

The costs of purchase or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding 4 years on a straight line basis.

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing tangible fixed assets. Depreciation is calculated to write off the cost less estimated residual value, on a straight line basis over the useful life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis.

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of tangible fixed assets.

The Group has taken advantage of the exemption in IFRS 1 that allows it to carry forward property at deemed cost after taking account of revaluations carried out at March 31, 1995.

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other significant assets under construction is capitalised and added to the cost of the asset concerned.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance lease or hire purchase arrangements, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight line basis.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable spares purchased separately, are carried as tangible fixed assets and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'power-by-the-hour' contracts) are charged to the income statement on consumption or as incurred respectively.

c Property and equipment

Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives, or in the case of leasehold properties over the duration of the leases if shorter, on a straight line basis.

d Leased and hire purchase assets

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

Inventories

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

Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in investment in associates in the consolidated balance sheet and its interest in their results is included in the income statement, below operating profit.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short dated nature of these assets. Allowances for doubtful receivables was £16 million for the Company and Group as at March 31, 2006 and £17 million for the Company and Group as at March 31, 2007.

2 Accounting policies continued

Employee benefits

Employee benefits, including pensions and other post-retirement benefits (principally post-retirement healthcare benefits) are presented in these financial statements in accordance with IAS 19 - 'Employee Benefits'. For the Group's defined benefit plans, post-retirement obligations are measured at discounted present value whilst plan assets are measured at fair value at the balance sheet date. The cost of current service costs are recognised in the income statement so as to recognise the cost of providing the benefit on a straight line basis over the service lives of the employees using the projected unit credit method. Past service costs are recognised when the benefit has been given. The financing cost and expected return on plan assets are recognised within financing costs in the periods in which they arise. The accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains and losses) that are less than 10% of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10% the excess amount is recognised in the income statement over the estimated average remaining service period.

Amounts paid to defined contribution post-retirement schemes are recognised within the income statement when the payments fall due.

Other employee benefits are recognised when the obligation exists for the future liability.

Share-based payment

The fair value of employee share option plans is measured at the date of grant of the option using an appropriate valuation model. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At each balance sheet date before vesting the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entry in equity. The Group has taken advantage of the transitional provisions of IFRS 2 in respect of the fair value of equity settled awards so as to apply IFRS 2 only to those equity-settled awards granted after November 2002 that had not vested before January 1, 2005.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date. If the effect is material, expected future cashflows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, Sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into Sterling at the rates ruling at the balance sheet date. All other profits or losses arising on translation are dealt with through the income statement except where hedge accounting is applied. The net assets of foreign operations are translated into Sterling at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into Sterling at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold when the relevant portion of the cumulative exchange is recognised in income.

Under IFRS 1, exchange differences arising prior to April 1, 2004 are deemed to be zero.

2 Accounting policies continued

Derivatives and financial instruments

Under IAS 39 - 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each year-end except for those financial instruments measured at fair value through profit or loss.

Other investments (other than interests in associates) are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold when the cumulative amount recognised in equity is recognised in income. Any provisions for impairment of the carrying value are reflected in income when they arise. Exchange gains and losses on monetary items are taken to income unless the item has been designated and is assessed as an effective hedging instrument in accordance with the requirement of IAS 39. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold when the cumulative amount recognised in equity is recognised in income.

Long term borrowings are recorded at amortised cost. Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are measured at fair value on the Group balance sheet.

Cash flow hedges

Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period, are taken to equity in accordance with the requirements of IAS 39. Gains and losses taken to equity are reflected in the income statement when either the hedged cash flow impacts income or its occurrence ceases to be probable.

Certain loan repayment instalments denominated in US dollars and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence ceases to be probable.

Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed in the notes to the consolidated financial statements or on the face of the consolidated income statement.

Certain exceptional items have been classified as non-recurring items, as they represent gains or losses that are non-recurring.

Discontinued Operations

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations. The income statement for the comparative period is re-presented to disclose the discontinued operations separate from continuing operations.

New standards and interpretations not applied

During the year ended March 31, 2007, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IFRS)		**Effective Date**
IAS 1	Amendment - Presentation of Financial Statements : Capital Disclosures	January 1, 2007
International Financial Reporting Interpretations Committee (IFRIC)		
IFRS 7	Financial Instruments: Disclosures	January 1, 2007
IFRS 8	Operating Segments	January 1, 2009
IFRIC 8	Scope of IFRS 2	May 1, 2006
IFRIC 9	Reassessment of Embedded Derivatives	June 1, 2006
IFRIC 10	Interim Reporting and Impairment	November 1, 2006
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements. Certain of these standards and interpretations will require additional disclosures over and above those currently included in these financial statements in the period of initial application.

3 Segment information

a Business segments

For the year ended March 31, 2007

£ million	Continuing Operations Airline business	Non-airline business	Unallocated	Total	Discontinued Operations*	**Total**
Revenue						
Sales to external customers**	8,294	198		8,492	233	**8,725**
Inter-segment sales	36	1		37	3	**40**
Segment revenue	8,330	199		8,529	236	**8,765**
Segment result	600	2		602	(122)	**480**
Unallocated and other non-operating income/(expense)			2	2	(3)	**(1)**
Profit/(loss) before tax and finance costs	600	2	2	604	(125)	**479**
Net finance costs			(45)	(45)	(5)	**(50)**
Profit/(loss) on sale of assets			47	47	(28)	**19**
Share of associates' profit			5	5		**5**
Income tax (expense)/credit			(173)	(173)	24	**(149)**
Profit/(loss) after tax				438	(134)	**304**
Assets and liabilities						
Segment assets	11,147	112		11,259		**11,259**
Investment in associates			125	125		**125**
Total assets	11,147	112	125	11,384		**11,384**
Segment liabilities	4,307	336		4,643		**4,643**
Unallocated liabilities			4,330	4,330		**4,330**
Total liabilities	4,307	336	4,330	8,973		**8,973**
Other segment information						
Tangible assets - additions	336	1		337	2	**339**
Intangible assets - additions	41			41		**41**
Depreciation, amortisation and impairment	712	2		714	120	**834**
Exceptional items (Note 4b)	52			52		**52**
For the year ended March 31, 2006						
Revenue						
Sales to external customers	*7,977*	*236*		*8,213*	*302*	*8,515*
Inter-segment sales	*46*	*4*		*50*	*4*	*54*
Segment revenue	*8,023*	*240*		*8,263*	*306*	*8,569*
Segment result	*680*	*14*		*694*	*11*	*705*
Unallocated and other non-operating income/(expense)			*19*	*19*		*19*
Profit before tax and finance costs	*680*	*14*	*19*	*713*	*11*	*724*
Net finance costs			*(152)*	*(152)*	*(7)*	*(159)*
Profit on sale of assets		*26*	*1*	*27*		*27*
Share of associates' profit			*28*	*28*		*28*
Income tax expense			*(152)*	*(152)*	*(1)*	*(153)*
Profit after tax				*464*	*3*	*467*
Assets and liabilities						
Segment assets	*11,732*	*131*		*11,863*	*180*	*12,043*
Investment in associates			*131*	*131*		*131*
Total assets	*11,732*	*131*	*131*	*11,994*	*180*	*12,174*
Segment liabilities	*4,638*	*344*		*4,982*	*66*	*5,048*
Unallocated liabilities			*5,052*	*5,052*		*5,052*
Total liabilities	*4,638*	*344*	*5,052*	*10,034*	*66*	*10,100*
Other segment information						
Tangible assets - additions	*318*	*3*		*321*	*5*	*326*
Intangible assets - additions	*8*			*8*		*8*
Depreciation, amortisation and impairment	*708*	*7*		*715*	*2*	*717*
Exceptional items (Note 4b)	*45*			*45*	*(9)*	*36*

*As disclosed in Note 5, the regional business of BA Connect, which previously comprised the majority of the "Regional airline business" segment, was disposed of in March 2007. The results of operations for BA Connect are now presented as discontinued operations. The operations of BA Connect not acquired by Flybe have been reclassified to the "Airline business" segment. The operations not acquired by Flybe include the London City Airport routes and the BA Connect-operated service from Manchester to New York. The prior period segment disclosures have been re-presented to reflect these reclassifications.

** Sales to external customers includes certain elements of other revenue related to the "Airline business".

3 Segment information continued

b Geographical segments – by area of original sale

£ million	Continuing operations 2007	Continuing operations 2006	Discontinued operations 2007	Discontinued operations 2006	Group 2007	Group 2006
Europe	**5,316**	*5,117*	**224**	*289*	**5,540**	*5,406*
United Kingdom	**4,160**	*3,933*	**184**	*236*	**4,344**	*4,169*
Continental Europe	**1,156**	*1,184*	**40**	*53*	**1,196**	*1,237*
The Americas	**1,731**	*1,602*	**7**	*9*	**1,738**	*1,611*
Africa, Middle East and Indian sub-continent	**649**	*825*	**2**	*1*	**651**	*826*
Far East and Australasia	**796**	*669*		*3*	**796**	*672*
Revenue	**8,492**	*8,213*	**233**	*302*	**8,725**	*8,515*

4 Operating profit

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

Depreciation, amortisation and impairment of fixed assets

£ million	Group 2007	Group 2006
Owned assets	**340**	*346*
Finance leased aircraft	**116**	*128*
Hire purchased aircraft	**153**	*165*
Other leasehold interests	**77**	*59*
Impairment reversals on property, plant and equipment	**(2)**	*(12)*
Amortisation of intangible assets	**30**	*29*
Total depreciation, amortisation and impairment expense	**714**	*715*

Operating lease costs

£ million		Group 2007	Group 2006
Minimum lease rentals	– aircraft	**90**	*92*
	– property	**136**	*136*
Sub-lease rentals received		**(16)**	*(11)*
Onerous lease costs		**1**	*10*
		211	*227*

Cost of inventories

£ million	Group 2007	Group 2006
Cost of inventories recognised as an expense, mainly fuel and other	**2,012**	*1,484*
Includes: – *write-down of inventories to net realisable value*		*2*

b Exceptional items

£ million	Group 2007	Group 2006
Recognised in operating profit:		
Employee costs – restructuring costs	**84**	*48*
Depreciation – impairment of tangible fixed assets		*1*
Depreciation – reversal of impairment of tangible fixed assets		*(13)*
Credit arising on changes to pension scheme	**(396)**	
Provision for settlement of competition investigations	**350**	
	38	*36*

During the year the Group incurred restructuring costs in relation to organisational changes across the business including costs associated with the reduction in management numbers announced in November 2005.

5 Discontinued operations

On November 3, 2006, the Group announced that it had reached an agreement in principle to sell the regional operation of its subsidiary airline BA Connect to Flybe. The acquisition of BA Connect by Flybe excluded the London City Airport routes and the BA Connect-operated service from Manchester to New York. The disposal was completed on March 5, 2007. The business sold comprised the majority of the "Regional airline business" segment as disclosed in the statements for the year ended March 31, 2006. The Group paid Flybe £129 million, and has taken a 15 per cent investment in Flybe Group Limited, valued at £49 million at March 31, 2007.

Following the sale of the regional business of BA Connect to Flybe in March 2007, the Group has agreed contractual terms to transfer its regional ground handling operations to aviance UK. The restructuring provision included in discontinued operations relates to costs associated with the reduction in staff at the regional airports, whose employment was attributed to the BA Connect operations and third party flights.

