

Directors' report

The directors present their Report and Accounts for the year ended March 31, 2008. The accounts are set out on pages 77 to 127.

Principal activities

The main activities of British Airways Plc and its subsidiary undertakings are the operation of international and domestic scheduled air services for the carriage of passengers, freight and mail and the provision of ancillary services.

Results for the year

Profit for the year attributable to members of British Airways Plc amounted to £680 million, against a profit on the same basis of £290 million in the previous year.

Business review

The Companies Act 1985 and the Disclosure and Transparency Rules of the UK Listing Authority (DTRs) require the Company to include a business review in its Directors' report as per section 234ZZB of the Companies Act 1985 and DTR 4.1.8. The information that fulfils the business review can be found in the following sections of the annual report which are incorporated into this report by cross reference:

- Chief Financial Officer's statement on pages 12 to 17;
- Business review on pages 18 to 37;
- Corporate responsibility on pages 38 to 50; and
- Corporate governance statement on pages 59 to 61.

The Board of directors

The names and details of the directors who served during the year are set out on page 52 and form part of this Directors' report.

Directors' interests

A statement of the interests in shares