Prior to the sale and transfer of the operations to discontinued operations, an impairment review was carried out on the assets, including goodwill, of the BA Connect business, prompted by the ongoing deterioration in trading performance against plan. This resulted in an impairment charge of £106 million, representing goodwill of £32 million and fleet assets of £74 million. The pre-tax impairment charge gave rise to a deferred tax credit of £22 million which has been recognised in the income statement (now presented in discontinued operations) as a component of the £25 million deferred tax credit.

a Results from discontinued operations

The results from discontinued operations, which have been included in the consolidated income statement, are as follows:

	Group	
£ million	**2007**	*2006*
Revenue	**233**	*302*
Operating expenses	**(231)**	*(291)*
Impairment	**(106)**	
Restructuring costs	**(18)**	
Operating (loss)/profit	**(122)**	*11*
Disposable transaction costs	**(3)**	
Loss arising on disposal of net assets	**(28)**	
Net finance costs	**(5)**	*(7)*
(Loss)/profit before tax	**(158)**	*4*
Tax		
UK corporation tax credit	**3**	*3*
Tax arising from disposal of discontinued operations	**(4)**	
Total current income tax (charge)/credit (discontinued operations)	**(1)**	*3*
Deferred tax credit/(charge) (Note 11c)	**25**	*(4)*
Total tax credit/(charge) (Note below)	**24**	*(1)*
(Loss)/profit from discontinued operations	**(134)**	*3*
Analysis of deferred tax credit/(charge) above:		
Fixed asset related temporary differences	**29**	*(4)*
Pensions	**(4)**	
Deferred tax credit/(charge)	**25**	*(4)*

b Reconciliation of the tax charge relating to discontinued operations

The tax credit for the year on the loss from discontinued operations is less than the notional tax credit on those losses calculated at the UK corporation tax rate of 30%. The differences are explained below:

£ million	Group 2007	*2006*
Accounting (loss)/profit before income tax from discontinued operations	**(158)**	*4*
Accounting (loss)/profit multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	(47)	*1*
Effects of:		
Non-deductible expenses	5	
Untaxed profits on disposals	8	
Goodwill write-off	10	
Total tax (credit)/charge on discontinued operations for the year (Note above)	(24)	*1*

c Assets and liabilities of the discontinued operations at the date of disposal

The major classes of assets and liabilities of the discontinued operations at the date of disposal were as follows:

£ million	Group 2007	*2006*
Tangible assets	78	
Intangible assets	1	
Deferred tax asset (Note 11c)	8	
Other non-current assets	4	
Expendable spares and other inventories	3	
Trade receivables	23	
Cash and cash equivalents	129	
Other provisions	(43)	
Other long-term liabilities	(85)	
Trade payables	(41)	
Total net assets disposed of	**77**	
Investment in Flybe (consideration)	49	
Loss arising on disposal of net assets	**(28)**	
Cash and cash equivalents in BA Connect on disposal	(129)	
Settlement of trade receivables with the Company	(17)	
Transaction costs	(3)	
Cash outflow from disposal of BA Connect	**(149)**	
The cash flows relating to the discontinued operations to the date of disposal were as follows:		
Operating cash flows	16	*21*
Investing cash flows	(2)	*(1)*
Financing cash flows	(20)	*(18)*

Excludes £149 million cash outflow from disposal of BA Connect.

6 Auditors' remuneration

£'000	Group 2007	Group 2006	Company 2007	Company 2006
Group auditors - Audit fees				
- Fees payable to the Group's auditors for the audit of the Group's accounts	2,020	*1,884*	2,020	*1,884*
- Fees payable to the Group's auditors and its associates for other services				
Audit of the Group's subsidiaries pursuant to legislation	271	*337*		
Other services pursuant to legislation*	1,266	*242*	1,248	*221*
- Other services relating to taxation				
Compliance	42	*44*	42	*44*
Advisory	39	*10*	39	*10*
- Services relating to corporate finance transactions	9		9	
- All other services				
(including section 404 of the Sarbanes-Oxley Act and International				
Financial Reporting Standards related work)	678	*657*	678	*657*
	4,325	*3,174*	4,036	*2,816*

Of the Group fees, £4,234,000 relates to the United Kingdom (2006: £3,124,000) and £91,000 relates to overseas (2006: £50,000).
Of the Company fees, £3,969,000 relates to the United Kingdom (2006: £2,789,000) and £67,000 relates to overseas (2006: £27,000).
The audit fees payable to Ernst & Young LLP are approved by the Audit Committee having been reviewed in the context of other companies for cost effectiveness.
The committee also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained.
* The increase in 'other services pursuant to legislation' is attributed to Sarbanes-Oxley section 404 audit fees.

7 Employee costs and numbers

a Staff costs

Number	Group 2007	Group 2006	Company 2007	Company 2006
The average number of persons employed in the Group during the year was as follows:				
United Kingdom	41,409	*42,963*	37,718	*38,372*
Overseas	6,661	*6,994*	5,721	*6,246*
	48,070	*49,957*	43,439	*44,618*

£ million	Group 2007	Group 2006	Company 2007	Company 2006
Wages and salaries	1,522	*1,558*	1,400	*1,418*
Social security costs	158	*161*	145	*147*
Costs related to pension schemes benefits	308	*248*	296	*235*
Other post-retirement benefit costs	3	*4*	3	*4*
Other employee costs	364	*375*	346	*352*
Total employee costs	2,355	*2,346*	2,190	*2,156*
Employee costs relating to continuing operations	2,277	*2,260*	2,180	*2,156*
Employee costs relating to discontinued operations	78	*86*	10	

In addition, included in 'Wages and Salaries' is a total expense of share-based payments of £10 million (2006: £12 million) that arises from transactions accounted for as equity-settled share-based payment transactions.
Other employee costs include allowances, severance and accommodation for crew.
Employee costs exclude the £396 million credit arising on changes to the pension scheme which is disclosed separately on the face of the income statement.

7 Employee costs and numbers continued

b Directors' emoluments

£'000	Group 2007	Group 2006
Fees	648	*613*
Salary and benefits	1,484	*1,873*
Bonus		*582*
Aggregate gains made by directors on the exercise of options	555	*1,832*
	2,687	*4,900*

During the year two directors accrued benefits under defined benefit pension schemes and one director accrued benefits under a defined contribution pension scheme. The directors' remuneration report discloses full details of directors' emoluments and can be found on pages 39 to 47.

8 Finance costs and income

£ million	Group 2007	Group 2006
a Finance costs		
On bank loans	35	*41*
On finance leases	68	*73*
On hire purchase arrangements	45	*50*
On other loans, including interest of £nil (2006: £2 million) on Convertible Capital Bonds 2005	23	*52*
Interest expense	171	*216*
Interest capitalised	(5)	*(1)*
Change in fair value of interest rate swaps	2	*(1)*
	168	*214*

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

£ million	Group 2007	Group 2006
b Finance income		
Bank interest receivable	129	*92*
	129	*92*
c Financing income and expense relating to pensions		
Net financing expense relating to pensions	18	*17*
Amortisation of actuarial losses on pensions	1	*1*
	19	*18*
d Retranslation credits/(charges) on currency borrowings	13	*(12)*

9 Profit on sale of property, plant and equipment and investments

£ million	Group 2007	2006
Net profit on disposal of investment in WNS	**48**	
Net profit on disposal of interest in The London Eye Company Limited		*26*
Net (loss)/profit on sale of other investments	**(1)**	*5*
Net loss on sale of property, plant and equipment		*(4)*
	47	*27*

The tax effect on the sale of the Group's interest in WNS was a charge of £nil. The tax effect on the sale of other property, plant and equipment and investments was a charge of £2 million (2006: £1 million charge relating to the sale of the interest in The London Eye Company Limited).

In July 2006 the Group sold its investment in WNS for £52 million, resulting in a net profit disposal of £48 million.

10 Income and charges relating to other investments

£ million	Group 2007	2006
Income from other investments	**16**	*2*
Amounts written off investments	**(2)**	*(2)*
	14	

11 Tax

a Tax on profit on ordinary activities

Tax charged in the income statement relating to continuing operations

£ million	Group 2007	2006
Current income tax (continuing operations)		
UK corporation tax	**171**	*95*
Relief for foreign tax paid	**(5)**	*(1)*
Advance corporation tax offset	**(22)**	
UK tax	**144**	*94*
Foreign tax	**1**	*4*
Adjustments in respect of prior years - UK corporation tax	**(14)**	
Adjustments in respect of prior years - overseas tax	**(10)**	*1*
Total current income tax charge (continuing operations)	**121**	*99*
Deferred tax		
Property, plant and equipment related temporary differences	**(74)**	*(79)*
Pensions	**178**	*6*
Unremitted earnings of associated companies		*2*
Utilisation of tax losses		*102*
Advance corporation tax previously written off	**(52)**	*(20)*
Other temporary differences	**(10)**	*47*
Adjustments in respect of prior years	**10**	*(5)*
Total deferred tax charge (continuing operations)	**52**	*53*
Tax charge in the income statement (continuing operations)	**173**	*152*
Total tax (credit)/charge relating to discontinued operations (Note 5a)	**(24)**	*1*
Total tax charge in the income statement	**149**	*153*

11 Tax continued

Tax charged/(credited) directly to equity

£ million	Group 2007	Group *2006*
Current tax		
Current income tax credit to reserves relating to exercises of share options	(17)	
Deferred tax		
Deferred tax on net movement on revaluation of cash flow hedges		*(51)*
Deferred tax asset relating to share options in issue	(1)	*(7)*
Tax credit reported directly to equity	(18)	*(58)*

In the current year the Group has reduced the amount of tax provisions held for both UK and overseas tax liabilities relating to accounting periods up to and including the year to March 31, 2006 as negotiations with tax authorities have led to a more favourable expectation of the tax liabilities that will eventually be payable in respect of the tax returns for those accounting periods.

b Reconciliation of the total tax charge

The tax charge for the year on the profit from continuing operations is less than the notional tax charge on those profits calculated at the UK corporation tax rate of 30%. The differences are explained below:

£ million	Group 2007	Group *2006*
Accounting profit before tax from continuing operations	611	*616*
Accounting profit multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	183	*185*
Effects of:		
Provision for the settlement of competition investigations	105	
Non-deductible expenses	2	*8*
Untaxed profits on disposals	(17)	*(9)*
Overseas tax rate differences	(4)	*(4)*
Overseas tax suffered net of double taxation relief	1	*3*
Tax effect arising from associates profits being disclosed on an after tax basis	(1)	*(8)*
Tax on associates' unremitted earnings		*2*
Adjustment in respect of prior years	(14)	*(4)*
Recognition of previously written-off advance corporation tax	(74)	*(20)*
Other differences	(8)	*(1)*
Total tax charge for the year on profit from continuing operations (Note 11a)	173	*152*

c Deferred tax

The deferred tax included in the balance sheet is as follows:

£ million	Group 2007	Group *2006*	Company 2007	Company *2006*
Fixed asset related temporary differences	1,213	*1,310*	1,124	*1,188*
Pensions	(291)	*(482)*	(289)	*(469)*
Exchange differences on funding liabilities	97	*57*	97	*57*
Advance corporation tax recoverable	(72)	*(20)*	(72)	*(20)*
Tax on associate companies unremitted earnings	8	*11*		
Other temporary differences	(25)	*20*	(5)	*36*
	930	*896*	855	*792*

11 Tax continued

Movement in provision:

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
Balance at April 1	**896**	*816*	**792**	*719*
Effect of adopting IAS 32 and IAS 39		*81*		*81*
Deferred tax charge relating to profit arising from continuing operations (Note 11a)	**52**	*53*	**64**	*50*
Deferred tax (credit)/charge relating to loss arising from discontinued operations (Note 5a)	**(25)**	*4*		
Deferred tax charge/(credit) reported directly in reserves (Note11a)	**(1)**	*(58)*	**(1)**	*(58)*
Deferred tax relating to sold companies (Note 5c)	**8**			
Balance at March 31	**930**	*896*	**855**	*792*

d Factors that may affect future tax charges

The Group's deferred tax liability at March 31, 2007 arises principally from accelerated tax deductions versus book depreciation that have been received on fleet and property, plant and equipment expenditure. The associated deferred tax liability has reduced from £1,310 million at March 31, 2006 to £1,213 million at March 31, 2007 as these accelerated deductions are currently unwinding. However, the Group has announced a significant programme of longhaul fleet expenditure beginning in the year ending March 31, 2010 and it is expected that this expenditure will create future tax deductions that during the first years of the new aircrafts' life will exceed book depreciation on those aircraft.

The Group has capital losses of £188 million (2006: £200 million) carried forward that have been agreed with the UK tax authorities. An additional £86 million of such losses are currently the subject of negotiations with the UK tax authorities. No deferred tax asset has been recognised in respect of these capital losses as their utilisation is not currently anticipated as no suitable taxable profit against which the losses could be utilised is currently envisaged. The Group has made £100 million (2006: £100 million) of rollover and holdover claims that have reduced the tax basis of fixed assets. No deferred tax liability has been recognised in respect of these claims as they would be offset by the UK capital losses carried forward.

The Group has now fully recognised its Advance Corporation Tax surplus brought forward of £94 million. £22 million of the asset has been offset against UK corporation tax liabilities for the year ending March 31, 2007. The remainder of the asset (£72 million) has been recognised as a deferred tax asset at March 31, 2007 as it is anticipated that the asset will be offset against UK corporation tax liabilities within the foreseeable future.

The first tranche of £240 million of the special pension contribution totalling £800 million was paid during February 2007 and will be deducted against the Group's UK taxable profits for the year ending March 31, 2007. The remaining £560 million of the special contribution was paid during April 2007 and will be deducted against the Group's UK taxable profits for the year ending March 31, 2008.

The aggregate temporary differences associated with the unremitted earnings of subsidiary companies upon which the Group has not provided for deferred tax because it controls the manner and timing of the reversal of the temporary differences is £nil (2006: £nil).

During March 2007 the UK government announced Budget tax changes which, if enacted in the proposed manner, will have a significant effect on the Group's future tax position. At March 31, 2007 these changes to the UK tax system are not regarded as 'substantively enacted' as they are still subject to Parliamentary agreement and so their effect is not reflected in the Group's balance sheet at March 31, 2007. However, it is proposed that the rate of UK corporation tax will reduce from 30% to 28% from April 1, 2008. This rate change will both affect the amount of future cash tax payments to be made by the Group and will also reduce the size of the Group's balance sheet deferred tax liability. Changes to the UK capital allowance regime have also been proposed; the most significant of these changes for the Group are the reduction in the rate of capital allowances applicable to plant and machinery expenditure from 25% to 20% per annum on a reducing balance basis from April 1, 2008, the increase in the rate of allowances applicable to long life assets from 6% to 10% on a reducing balance basis from April 1, 2008 and the phased abolition of industrial buildings allowances by the end of March 2011. One effect of the foregoing proposals is that the effective rate of capital allowances on fleet purchases which are treated for capital allowance purposes as being 50% long life assets and 50% normal plant and machinery will reduce from 15.5% to 15% per annum on a reducing balance basis from April 1, 2008. The effect on the Group of these proposed changes to the UK tax system will be fully reflected in the Group's financial statements for the year ending March 31, 2008.

12 Earnings per share

	Group			
	Profit		Earnings per share	
	2007	*2006*	**2007**	*2006*
	£m	*£m*	**Pence**	*Pence*
Profit for the year attributable to shareholders and basic earnings per share	**290**	*451*	**25.5**	*40.4*
Represented by:				
Continuing operations	**424**	*448*	**37.2**	*40.1*
Discontinued operations	**(134)**	*3*	**(11.7)**	*0.3*
Add back:				
Interest on Convertible Capital Bonds		*2*		
Diluted profit for the year attributable to shareholders and diluted earnings per share	**290**	*453*	**25.2**	*39.8*
Represented by:				
Continuing operations	**424**	*450*	**36.8**	*39.5*
Discontinued operations	**(134)**	*3*	**(11.7)**	*0.3*
Weighted average number of shares for basic EPS ('000)			**1,141,133**	*1,116,178*
Dilutive potential ordinary shares:				
Convertible Capital Bonds ('000)				*9,863*
Employee share options ('000)			**10,810**	*12,504*
Weighted average number of shares for diluted EPS ('000)			**1,151,943**	*1,138,545*

Basic earnings per share are calculated on a weighted average number of ordinary shares in issue after deducting shares held for the purposes of Employee Share Ownership Plans including the Long Term Incentive Plan.

The Group has granted additional options over shares to employees that were not dilutive during the period but which may be dilutive in the future. Details of the Group's share options can be found in Note 30.

13 Property, plant and equipment

a Group

£ million	Fleet	Property	Equipment	Group total
Cost				
Balance at April 1, 2005	11,212	1,391	862	**13,465**
Additions - net of refund of progress payments (Note 13d)	239	58	29	**326**
Disposals	(140)	(22)	(110)	**(272)**
Reclassifications	(2)		(1)	**(3)**
Reclassifications from assets held for sale (Note 15)	29			**29**
Reclassifications to assets held for sale (Note 15)	(20)			**(20)**
Balance at March 31, 2006	**11,318**	**1,427**	**780**	**13,525**
Additions - net of refund of progress payments (Note 13d)	258	62	19	**339**
Disposals	(344)	(63)	(66)	**(473)**
Reclassifications	10		20	**30**
Reclassifications to assets held for sale (Note 15)	(19)	(28)		**(47)**
Balance at March 31, 2007	**11,223**	**1,398**	**753**	**13,374**
Depreciation and impairment				
Balance at April 1, 2005	4,268	391	477	**5,136**
Charge for the year	573	69	58	**700**
Disposals	(129)	(7)	(56)	**(192)**
Impairment	1			**1**
Reversal of impairment charge	(13)			**(13)**
Reclassifications	2		(1)	**1**
Reclassifications from assets held for sale (Note 15)	27			**27**
Reclassifications to assets held for sale (Note 15)	(17)			**(17)**
Balance at March 31, 2006	**4,712**	**453**	**478**	**5,643**
Charge for the year	640	87	47	**774**
Disposals	(267)	(55)	(64)	**(386)**
Impairment		3		**3**
Reclassifications	1	1	20	**22**
Reclassifications to assets held for sale (Note 15)	(16)	(23)		**(39)**
Balance at March 31, 2007	**5,070**	**466**	**481**	**6,017**
Net book amounts				
March 31, 2007	**6,153**	**932**	**272**	**7,357**
March 31, 2006	*6,606*	*974*	*302*	*7,882*
Analysis at March 31, 2007				
Owned	2,533	836	250	**3,619**
Finance leased	1,699			**1,699**
Hire purchase arrangements	1,819			**1,819**
Progress payments	102	96	22	**220**
	6,153	**932**	**272**	**7,357**
Analysis at March 31, 2006				
Owned	*2,649*	*929*	*287*	*3,865*
Finance leased	*1,792*			*1,792*
Hire purchase arrangements	*2,112*			*2,112*
Progress payments	*53*	*45*	*15*	*113*
	6,606	*974*	*302*	*7,882*

	Group total	
	2007	*2006*
The net book amount of property comprises:		
Freehold	**282**	*292*
Long leasehold	**261**	*278*
Short leasehold*	**389**	*404*
	932	*974*

* Short leasehold relates to leasehold interests with a duration of less than 50 years.

As at March 31, 2007, bank and other loans of the Group are secured on fleet assets with a cost of £477 million (2006: £537 million) and letters of credit of £380 million in favour of British Airways Pension Trustees, are secured on certain aircraft (2006: £nil).

Included in the cost of tangible assets for the Group is £330 million (2006: £330 million) of capitalised interest.

13 Property, plant and equipment continued

b Company

£ million	Fleet	Property	Equipment	Company total
Cost				
Balance at April 1, 2005	10,673	1,291	705	**12,669**
Additions – net of refund of progress payments	237	58	24	**319**
Disposals	(133)	(12)	(23)	**(168)**
Transfers to subsidiary companies	(6)			**(6)**
Reclassifications	(2)		(1)	**(3)**
Reclassifications to assets held for sale (Note 15)	(20)			**(20)**
Balance at March 31, 2006	**10,749**	**1,337**	**705**	**12,791**
Additions – net of refund of progress payments	255	62	19	**336**
Disposals	(120)	(61)	(55)	**(236)**
Transfers to subsidiary companies			(1)	**(1)**
Reclassifications	10		20	**30**
Reclassifications to assets held for sale (Note 15)	(19)	(28)		**(47)**
Balance at March 31, 2007	**10,875**	**1,310**	**688**	**12,873**
Depreciation and impairment				
Balance at April 1, 2005	4,114	362	388	**4,864**
Charge for the year	544	65	48	**657**
Disposals	(124)	(4)	(22)	**(150)**
Transfers to subsidiary companies	(3)			**(3)**
Impairment	1			**1**
Reclassifications	2		(1)	**1**
Reclassifications to assets held for sale (Note 15)	(17)			**(17)**
Balance at March 31, 2006	**4,517**	**423**	**413**	**5,353**
Charge for the year	536	84	43	**663**
Disposals	(120)	(54)	(53)	**(227)**
Net transfers to subsidiary companies			(1)	**(1)**
Impairment		3		**3**
Reclassifications	1	1	20	**22**
Reclassifications to assets held for sale (Note 15)	(16)	(23)		**(39)**
Balance at March 31, 2007	**4,918**	**434**	**422**	**5,774**
Net book amounts				
March 31, 2007	**5,957**	**876**	**266**	**7,099**
March 31, 2006	*6,232*	*914*	*292*	*7,438*
Analysis at March 31, 2007				
Owned	2,338	780	244	**3,362**
Finance leased	1,698			**1,698**
Hire purchase arrangements	1,819			**1,819**
Progress payments	102	96	22	**220**
	5,957	**876**	**266**	**7,099**
Analysis at March 31, 2006				
Owned	*2,336*	*869*	*279*	*3,484*
Finance leased	*1,791*			*1,791*
Hire purchase arrangements	*2,052*			*2,052*
Progress payments	*53*	*45*	*13*	*111*
	6,232	*914*	*292*	*7,438*

	Company total	
	2007	*2006*
The net book amount of property comprises:		
Freehold	**232**	*241*
Long leasehold	**261**	*276*
Short leasehold*	**383**	*397*
	876	*914*

* Short leasehold relates to leasehold interests with a duration of less than 50 years.

As at March 31, 2007, bank and other loans of the Company are secured on fleet assets with a cost of £404 million (2006: £440 million).

Included in the cost of tangible assets for the Company is £327 million (2006: £327 million) of capitalised interest.

13 Property, plant and equipment continued

c Depreciation

Fleets are generally depreciated over periods ranging from 18 to 25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

	Group	
%	**2007**	*2006*
Boeing 747-400 and 777-200	**3.7**	*3.7*
Boeing 767-300 and 757-200	**4.7**	*4.7*
Airbus A321, A320, A319, Boeing 737-400	**4.9**	*4.9*
Embraer RJ145, British Aerospace 146*		*4.9*

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from 4 to 25 years, according to the type of equipment.

* Disposed of in connection with the sale of the regional business of BA Connect.

d Analysis of Group tangible asset additions

				Group total	
£ million	Fleet	Property	Equipment	**2007**	*2006*
Cash paid	262	49	20	**331**	*275*
Capitalised interest	1	4		**5**	*1*
Capitalised provisions					*38*
Accrual movements	(5)	9	(1)	**3**	*12*
	258	62	19	**339**	*326*

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £554 million for the Group (2006: £249 million) and £553 million for the Company (2006: £249 million).

The outstanding commitments include £452 million for the acquisition of 4 Boeing 777 aircraft scheduled for delivery in 2009 and 14 Airbus A320 and A321 family aircraft scheduled for delivery over the next year.

15 Assets held for sale

Assets held for sale comprise non-current assets and disposal groups that are held for sale rather than for continuing use within the business. The carrying value represents the estimated sale proceeds less costs to sell.

During the year ended March 31, 2007, assets with a fair value (less costs to sell) of £3 million (2006: £3 million) were sold.

During March 2007, aircraft with a fair value of £3 million (2006: £3 million) and property with a fair value of £5 million (2006: £nil) were reclassified from property, plant and equipment to assets held for sale.

On February 8, 2006 the Group announced the completion of the disposal of its entire interest in The London Eye Company Limited to The Tussauds Group. The disposal included both the one third share of the equity of the company and the outstanding balance on the loan owed by The London Eye Company Limited to the Group.

The gain on disposal of The London Eye Company Limited comprises the following amounts:

	Group
£ million	*2006*
Cash proceeds received	100
Cash and cash equivalents disposed of	(22)
Net cash flow arising on the disposal	78
Property, plant and equipment	(61)
Receivables	(2)
Trade and other payables	11
	(52)
Gain on disposal	**26**

16 Intangible assets

a Group

£ million	Goodwill	Landing rights	Software	Group total
Cost				
Balance at April 1, 2005	88	144	127	**359**
Reclassifications			8	**8**
Balance at March 31, 2006	88	144	135	**367**
Additions		31	10	**41**
Disposals			(2)	**(2)**
Balance at March 31, 2007	**88**	**175**	**143**	**406**
Amortisation				
Balance at April 1, 2005	16	22	67	**105**
Charge for the year		7	22	**29**
Balance at March 31, 2006	16	29	89	**134**
Disposals			(2)	**(2)**
Impairment	32			**32**
Charge for the year		7	23	**30**
Balance at March 31, 2007	**48**	**36**	**110**	**194**
Net book amounts				
March 31, 2007	**40**	**139**	**33**	**212**
March 31, 2006	*72*	*115*	*46*	*233*

b Company

£ million	Landing rights	Software	Company total
Cost			
Balance at April 1, 2005	118	127	**245**
Additions		8	**8**
Balance at March 31, 2006	118	135	**253**
Additions	31	10	**41**
Reclassifications	16		**16**
Net transfer from subsidiary companies	10		**10**
Disposals		(2)	**(2)**
Balance at March 31, 2007	**175**	**143**	**318**
Amortisation			
Balance at April 1, 2005	16	67	**83**
Charge for the year	6	22	**28**
Balance at March 31, 2006	22	89	**111**
Reclassifications	2		**2**
Charge for the year	11	22	**33**
Net transfer from subsidiary companies	1		**1**
Disposals		(2)	**(2)**
Balance at March 31, 2007	**36**	**109**	**145**
Net book amounts			
March 31, 2007	**139**	**34**	**173**
March 31, 2006	*96*	*46*	*142*

16 Intangible assets continued

c Analysis of Group intangible asset additions

£ million	Landing rights	Software	Group total 2007	Group total *2006*
Cash paid	26	10	**36**	*8*
Non-cash additions	5		**5**	
Total additions	31	10	**41**	*8*

17 Impairment of goodwill

Prior to the disposal of the regional business of BA Connect, goodwill acquired through business combinations was allocated for the purposes of impairment reviews to two cash-generating units with separately identifiable cash inflows and which are reportable business segments. The two segments were the airline cash generating unit and the regional airline cash generating unit.

The amount of goodwill allocated to the cash generating units is as follows:

£ million	Group 2007	Group *2006*
Carrying amount of goodwill allocated to the airline cash generating unit	**40**	*40*
Carrying amount of goodwill allocated to the regional airline cash generating unit		*32*
	40	*72*

In the quarter ending September 30, 2006, an impairment review was performed on the assets, including goodwill, of the regional airline business in accordance with IAS 36, using value in use. This was prompted by the ongoing deterioration in trading performance against plan. This resulted in a goodwill impairment charge of £32 million. This impairment charge is now reflected in discontinued operations.

The recoverable amount of the airline unit has been measured on the basis of its value in use by applying cash flow projections based on the financial budgets approved by the Board covering a two-year period. Cash flows beyond the two-year period are projected to increase by the long-term growth rate of 2.5%. The pre-tax discount rate applied to the cash flow projections is 8.9% (2006: 8.9%).

The calculation of value in use for both income generating units is most sensitive to the following assumptions:

- Operating margin
- Discount rates
- Long term growth rate

Operating margins are based on the estimated effects of planned business efficiency and business change programmes approved and enacted at the balance sheet date and adjusted for the volatile trading conditions that have impacted both cash-generating units over the past three years. The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business. Foreseeable events are unlikely to result in a change in the projections of a significant nature so as to result in the unit's carrying amount to exceed its recoverable amount.

The discount rate reflects management's estimate of the long-run return on capital employed for the business units. Changes in the cash-generating units' sources of funding or the cost of that funding could result in changes to the discount rates used. An increase in discount rates by 4.1 points (2006: 4.0 points) would result in the airline unit's carrying amount being equal to its recoverable amount.

18 Investments

a Group

Investments in associates

£ million	Group 2007	Group 2006
Balance at April 1	**131**	*126*
Impact of the adoption of IAS 39 and IAS 32		*(10)*
Exchange movements	**(3)**	*1*
Additions		*5*
Share of attributable results	**3**	*4*
Share of other movements on reserves	**8**	*5*
Reclassification	**(10)**	
Disposals	**(4)**	
Balance at March 31	**125**	*131*

Market value of listed associates above:

£ million	Group 2007	Group 2006
	256	*163*

Details of the investments that the Group accounts for as associates using the equity method are set out below:

	Percentage of equity owned	Principal activities	Holding	Country of incorporation and principal operations
Iberia, Lineas Aéreas de España, S.A. ('Iberia')*	9.95	Airline operations	Ordinary shares	Spain

* Held by a subsidiary company

The Group accounts for its investments in Iberia as an associate although the Group holds less than 20% of the issued share capital as the Group has the ability to exercise significant influence over the investment due to the the Group's voting power (both through its equity holding and its representation on key decision-making committees) and the nature of the commercial relationships with Iberia. On November 15, 2006, the Group acquired the minority interest held by American Airlines in BA & AA Holdings Ltd, the subsidiary that holds the interest in Iberia (see Note 31).

On June 9, 2006, the Group's shareholding in Comair Ltd, was reduced from 18.3% to 12.9%. Due to the Group's ability to exercise significant influence the investment in Comair Ltd was accounted for by the equity method. In September 2006, the Group's shareholding in Comair Ltd decreased to 10.92% and the Group no longer had the ability to exercise significant influence over the investment, at which time the investment was reclassified as an available-for-sale financial asset.

The following summarised financial information of the Group's investment in associates is shown based on the Group's share of results and net assets:

£ million	Group 2007	Group 2006
Non-current assets	**168**	*188*
Current assets	**222**	*205*
Current liabilities	**(145)**	*(124)*
Non-current liabilities	**(128)**	*(156)*
Share of net assets	**117**	*113*
Goodwill attributable to investments in associates	**8**	*18*
Revenues	**399**	*375*
Net profit after tax	**5**	*28*

18 Investments continued

b Company

Investments in subsidiaries

£ million	Cost	Provisions	Company 2007 Total	Company 2006
Balance at April 1	2,067	(717)	**1,350**	*1,195*
Exchange movements	(1)		**(1)**	*1*
Additions	125		**125**	*195*
Repayment				
Disposal				*(48)*
Provision*		(289)	**(289)**	*7*
Balance at March 31	**2,191**	(1,006)	**1,185**	*1,350*
Investments in associates				
Balance at April 1	1		**1**	*1*
Disposals	(1)		**(1)**	
Balance at March 31				*1*

The additional shares acquired in subsidiary companies reflect the conversion of loans previously owed to the Company into equity shares.

The Company accounts for its investments in subsidiaries and associates using the cost method.

The Group's and Company's principal investments in subsidiaries, associates and other investments are listed on page 101.

* The provision of £289 million includes a provision of £287 million on investments in subsidiaries, which was recorded as a result of the sale of the regional business of BA Connect.

19 Non-current financial assets

£ million	Group 2007	Group 2006	Company 2007	Company 2006
Other investments	**107**	*33*	**41**	*29*
Prepayments and accrued income	**20**	*33*	**10**	
Derivative financial assets	**8**	*56*	**8**	*56*
	28	*89*	**18**	*56*
	135	*122*	**59**	*85*

Other investments

Other investments comprise non-current investments that are classified as available-for-sale and measured at fair value. For quoted investments the fair value comprises the market price at the balance sheet date. For other investments the fair value is estimated by reference to the discounted cash flow analysis or by reference to other valuation methods. Investments are quoted net of provisions for impairment arising from reductions in the fair value due to factors that are not expected to reverse.

On March 5 , 2007, the Group acquired a 15% investment in Flybe Group Limited in connection with the disposal of the regional business of BA Connect. At March 31, 2007, this investment was valued at £49 million.

Other investments include investments in listed ordinary shares, which by their nature have no fixed maturity date or coupon rate.

20 Inventories

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
Expendables and consumables	**76**	*83*	**74**	*77*

21 Other current assets

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
Amounts owed by subsidiaries			**99**	*112*
Other debtors	**68**	*67*	**68**	*65*
Prepayments and accrued income	**200**	*214*	**169**	*164*
Derivative financial assets	**78**	*177*	**78**	*177*
	346	*458*	**414**	*518*

22 Cash, cash equivalents and other interest bearing deposits

a Cash and cash equivalents

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
		Restated		*Restated*
Cash at bank and in hand	**594**	*84*	**589**	*62*
Short-term deposits falling due within 3 months	**119**	*314*	**73**	*264*
Cash and cash equivalents	**713**	*398*	**662**	*326*
Other current interest bearing deposits maturing after 3 months	**1,642**	*2,042*	**1,639**	*2,040*

Previously the Group classified deposits with a qualifying financial institution maturing within three months of the balance sheet date as cash and cash equivalents. The Group now only classifies deposits with a maturity within three months of the acquisition date as cash and cash equivalents.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates. The fair value of cash and cash equivalents is £713 million for the Group (2006: £398 million) and for the Company £662 million (2006: £326 million).

At March 31, 2007, the Group and Company had no material outstanding bank overdrafts (2006: £nil).

Other current interest bearing deposits are made for periods in excess of three months with a maturity typically within 12 months and earn interest based on the LIBOR interest rate relevant to the term and currency concerned.

Included within cash and cash equivalents at March 31, 2007 is £560 million held in escrow for the benefit of the NAPS pension fund. This was subsequently paid to the pension fund on April 2, 2007.

At March 31, 2007 the Company had undrawn committed aircraft financing facilities of US$352 million, US$180 million expiring May 2008 and US$172 million expiring December 2007 (2006: US$216 million expiring May 2008) and further general facilities of US$15 million expiring June 2012 (2006: US$420 million expiring June 2010) and ¥75 billion expiring January 2011 (2006: ¥75 billion expiring January 2011) together with unused overdraft facilities of £20 million (2006: £20 million) and €20 million (2006: €20 million).

Undrawn uncommitted money market lines of £45 million were held as at March 31, 2007 (2006: £25 million).

22 Cash, cash equivalents and other interest bearing deposits continued

b Reconciliation of net cash flow to movement in net debt

£ million	Group 2007	*2006*
Increase/(decrease) in cash and cash equivalents during the year	331	*(152)*
Net cash outflow from decrease in debt and lease financing	485	*479*
(Decrease)/increase in current interest bearing deposits maturing after 3 months	(389)	*911*
Reduction in finance leases and loans due to disposal of BA Connect	85	
Changes in net debt resulting from cash flows	512	*1,238*
New loans and finance leases taken out and hire purchase arrangements made	(9)	*(11)*
Conversion of Convertible Capital Bonds		*112*
Exchange and other non-cash movements	147	*(58)*
Movement in net debt during the year	650	*1,281*
Net debt at April 1	(1,641)	*(2,922)*
Net debt at March 31	(991)	*(1,641)*

c Analysis of net debt

Group

£ million	Balance at April 1	Net cash flow	Other non-cash	Disposal of BA Connect	Exchange	Balance at March 31
Cash and cash equivalents	398	331			(16)	713
Current interest bearing deposits maturing after 3 months	2,042	(389)			(11)	1,642
Bank and other loans	(1,116)	97		57	16	(946)
Finance leases and hire purchase arrangements	(2,965)	388	(9)	28	158	(2,400)
Year to March 31, 2007	(1,641)	427	(9)	85	147	(991)
Year to March 31, 2006	*(2,922)*	*1,238*	*101*		*(58)*	*(1,641)*

23 Trade and other payables

£ million	Group 2007	*Group 2006*	Company 2007	*Company 2006*
Trade creditors	723	*752*	697	*711*
Unredeemed frequent flyer liabilities	24	*15*	24	*15*
Amounts owed to subsidiary companies			1,515	*1,416*
Derivative liabilities	18	*17*	18	*17*
Other creditors				
Other creditors	560	*455*	556	*451*
Other taxation and social security	39	*42*	39	*42*
	599	*497*	595	*493*
Accruals and deferred income				
Sales in advance of carriage	1,008	*1,045*	979	*1,013*
Accruals and deferred income	372	*496*	114	*212*
	1,380	*1,541*	1,093	*1,225*
	2,744	*2,822*	3,942	*3,877*

24 Other long-term liabilities

£ million	Group 2007	Group 2006	Company 2007	Company 2006
Other creditors	**5**	*10*		
Derivative liabilities	**6**	*9*	**6**	*9*
Accruals and deferred income	**183**	*213*	**150**	*168*
	194	*232*	**156**	*177*

25 Financial liabilities

£ million	Group 2007	Group 2006	Company 2007	Company 2006
a Current				
Loans, finance leases and hire purchase arrangements				
Bank and other loans	**68**	*86*	**57**	*66*
Finance leases	**80**	*105*	**79**	*104*
Hire purchase arrangements	**269**	*288*	**269**	*283*
	417	*479*	**405**	*453*
b Non-current				
Loans, finance leases and hire purchase arrangements				
Bank and other loans	**878**	*1,030*	**657**	*743*
*Finance leases**	**1,275**	*1,418*	**1,484**	*1,620*
Hire purchase arrangements	**776**	*1,154*	**776**	*1,125*
Loans from subsidiaries			**204**	*209*
	2,929	*3,602*	**3,121**	*3,697*

* Included in finance leases for the Company, is £209 million (2006: £202 million) of finance leases with other subsidiaries of the Group.

Bank and other loans are repayable up to the year 2019. Bank and other loans of the Group amounting to US$155 million (2006: US$175 million) and £437 million (2006: £554 million) and bank loans of the Company amounting to US$155 million (2006: US$175 million) and £205 million (2006: £246 million) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or property assets.

c Bank and other loans

Bank and other loans comprise the following:

£ million	Group 2007	Group 2006	Company 2007	Company 2006
£250 million fixed rate 8.75% eurobonds 2016	**248**	*248*	**248**	*248*
£100 million fixed rate 10.875% eurobonds 2008	**61**	*61*	**61**	*61*
Floating rate Sterling mortgage loans secured on aircraft	**213**	*227*	**162**	*170*
Floating rate US Dollar mortgage loans secured on aircraft	**79**	*101*	**79**	*101*
Fixed rate Sterling mortgage loans secured on aircraft	**224**	*325*	**42**	*75*
Floating rate Sterling mortgage loans not secured on aircraft		*15*		*15*
Floating rate US Dollar mortgage loans not secured on aircraft	**45**	*55*	**45**	*55*
European Investment Bank loans	**76**	*84*	**77**	*84*
	946	*1,116*	**714**	*809*
Less: current instalments due on bank loans	**68**	*86*	**57**	*66*
	878	*1,030*	**657**	*743*

£250 million fixed rate 8.75% unsecured eurobonds 2016 are repayable in one instalment on August 23, 2016 and currently bear interest at 8.75% based on the Company's credit rating.

£100 million fixed rate 10.875% unsecured eurobonds 2008 are repayable in one instalment on June 15, 2008.

Floating rate Sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.53% and 0.58% above LIBOR. The loans are repayable between 2015 and 2019.

Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.40% and 0.99% above LIBOR. The loans are repayable between 2009 and 2016.

Fixed rate Sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 7.35%. The loans are repayable in 2012.

Floating rate US dollar mortgage loans are unsecured and bear interest at 0.09% above LIBOR. The loans are repayable in 2014.

European Investment Bank loans are secured on certain property assets of the Group and bear interest of between 5.33% and 6.11%. The loans are repayable between 2007 and 2017.

25 Financial liabilities continued

d Total loans, finance leases and hire purchase arrangements

£ million		Group 2007	Group 2006	Company 2007	Company 2006
Loans					
Bank	*- US dollar*	**$242m**	*$271m*	**$242m**	*$271m*
	- sterling	**£514m**	*£651m*	**£282m**	*£344m*
		637	*807*	**405**	*500*
Euro-sterling notes	*- sterling*	**309**	*309*	**309**	*309*
Loans from subsidiary companies	*- euro*			**€300m**	*€300m*
				204	*209*
Finance leases	*- US dollar*	**$991m**	*$1,041m*	**$990m**	*$1,040m*
	- sterling	**£849m**	*£923m*	**£1,058m**	*£1,125m*
		1,355	*1,523*	**1,563**	*1,724*
Hire purchase arrangements	*- Japanese yen*	**¥129,694m**	*¥145,906m*	**¥129,694m**	*¥145,906m*
	- US dollar	**$104m**	*$128m*	**$104m**	*$118m*
	- sterling	**£430m**	*£655m*	**£430m**	*£626m*
		1,045	*1,442*	**1,045**	*1,408*
		3,346	*4,081*	**3,526**	*4,150*

e Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts principally to acquire aircraft. These leases have both renewal options and purchase options. These are at the option of British Airways. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

£ million	Group 2007	Group 2006	Company 2007	Company 2006
Future minimum payments due:				
Within one year	**454**	*516*	**454**	*511*
After more than one year but within five years	**1,320**	*1,740*	**1,420**	*1,713*
In five years or more	**1,306**	*1,534*	**1,499**	*1,531*
	3,080	*3,790*	**3,373**	*3,755*
Less: Finance charges allocated to future periods	**680**	*825*	**765**	*825*
Present value of minimum lease payments	**2,400**	*2,965*	**2,608**	*2,930*
The present value of minimum lease payments is analysed as follows:				
Within one year	**349**	*393*	**348**	*387*
After more than one year but within five years	**1,048**	*1,421*	**1,102**	*1,394*
In five years or more	**1,003**	*1,151*	**1,158**	*1,149*
	2,400	*2,965*	**2,608**	*2,930*

26 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from 5 years for aircraft to 150 years for ground leases. Certain leases contain options for renewal.

a Fleet

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
The aggregate payments, for which there are commitments under operating leases as at March 31, fall due as follows:				
Within one year	**81**	*112*	**65**	*73*
Between one and five years	**141**	*240*	**103**	*157*
Over five years	**27**	*51*	**27**	*47*
	249	*403*	**195**	*277*

b Property and equipment

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
The aggregate payments, for which there are commitments under operating leases as at March 31, fall due as follows:				
Within one year	**88**	*65*	**83**	*62*
Between one and five years	**181**	*174*	**165**	*162*
Over five years, ranging up to the year 2145	**1,483**	*1,484*	**1,471**	*1,472*
	1,752	*1,723*	**1,719**	*1,696*

The Group sub-leases surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of 1 to 9 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
Aircraft				
Within one year	**6**	*8*	**2**	
Between one and five years	**16**	*23*		
Over five years		*2*		
	22	*33*	**2**	
Property and equipment				
Within one year	**2**	*9*	**1**	*8*
Between one and five years	**4**	*25*	**4**	*24*
Over five years	**1**	*23*	**1**	*22*
	7	*57*	**6**	*54*

27 Provisions for liabilities and charges

Group

£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provision	Severance	Litigation	Other	Total
At April 1, 2006							
Current		8	22	25		1	**56**
Non-current	22	28	75			10	**135**
	22	36	97	25		11	**191**
Arising during the year	5		21	98	355		**479**
Utilised		(5)	(7)	(84)		(2)	**(98)**
Release of unused amounts		(4)	(2)	(1)			**(7)**
Movement due to disposal of the regional business of BA Connect			(3)				**(3)**
Provided and capitalised in the period			1				**1**
At March 31, 2007	**27**	**27**	**107**	**38**	**355**	**9**	**563**
Analysis							
Current		1	16	38	355		**410**
Non-current	27	26	91			9	**153**
	27	**27**	**107**	**38**	**355**	**9**	**563**

Company

£ million	Onerous lease contracts	Restoration and handback provision	Severance	Litigation	Other	Total
At April 1, 2006						
Current		13	23		1	**37**
Non-current	17	75			10	**102**
	17	88	23		11	**139**
Arising during the year	4	19	94	355		**472**
Utilised	(2)	(3)	(83)		(2)	**(90)**
Release of unused amounts	(1)	(2)				**(3)**
Provided and capitalised in the period		1				**1**
At March 31, 2007	**18**	**103**	**34**	**355**	**9**	**519**
Analysis						
Current		16	34	355		**405**
Non-current	18	87			9	**114**
	18	**103**	**34**	**355**	**9**	**519**

The onerous lease provision relates to the sub-lease of 12 Jetstream 41 aircraft to Eastern Airways, 6 Avro RJ100 aircraft to Swiss International Air Lines and the grounding of the ATP fleet, which included the sub-lease of 3 aircraft to Loganair in the prior year. This provision will be fully utilised by October 2011. In addition, the provision includes amounts relating to properties leased by the Group that are either sub-leased to third parties or are vacant with no immediate intention to utilise the property. This provision will be fully utilised by April 2045.

Restoration and handback costs include provision for the costs to meet the contractual return conditions on aircraft held under operating leases. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are also capitalised. This provision will be utilised by March 2145.

Insurance provisions relate to provisions held by the Group's captive insurer, Speedbird Insurance Company Limited, for insured but not reported losses. Such provisions are held until such time as further claims are considered unlikely under the respective insurance policies.

The severance provision at March 31, 2007 relates to committed early retirement and voluntary severance costs expected to be paid during the next financial year.

Included within the litigation provisions is a provision in respect of competition investigations relating to potential government fines in the following jurisdictions in relation to cargo fuel surcharges: USA, Europe, Australia, Canada, New Zealand and South Africa and, in relation to long haul passenger fuel surcharges: USA and the UK. It also relates to civil claims in the USA, Australia and Canada. The provision represents the estimate of the amount to settle competition authority and civil claims at March 31, 2007, but recognises that the final amount required to pay all claims and fines is subject to uncertainty. A detailed breakdown of the claim is not presented as it may seriously prejudice the position of the Company in the regulatory investigations and in its potential litigation.

Other provisions include staff leaving indemnities relating to amounts due to staff under various overseas contractual arrangements.

28 Financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found in the Directors' Report and Business Review on pages 30 to 32.

a Interest rate risk profile of financial assets and financial liabilities

The interest rate profile of the financial assets and liabilities of the Group is as follows:

Group

£ million	Weighted average fixed rate (%)	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	**Total 2007**
Fixed rate								
Loans, leases and hire purchase arrangements:								
Sterling	6.87	42	62				872	**976**
US dollar	4.48	123					140	**263**
Japanese yen	1.30	78	53	231	199			**561**
Floating rate								
Cash and cash equivalents:								
Sterling		673						**673**
US dollar		28						**28**
Euro		1						**1**
Other		11						**11**
Short term deposits maturing over 3 months:								
Sterling		1,594						**1,594**
Japanese yen		48						**48**
Loans, leases and hire purchase arrangements:								
Sterling		18	82	326	11		689	**1,126**
US dollar		(123)		11	29	8	495	**420**

Group

£ million	Weighted average fixed rate (%)	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	Total 2006
								Restated
Fixed rate								
Loans, leases and hire hire purchase arrangements:								
Sterling	6.86	53	46	92	13	22	914	1,140
US dollar	4.50		138				159	297
Japanese yen	1.30	65	107	62	280	178	22	714
Floating rate								
Cash and cash equivalents:								
Sterling		281						281
US dollar		33						33
Japanese yen		49						49
Euro		20						20
Other		15						15
Short term deposits maturing over 3 months:								
Sterling		1,940						1,940
Japanese yen		102						102
Loans, leases and hire purchase arrangements:								
Sterling		32	34	126	458	29	719	1,398
US dollar			(138)		15	100	555	532

28 Financial instruments continued

Floating rate instruments are repriced at intervals of less than 12 months based on prevailing market rates of interest. The classification of financial assets and liabilities as either fixed or floating reflects the economic impact of any interest rate swap arrangements that are in place.
The other financial instruments of the Group are excluded as they are non-interest bearing and therefore are not exposed to interest rate risk.

The interest rate profile of the financial assets and liabilities of the Company is as follows:

								Company
£ million	Weighted average fixed rate (%)	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	**Total 2007**
Fixed rate								
Loans, leases and hire purchase arrangements:								
Sterling	7.01	42	62				690	**794**
US dollar	4.48	123					139	**262**
Japanese yen	1.30	78	53	231	199			**561**
Euro	6.75						204	**204**
Floating rate								
Cash and cash equivalents:								
Sterling		641						**641**
US dollar		10						**10**
Other		11						**11**
Short-term deposits maturing over 3 months:								
Sterling		1,591						**1,591**
Japanese yen		48						**48**
Loans, leases and hire purchase arrangements:								
Sterling		18	82	326	11		848	**1,285**
US dollar		(123)		11	29	8	495	**420**

								Company
£ million	*Weighted average fixed rate (%)*	*Within 1 year*	*1 - 2 years*	*2 - 3 years*	*3 - 4 years*	*4 - 5 years*	*More than 5 years*	*Total 2006*
								Restated
Fixed rate								
Loans, leases and hire purchase arrangements:								
Sterling	*7.05*	*51*	*33*	*86*			*707*	*877*
US dollar	*4.49*		*138*				*159*	*297*
Japanese yen	*1.30*	*65*	*107*	*62*	*280*	*178*	*22*	*714*
Euro	*6.75*						*209*	*209*
Floating rate								
Cash and cash equivalents:								
Sterling		*245*						*245*
US dollar		*15*						*15*
Japanese yen		*49*						*49*
Other		*17*						*17*
Short-term deposits maturing over 3 months:								
Sterling		*1,938*						*1,938*
Japanese yen		*102*						*102*
Loans, leases and hire purchase arrangements:								
Sterling		*26*	*42*	*130*	*458*	*40*	*831*	*1,527*
US dollar			*(138)*		*15*	*94*	*555*	*526*

28 Financial instruments continued

The Group and Company had the following outstanding single currency interest rate swap arrangement that is accounted for separately from the underlying financing and the effect of these swaps is included in the table on the previous page. The objective is to reduce interest rate risk so as to change the interest payable elements of certain loans and lease obligations from variable to fixed rates.

	Notional principal balance	Termination dates	Interest rates
At March 31, 2007 and 2006			
US dollar	**$240m**	**2007-2008**	**2.95% - 3.57%**

b Credit risk

Exposure to credit risk is mitigated within the Group as credit risk exposures on financial assets and liabilities are managed through the use of counter-party credit limits approved by the Board and monitored by the Group's Treasury Committee. Credit risks arising from acting as guarantor are disclosed in note 33.

c Fair values of financial assets and financial liabilities

The fair values of the Group's financial assets and liabilities at March 31, 2007 is set out below:

	Group		Company	
£ million	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	**713**	**713**	**662**	**662**
Other liquid deposits maturing over 3 months	**1,642**	**1,642**	**1,639**	**1,639**
Other investments	**107**	**107**	**41**	**41**
Interest rate swap arrangements	**2**	**2**	**2**	**2**
Forward currency contracts	**1**	**1**	**1**	**1**
Fuel derivatives	**82**	**82**	**82**	**82**
Financial liabilities:				
Interest bearing loans and borrowings:				
Finance lease and hire purchase obligations	**2,400**	**2,406**	**2,608**	**2,615**
Fixed rate borrowings	**553**	**592**	**575**	**605**
Floating rate borrowings	**393**	**393**	**343**	**343**
Forward currency contracts	**3**	**3**	**3**	**3**
Fuel derivatives	**20**	**20**	**20**	**20**

The fair values of the Group's financial assets and liabilities at March 31, 2006 is set out below:

	Group		*Company*	
£ million	*Carrying value*	*Fair value*	*Carrying value*	*Fair value*
		Restated		*Restated*
Financial assets:				
Cash and cash equivalents	*398*	*398*	*326*	*326*
Other liquid deposits maturing over 3 months	*2,042*	*2,042*	*2,040*	*2,040*
Other investments	*33*	*33*	*29*	*29*
Interest rate swap arrangements	*4*	*4*	*4*	*4*
Forward currency contracts	*5*	*5*	*5*	*5*
Fuel derivatives	*224*	*224*	*224*	*224*
Financial liabilities:				
Interest bearing loans and borrowings:				
Finance lease and hire purchase obligations	*2,965*	*2,950*	*3,132*	*3,118*
Fixed rate borrowings	*654*	*714*	*613*	*650*
Floating rate borrowings	*462*	*462*	*405*	*405*
Forward currency contracts	*4*	*4*	*4*	*4*
Fuel derivatives	*21*	*21*	*21*	*21*

28 Financial instruments continued

c Fair values of financial assets and financial liabilities continued

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Available-for-sale financial assets and loan notes
- listed fixed asset investments are stated at market value as at March 31, 2007. For other investments the fair value is estimated by reference to a discounted cash flow analysis or by reference to other valuation methods. Investments are quoted net of provisions for impairment arising from reductions in the fair value due to factors that are not expected to reverse.

Bank and other loans, finance leases, hire purchase arrangements and the non Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest
- the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at March 31, 2007.

Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest
- these amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked-to-market basis and accordingly, a fair value cannot be determined. The carrying value of £561 million (2006: £714 million) has therefore been included as the fair value above.

Euro-sterling notes and Euro-sterling Bond 2016
- quoted market value.

Interest rate swaps
- discounted cash flow analysis, to determine the estimated amount the Group would receive or pay to terminate the agreements.

Forward currency transactions
- the marked-to-market value of the instrument.

Over the counter (OTC) fuel derivatives
- the marked to market value of the instruments.

d Hedges

i) Cash flow hedges

At March 31, 2007 the Group and Company held four principal risk management activities that were designated as hedges of future forecast transactions. These were:

A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk.
A hedge of certain short-term revenue receipts by foreign exchange contracts hedging future foreign exchange risk.
A hedge of certain short-term foreign currency operational payments by forward exchange contracts hedging future foreign exchange risk.
A hedge of future jet fuel purchases by forward crude, gasoil and jet kerosene derivative contracts hedging future fuel price risk.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity and the periods in which the related cash flows are expected to occur are summarised below:

							Group
March 31,2007 £ million	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	Total
Debt repayments to hedge future revenue	5	5	13	13	13	44	**93**
Forward contracts to hedge future payments	(2)						**(2)**
Hedges of future fuel purchases	39	1					**40**
	42	6	13	13	13	44	**131**
						Related deferred tax charge	**(39)**
						Total amount included within equity	**92**

Notional value of financial instruments used as cash flow hedging instruments:

		Group Notional amount	Company Notional amount
- to hedge future currency revenues against US dollars		$73m	$73m
- to hedge future currency revenues against sterling		£144m	£144m
- to hedge future operating payments against US dollars		$261m	$261m
- hedges of future fuel purchases		$2,440m	$2,440m
- debt repayments to hedge future revenue	- Japanese yen	¥118,729m	¥118,729m
	- US dollars	$1,140m	$1,140m

28 Financial instruments continued

March 31,2006 £ million	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years	Group Total
Debt repayments to hedge future revenue	(4)	(4)	(4)	(3)	(3)	(26)	(44)
Forward contracts to hedge future revenue	(4)						(4)
Forward contracts to hedge future payments	5						5
Hedges of future fuel purchases	148	31					179
	145	27	(4)	(3)	(3)	(26)	136
						Related deferred tax charge	(40)
						Total amount included within equity	96

Notional value of financial instruments used as cash flow hedging instruments:

		Group Notional amount	Company Notional amount
- to hedge future currency revenues against US dollars		$136m	$136m
- to hedge future currency revenues against Sterling		£152m	£152m
- to hedge future operating payments against US dollars		$428m	$428m
- hedges of future fuel purchases		$2,617m	$2,617m
- debt repayments to hedge future revenue	- Japanese yen	¥125,215m	¥125,215m
	- US dollars	$1,233m	$1,233m

ii) Fair value hedges

The Group has no hedges designated as fair value hedges.

iii) Net investments in foreign operations

The Group has no hedges designated as hedges of net investments in foreign operations.

Company

The Company undertakes hedging activities on behalf of other companies within the Group and performs the Treasury activities of the Group centrally. As a result the disclosures above apply to the Company as for the Group.

29 Share capital

Ordinary shares of 25p each	2007 Number of shares '000	2007 £ million	2006 Number of shares '000	2006 £ million
	Group and Company			
Authorised				
At April 1 and March 31	**1,512,000**	**378**	*1,512,000*	*378*
Allotted, called up and fully paid				
At April 1	**1,130,882**	**283**	*1,082,903*	*271*
Conversion of Convertible Capital Bonds			*47,979*	*12*
Exercise of options under Employee Share Option Schemes	**20,693**	**5**		
At March 31	**1,151,575**	**288**	*1,130,882*	*283*

30 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees - these schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets. Details of the performance criteria to be met for each of the schemes, and details of the awards to the directors, are set out in the Remuneration Report on pages 39 to 47.

Share Option Plan 1999

The British Airways Share Option Plan granted options to qualifying employees based on performance at an option price which was not less than the market price of the shares at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a 3-year vesting period. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant. If the performance condition is not met then it may be re-tested over any three consecutive years ending before the 10th anniversary of the date of grant with the exception of grants made during 2004/05 when there will be a single re-test after a further year which will measure performance of the Group over the four year period from the date of grant. No further grants of options under the Share Option Plan will be made other than those during 2005/06 in relation to performance during 2004/05 (for which there will be no re-testing).

Long Term Incentive Plan

The Long Term Incentive Plan awarded options to senior executives conditional upon the Company's achievement of a performance condition measured over three financial years. If granted, all options are immediately exercisable for seven years and no payment is due upon exercise of the options. No further awards under the Long Term Incentive Plan have been made since June 16, 2004.

Performance Share Plan

From 2005 the Group introduced a performance share plan for senior executives. Options over shares will be awarded conditional on the achievement of a variety of performance conditions and will vest after three years subject to the executive remaining employed by the Group. A further award will be made that will vest based on the achievement of performance conditions over the following three financial years. No payment is due upon exercise of the options. Executives awarded shares under the Performance Share Plan will be expected to retain no fewer than 50% of the shares (net of tax) which vest from the new schemes until they have built up a shareholding equivalent to 100% of basic salary.

Deferred Share Plan

In 2006 the Group introduced a deferred share plan (DSP) granted to qualifying employees based on performance and service tests. It will be awarded when a bonus is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant management population will receive half of their bonus in cash and half of their bonus in shares (through the DSP). Although dividends will not be receivable by employees during the vesting period, on release of the shares each employee will receive a cash payment, or payment in shares, of an amount to take into account gross dividends that would have been received between the grant date and the vesting date.

30 Share Options continued

Group and Company

	Deferred Share Plan		Performance Share Plan		Long Term Incentive Plan		Share Option Plan		
	Number of shares '000	Weighted fair value	Number of shares '000	Weighted fair value	Number of shares '000	Weighted fair value	Number of shares '000	Weighted average exercise price	Weighted fair value
Outstanding at April 1, 2005 *					7,864		47,114	2.43	
Granted in the year			2,128	2.45			8,242	2.76	0.99
Exercised during the year **/***							(10,602)	1.90	
Expired/cancelled			(339)		(3,469)		(2,707)	3.39	
Outstanding at March 31, 2006			1,789		4,395		42,047	2.57	
Granted in the year	843	4.84	1,101	4.35					
Exercised during the year **/***					(2,336)		(20,689)	2.38	
Expired/cancelled	(13)		(247)		(576)		(2,018)	2.81	
Outstanding at March 31, 2007	**830**		**2,643**		**1,483**		**19,340**	**2.74**	
Options exercisable:									
At March 31, 2006					2,758		18,143	3.02	
At March 31, 2007					**1,483**		**7,642**	**2.82**	

Range of exercise prices at March 31, 2007 for Share Option Plan

	Options outstanding			Options exercisable	
Range of exercise prices	Number of shares '000	Weighted average remaining life	Weighted average exercise price £	Number of shares '000	Weighted average exercise price £
1.57-2.61	3,024	5.84	1.67	3,024	1.67
2.62-3.20	11,848	7.76	2.69	150	2.64
3.21-3.94	4,468	3.42	3.61	4,468	3.61
	19,340	**6.46**	**2.74**	**7,642**	**2.82**

Range of exercise prices at March 31, 2006 for Share Option Plan

	Options outstanding			Options exercisable	
Range of exercise prices	Number of shares '000	Weighted average remaining life	Weighted average exercise price £	Number of shares '000	Weighted average exercise price £
1.57-2.61	14,520	7.05	1.62	4,581	1.73
2.62-3.20	15,927	8.76	2.69	1,962	2.69
3.21-3.94	11,600	4.45	3.59	11,600	3.59
	42,047	**6.98**	**2.57**	**18,143**	**3.02**

* Included within this balance are options over 5,708,227 (2006: 14,573,295) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before November 7, 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The weighted average share price at the date of exercise for the options exercised is £5.04 (2006: £2.94).

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

For the share options outstanding as at March 31, 2007, the weighted average remaining contractual life is 6 years (2006: 7 years). For options granted during the year the weighted average option life was 3 years (2006: 9 years).

30 Share Options continued

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial lattice or Monte-Carlo model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the models for the options granted in the year:

	2007	*2006*
Dividend yield (%)	-	*3.0*
Expected share price volatility (%)	28	*47*
Historical volatility (%)	28	*47*
Expected comparator group volatility (%)	19-116	*23-138*
Expected comparator correlation (%)	23	*25*
Risk-free interest rate (%)	-	*4.2*
Expected life of options (years)	3	*7*
Weighted average share price	4.94	*2.79*

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. Volatility was calculated with reference to the Group's weekly share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The fair value of the Performance Share Plans also takes into account a market condition of total shareholder returns as compared to strategic competitors. No other features of options granted were incorporated into the measurement of fair value.

The share-based payment charge has been recorded in the income statement as follows:

£ million	2007	*2006*
Employee costs	10	*12*

31 Other reserves and minority interests

a Group

£ million	Profit and loss account	Unrealised gains and losses	Currency translation	Total	Group Minority interests
Balance at April 1, 2005	153		(1)	**152**	12
Effect of implementing IAS 32 and IAS 39	(34)	217		**183**	200*
Total	119	217	(1)	**335**	212
Profit for the period attributable to shareholders	451			**451**	
Exchange and other movements			2	**2**	1
Cost of share-based payment	12			**12**	
Tax effect of share options	7			**7**	
Changes in fair value of cash flow hedges		191		**191**	
Gains/(losses) recycled to income on cash flow hedges		(308)		**(308)**	
Share of other movements in reserves of associates	5			**5**	
Total income and expense for the period	475	(117)	2	**360**	**1**
Exercise of share options	(5)			**(5)**	
Balance at March 31, 2006	589	100	1	**690**	**213**
Profit for the period attributable to shareholders	290			**290**	
Exchange differences and other movements			(3)	**(3)**	
Cost of share-based payment	10			**10**	
Tax effect of share options	18			**18**	
Changes in fair value of cash flow hedges		69		**69**	
Gains/(losses) recycled to income on cash flow hedges		(73)		**(73)**	
Share of other movements in reserves of associates	8			**8**	
Purchase of minority interests					(13)**
Total income and expense for the period	326	(4)	(3)	**319**	
Exercise of share options	(12)			**(12)**	
Net gains on available-for-sale financial assets		3		**3**	
Balance at March 31, 2007	**903**	**99**	**(2)**	**1,000**	**200**

* Included within minority interests are €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Limited, a wholly owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

** On November 15, 2006, the Group acquired the minority interest held by American Airlines in BA & AA Holdings, the subsidiary that holds the Group's interest in Iberia. The consideration paid was £13 million. As a result of the transaction, the Group now owns 9.95 per cent (2006: 8.96 per cent) of Iberia.

31 Other reserves and minority interests continued

b Company

£ million	Company Profit and loss account	 Unrealised gains and losses	 Total
Balance at April 1, 2005	138		**138**
Effect of implementing IAS 32 and IAS 39	(24)	213	**189**
Total	114	213	**327**
Profit for the period attributable to shareholders	429		**429**
Cost of share-based payment	12		**12**
Tax effect of share options	7		**7**
Changes in fair value of cash flow hedges		191	**191**
Gains/(losses) recycled to income on cash flow hedges		(308)	**(308)**
Total income and expense for the period	448	(117)	**331**
Exercise of share options	(5)		**(5)**
Balance at March 31, 2006	557	96	**653**
Profit for the period attributable to shareholders	18		**18**
Cost of share-based payment	10		**10**
Tax effect of share options	18		**18**
Changes in fair value of cash flow hedges		69	**69**
Gains/(losses) recycled to income on cash flow hedges		(73)	**(73)**
Total income and expense for the period	46	(4)	**42**
Exercise of share options	(12)		**(12)**
Balance at March 31, 2007	**591**	**92**	**683**

Unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

Total shareholders' equity also includes the balance classified as share capital which includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 25 pence ordinary shares. Investment in own shares consists of shares held by British Airways Plc Employee Benefits Trustees (Jersey) Limited, a wholly owned subsidiary, for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan. At March 31, 2007 the Group and Company held 1,994,079 shares for the Long Term Incentive Plan and other employee share schemes (2006: 114,250 shares). The purchase of shares was financed by the Company granting a loan to British Airways Plc Employee Benefits Trustees (Jersey) Limited.

32 Pension costs

The Company operates two funded principal defined benefit pension schemes in the United Kingdom, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS) both of which are closed to new members. APS has been closed to new members since March 31, 1984 and NAPS closed to new members on March 31, 2003. From April 1, 2003 the Company commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 18 employed by the Company and certain subsidiary undertakings in the United Kingdom may become members. The assets of these schemes are held in separate trustee-administered funds. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index. Those provided under NAPS are based on final average pensionable pay reduced by an amount (the "abatement") not exceeding one and a half times the Government's lower earnings limit. NAPS benefits are subject to Retail Price Index increases in payment up to a maximum of 5 per cent in any one year.

In February 2007, following consultation with members and agreement with the Trustees, the Group amended NAPS for future service to restrict future increases in pensionable pay to RPI and increase the normal retirement age to 65. The change in scheme rules to restrict future increases in pensionable pay was treated as a curtailment under IAS 19, resulting in a £396 million credit, due to the reduction of the Defined Benefit Obligation for NAPS. In addition, the Group agreed to make a one-off cash injection of £800 million into NAPS, of which £240 million was paid in February 2007, with the remaining balance of £560 million paid in April 2007. The Group also agreed to make annual contributions of approximately £280 million a year for the next ten years, and issued guarantees of up to £150 million over the next 3 years, subject to financial performance. The Group also issued to APS guarantees of up to £230 million over the next 10 years.

Most employees engaged outside the United Kingdom are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the United States. The Company participates in a multi-employer defined benefit plan operated in the United States by the International Association of Machinists (IAM) and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were $3.4 million (2006: $3.0 million).

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2006 by an independent firm of qualified actuaries, Watson Wyatt LLP, using the projected unit method. At the date of the actuarial valuation the market values of the assets of APS and NAPS amounted to £5,421 million and £3,184 million respectively. The value of the assets represented 101% (APS) and 78% (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations showed that an employer's contribution equal to an average of 3.75 times the standard employees' contributions from November 1, 2003 (nil prior to November 1, 2003) was appropriate for APS. For NAPS the corresponding regular employer's contribution was 2.8 times the standard employees' contributions from January 1, 2004 (3.0 times from April 1, 2003 to December 31, 2003 including a multiple of 0.5 to cover the deficit contributions) in addition to deficit contributions of £9.56 million per month increasing each April in line with inflation for a period of 10 years.

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

Total employer contributions to defined contribution pension plans both in the United Kingdom and overseas for the year were £14 million (2006: £14 million). The Company's contributions to APS and NAPS in the next year as determined by the actuarial review completed in March 2007 and agreement with the Trustees, are expected to be approximately £305 million.

Employee benefit obligations comprise:

	Group	
£ million	**2007**	*2006*
Obligations arising under defined benefit pension plans and post-retirement benefits	**1,021**	*1,690*
Obligations arising under post-retirement medical benefit plans	**109**	*101*
Total obligations arising under post-retirement benefits	**1,130**	*1,791*
Other employee benefit obligations	**12**	*12*
	1,142	*1,803*

32 Pension costs continued

The assets and liabilities of the schemes at March 31 are:

Year ended March 31, 2007

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
Scheme assets at fair value						
Equities	4,359	169	**4,528**	1,610	20	**1,630**
Bonds	1,604	67	**1,671**	4,023	14	**4,037**
Others	590	2	**592**	858		**858**
Fair value of scheme assets	6,553	238	**6,791**	6,491	34	**6,525**
Present value of scheme liabilities	8,110	397	**8,507**	6,076	27	**6,103**
	(1,557)	(159)	**(1,716)**	415	7	**422**
APS irrecoverable surplus				306		**306**
Net pension (liability)/asset	**(1,557)**	**(159)**	**(1,716)**	**109**	**7**	**116**
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	(964)	(166)	**(1,130)**	109	7	**116**
Cumulative actuarial (losses)/gains not recognised	(593)	7	**(586)**			
	(1,557)	**(159)**	**(1,716)**	**109**	**7**	**116**

Year ended March 31, 2006

£ million	*Employee benefit obligations NAPS*	*Other schemes*	*Total*	*Employee benefit assets APS*	*Other schemes*	*Total*
Scheme assets at fair value						
Equities	*4,034*	*227*	*4,261*	*1,984*	*20*	*2,004*
Bonds	*1,107*	*90*	*1,197*	*3,970*	*16*	*3,986*
Others	*691*	*1*	*692*	*696*		*696*
Fair value of scheme assets	*5,832*	*318*	*6,150*	*6,650*	*36*	*6,686*
Present value of defined benefit obligations	*7,902*	*538*	*8,440*	*5,867*	*30*	*5,897*
	(2,070)	*(220)*	*(2,290)*	*783*	*6*	*789*
APS irrecoverable surplus				*652*		*652*
Net pension (liability)/asset	*(2,070)*	*(220)*	*(2,290)*	*131*	*6*	*137*
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	*(1,587)*	*(204)*	*(1,791)*	*131*	*6*	*137*
Cumulative actuarial (losses) not recognised	*(483)*	*(16)*	*(499)*			
	(2,070)	*(220)*	*(2,290)*	*131*	*6*	*137*

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

32 Pension costs continued

The amounts recognised in the Income Statement for the year are analysed as follows:

Year ended March 31, 2007

	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	**Total**	APS	Other schemes	**Total**
Current service cost	264	7	**271**	23		**23**
Past service cost	29		**29**	10		**10**
Credit arising on changes to pension scheme	(396)		**(396)**			
Recognised in arriving at operating profit	(103)	7	**(96)**	33		**33**
Expected return on scheme assets	(392)	(18)	**(410)**	(330)	(2)	**(332)**
Immediate recognition of (gains)/losses and the effect of the asset ceiling				64		**64**
Interest costs on scheme liabilities	388	23	**411**	284	1	**285**
Amortisation of actuarial losses in excess of the corridor		1	**1**			
Other finance cost	(4)	**6**	**2**	**18**	**(1)**	**17**

Year ended March 31, 2006

	Employee benefit obligations			*Employee benefit assets*		
£ million	*NAPS*	*Other schemes*	*Total*	*APS*	*Other schemes*	*Total*
Current service cost	*201*	*14*	*215*	*22*	*1*	*23*
Past service cost	*10*	*1*	*11*	*3*		*3*
Recognised in arriving at operating profit	*211*	*15*	*226*	*25*	*1*	*26*
Expected return on scheme assets	*(338)*	*(20)*	*(358)*	*(352)*	*(2)*	*(354)*
Immediate recognition of (gains)/losses and the effect of the asset ceiling				*60*		*60*
Interest costs on scheme liabilities	*348*	*27*	*375*	*293*	*1*	*294*
Amortisation of actuarial losses in excess of the corridor		*1*	*1*			
Other finance cost	*10*	*8*	*18*	*1*	*(1)*	

The amount of unrecognised cumulative actuarial gains and losses is as follows:

	Employee benefit obligations			Employee benefit assets	
£ million	NAPS	Other schemes	Total	Other schemes	Total
Amount of unrecognised actuarial losses at April 1, 2005	(357)	(27)	(384)		
Actuarial return on scheme assets	1,132	55	1,187	7	7
Less: Expected return on scheme assets	(338)	(20)	(358)	(2)	(2)
	794	35	829	5	5
Other actuarial gains/(losses)	(920)	(25)	(945)	(5)	(5)
Amortisation of actuarial losses in excess of the corridor		1	1		
Cumulative unrecognised actuarial losses at March 31, 2006	(483)	(16)	(499)		
Actual return on Scheme assets	357	(3)	**354**	(1)	**(1)**
Less: Expected return on scheme assets	(392)	(18)	**(410)**	(2)	**(2)**
	(35)	(21)	**(56)**	(3)	**(3)**
Other actuarial gains/(losses)	(113)	52	**(61)**	3	**3**
Settlement of British Regional Airlines Ltd. (BRAL) Scheme		(9)	**(9)**		
Charge arising due to changes to pension scheme	38		**38**		
Amortisation of acturial losses in excess of the corridor		1	**1**		
Cumulative unrecognised actuarial losses at March 31, 2007	**(593)**	**7**	**(586)**		

Scheme assets and liabilities are measured by qualified actuaries. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

32 Pension costs continued

per cent per annum	Group At March 31, 2007 NAPS	APS	Other schemes	*Group At March 31, 2006 NAPS*	*APS*	*Other schemes*
Inflation	3.0	3.0	3.0 - 17.4	*2.8*	*2.8*	*2.5 - 4.0*
Rate of increase in salaries	3.5*	3.5*	3.0 - 17.6	*2.8**	*2.8**	*1.5 - 4.0*
Rate of increase of pensions in payment	2.9	2.9	2.0 - 11.0	*2.7*	*2.7*	*1.5 - 5.0*
Discount rate	5.3	5.4	2.0 - 17.7	*5.0*	*5.0*	*2.0 - 7.0*
Expected rate of return on scheme assets	6.9	5.4	5.5 - 8.3	*6.8*	*5.1*	*5.0 - 8.3*

* Rate of increase in salaries is 4 per cent per annum to March 2016 and 4.5 per cent per annum thereafter (2006: Rate of increase in salaries is 2.8 per cent per annum for 2 years and 4.3 per cent per annum thereafter).

Rate of increase in healthcare costs are based on medical trend rates of 11% grading down to 5% over 6 years (2006: 12% to 5% over 5 years).

In the UK, mortality rates are calculated using the PA92 standard mortality tables for APS and the PA80 standard mortality tables for NAPS (the two largest Group and Company schemes). The standard mortality tables were selected based on the the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the 1994 GAM Static tables. If the post-retirement mortality tables used were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by around £180 million in APS and around £200 million in NAPS.

If the discount rate were to be increased by 0.1% without changing any other assumptions, the defined benefit obligation would increase by around £80 million in APS and around £160 million in NAPS.

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

£ million	Increase	Decrease
Effect on aggregate service cost and interest cost - (increase)/decrease	(2)	2
Effect on defined benefit obligation	(24)	19

Changes in the present value of the defined benefit pension obligations are analysed as follows:

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
As at April 1, 2005	6,523	488	7,011	5,603	24	5,627
Current service cost	201	14	215	22	1	23
Past service cost	10	1	11	3		3
Interest cost	348	27	375	293	1	294
Benefits paid	(158)	(17)	(175)	(349)	(1)	(350)
Employee contributions	58		58	10		10
Actuarial gains and losses	920	25	945	285	5	290
As at March 31, 2006	7,902	538	8,440	5,867	30	5,897
Current service cost	264	7	**271**	23		**23**
Past service cost	29		**29**	10		**10**
Interest cost	388	23	**411**	284	1	**285**
Benefits paid	(210)	(15)	**(225)**	(388)	(1)	**(389)**
Employee contributions	58		**58**	8		**8**
Settlement of BRAL scheme**		(104)	**(104)**			
Credit arising on changes to pension scheme	(434)		**(434)**			
Actuarial gains and losses	113	(52)	**61**	272	(3)	**269**
As at March 31, 2007	**8,110**	**397**	**8,507**	**6,076**	**27**	**6,103**

The defined benefit obligation comprises £7 million (2006: £5 million) arising from unfunded plans and £8,500 million (2006: £8,435 million) from plans that are wholly or partly funded.

** As a result of the sale of BA Connect, the Company issued to the BRAL scheme a guarantee of £50 million over the next three years.

32 Pension costs continued

Changes in the fair value of plan assets are analysed as follows:

	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 2005	4,554	266	4,820	6,031	29	6,060
Expected return on plan assets	338	20	358	352	2	354
Employer contributions	246	14	260	25	1	26
Contributions by employees	58		58	10		10
Benefits paid	(158)	(17)	(175)	(349)	(1)	(350)
Actuarial gains and losses	794	35	829	581	5	586
As at March 31, 2006	5,832	318	6,150	6,650	36	6,686
Expected return on plan assets	392	18	**410**	330	2	**332**
Employer contributions	508	6	**514**	29		**29**
Contributions by employees	58		**58**	8		**8**
Benefits paid	(210)	(15)	**(225)**	(388)	(1)	**(389)**
Settlement of BRAL scheme		(68)	**(68)**			
Actuarial gains and losses	(27)	(21)	**(48)**	(138)	(3)	**(141)**
As at March 31, 2007	**6,553**	**238**	**6,791**	**6,491**	**34**	**6,525**

History of experience gains and losses:

	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	**Total**	APS	Other schemes	**Total**
As at March 31, 2007						
Fair value of scheme assets	6,553	238	**6,791**	6,491	34	**6,525**
Present value of defined benefit obligation	(8,110)	(397)	**(8,507)**	(6,076)	(27)	**(6,103)**
APS irrecoverable surplus				(306)		**(306)**
(Deficit)/surplus in the scheme	(1,557)	(159)	**(1,716)**	109	7	**116**
Experience adjustments arising on plan liabilities	(113)	52	**(61)**	(272)	3	**(269)**
Experience adjustments arising on plan assets	(27)	(21)	**(48)**	(138)	(3)	**(141)**
As at March 31, 2006						
Fair value of scheme assets	*5,832*	*318*	*6,150*	*6,650*	*36*	*6,686*
Present value of defined benefit obligation	*(7,902)*	*(538)*	*(8,440)*	*(5,867)*	*(30)*	*(5,897)*
APS irrecoverable surplus				*(652)*		*(652)*
(Deficit)/surplus in the scheme	*(2,070)*	*(220)*	*(2,290)*	*131*	*6*	*137*
Experience adjustments arising on plan liabilities	*(920)*	*(25)*	*(945)*	*(285)*	*(5)*	*(290)*
Experience adjustments arising on plan assets	*794*	*35*	*829*	*581*	*5*	*586*
As at March 31, 2005						
Fair value of scheme assets	*4,554*	*266*	*4,820*	*6,031*	*29*	*6,060*
Present value of defined benefit obligation	*(6,523)*	*(488)*	*(7,011)*	*(5,603)*	*(24)*	*(5,627)*
APS irrecoverable surplus				*(296)*		*(296)*
(Deficit)/surplus in the scheme	*(1,969)*	*(222)*	*(2,191)*	*132*	*5*	*137*

The directors are unable to determine how much of the pension scheme surplus or deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of those pension schemes.

33 Contingent liabilities

There were contingent liabilities at March 31, 2007 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of business, upon which no material losses are likely to arise. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group and the Company have guaranteed certain borrowings, liabilities and commitments which at March 31, 2007 amounted to £168 million (2006: £110 million) and £397 million (2006: £410 million) respectively. For the Company these included guarantees given in respect of the fixed perpetual preferred securities issued by subsidiary undertakings.

34 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year under review with related parties.

	Group		Company	
£ million	**2007**	*2006*	**2007**	*2006*
Associates:				
Sales to associates	**45**	*54*	**45**	*53*
Purchases from associates	**105**	*149*	**105**	*146*
Amounts owed to associates	**1**	*10*	**1**	*10*
Subsidiaries:				
Sales to subsidiaries			**73**	*84*
Purchases from subsidiaries			**121**	*116*
Amounts owed by subsidiaries			**99**	*112*
Amounts owed to subsidiaries			**1,928**	*1,827*

In addition, the Company meets certain costs of administering the Group's retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to £5.3 million in relation to the costs of the Pension Protection Fund levy (2006: £1.4 million).

Associates:

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

A wholly owned subsidiary in the Group has a 9.95% investment in Iberia. Areas of opportunity for co-operation have been identified, and work continues to pursue and implement these. Sales and purchases between related parties are made at normal market prices and outstanding balances are unsecured, interest free and cash settlement is expected within the standard settlement terms specified by the IATA Clearing House.

As at March 31, 2007, the net trading balance owed to Iberia by the Group amounted to £0.4 million (2006: £0.4 million).

b Comair Limited (Comair)

Prior to September 30, 2006, the Group's shareholding in Comair was 18.3% and due to the Group's ability to exercise significant influence the investment in Comair was accounted for by the equity method. On September 30, 2006, the Group's shareholding in Comair decreased to 10.92% and the Group no longer had the ability to exercise significant influence over the investment, at which time the investment was reclassified as an available-for-sale financial asset. Sales and purchases to and from Comair up to September 30, 2006 have been included in the numbers above. As at March 31, 2006, the net trading balance due to Comair amounted to £9 million.

Subsidiaries:

Transactions with subsidiaries are carried out on an arm's length basis. Outstanding balances that relate to trading balances are placed on intercompany accounts with no specified credit period. Long term loans owed to and from the Company by subsidiary undertakings bear market rates of interest in accordance with the intercompany loan agreements.

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the Company at the end of the year or arose during the year that need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

In addition to the above, the Group and Company also have transactions with related parties which are conducted in the normal course of airline business. These include the provision of airline and related services.

Neither the Group nor Company have provided or benefited from any guarantees for any related party receivables or payables. During the year ended March 31, 2007 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2006: £nil).

34 Related party transactions continued

Compensation of key management personnel (including directors)

£ million	Group 2007	Group *2006*	Company 2007	Company *2006*
Short-term employee benefits	4	*6*	4	*6*
Share-based payment	3	*2*	3	*2*
	7	*8*	7	*8*

35 Foreign currency translation rates

£1 equals	At March 31 2007	At March 31 *2006*	Annual average 2006-07	Annual average *2005-06*
US dollar	1.96	*1.74*	1.89	*1.79*
Japanese yen	231	*204*	220	*201*
Euro	1.47	*1.43*	1.47	*1.47*

PRINCIPAL INVESTMENTS

Principal Investments at March 31, 2007

Investments in subsidiaries

The following table includes those principal investments which significantly impact the results or assets of the Group. These subsidiaries are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd	Airline marketing	England
BA & AA Holdings Ltd	Holding company	England
Britair Holdings Ltd	Holding company	England
British Airways 777 Leasing Limited	Aircraft financing	England
British Airways Capital Ltd	Airline finance	Jersey
British Airways Finance B.V.	Airline finance	Netherlands
British Airways Holdings Ltd	Airline finance	Jersey
British Airways Holidays Ltd	Package holidays	England
British Airways Leasing Limited	Aircraft financing	England
British Airways Maintenance Cardiff Ltd	Aircraft maintenance	England
British Airways Regional Ltd	Air travel services	England
British Airways Travel Shops Ltd	Travel agency	England
CityFlyer Express Ltd	Aircraft financing	England
Speedbird Insurance Company Ltd	Insurance	Bermuda
The Plimsoll Line Ltd	Holding company	England

Investments in associates

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Iberia, Lineas Aéreas de España, S.A. ('Iberia')	9.95	Airline operations	Spain

Available-for-sale and other investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Airline Group Ltd	16.7	Air traffic control holding company	England
Opodo Ltd	5.9	Internet travel agency	England
Flybe Group Ltd	15.0	Airline operations	England
Comair Ltd	10.9	Airline operations	South Africa

SHAREHOLDER INFORMATION

General Information

Financial calendar

Financial year end	March 31, 2007
Annual General Meeting	July 17, 2007

Announcement of 2007-2008 results

First quarter results to June 30, 2007	August 2007
Second quarter results to September 30, 2007	November 2007
Third quarter results to December 31, 2007	February 2008
Preliminary announcement	mid May 2008
Report and Accounts	June 2008

Registered Office

Waterside, PO Box 365, Harmondsworth, UB7 0GB

Registered number – 1777777

Outside advisers

Company Registrars: Computershare Investor Services Plc, PO Box 82, The Pavilions, Bridgewater Road, Bristol, BS99 7NH

ADR Depositary: Citibank Shareholder Services, PO Box 43077, Providence, RI 02940-3077, USA

Unsolicited mail

British Airways is obliged by law to make its share register available on request to other organisations who may then use it as a mailing list. This may result in your receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail you may do so by writing to the Mailing Preference Service, an independent organisation whose services are free to you. Once your name and address have been added to its records, it will advise the companies and other bodies which support the service that you no longer wish to receive unsolicited mail.

If you would like more details please write to: The Mailing Preference Service, FREEPOST 22, London, W1E 7EZ.

British Airways asks organisations which obtain its register to support this service.

Sharegift

Shareholders with small numbers of shares may like to consider donating their shares to charity under ShareGift, administered by The Orr Mackintosh Foundation. Details are available from the Company Registrars.

GLOSSARY

Airline Operations	This includes British Airways Plc and British Airways CitiExpress Ltd (CityFlyer Express Ltd, Deutsche BA Luftfahrtgesellschaft mbH, Go Fly Ltd and Air Liberte have been included in historic comparatives).
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
Revenue passenger kilometres (RPK)	The number of revenue passengers carried multiplied by the distance flown.
Cargo tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown.
Load factor	The percentage relationship of revenue load carried to capacity available.
Passenger load factor	RPK expressed as a percentage of ASK.
Overall load factor	RTK expressed as a percentage of ATK.
Break-even load factor	The load factor required to equate total traffic revenue with operating costs.
Frequent flyer RPKs as a percentage of total RPKs	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year.
Revenue per RPK	Passenger revenue from Airline scheduled operations divided by Airline scheduled RPK.
Total traffic revenue per RTK	Revenue from total traffic (scheduled and non-scheduled) divided by RTK.
Total traffic revenue per ATK	Revenue from total traffic (scheduled and non-scheduled) divided by ATK.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction.
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income.
Dividend cover	The number of times profit for the year covers the dividends paid and proposed.
Operating margin	Operating profit/(loss) as a percentage of turnover.
Net debt	Loans, finance leases and hire purchase arrangements, plus Convertible Capital Bonds, net of other current interest bearing deposits and cash and cash equivalents less overdrafts.
Net debt/total capital ratio (including operating leases)	Net debt as a ratio of total capital, adjusted to include the discounted value of future operating lease commitments.
Total capital	Total equity plus net debt.
Net debt/total capital ratio	Net debt as a ratio of total capital.
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rentals.
n/a	Not applicable.

Designed by RT Design, Guildford
Produced by RR Donnelly

www.ba.com

Our investor relations website is

www.bashares.com

Our website for individual shareholders is

www.bashareholders.com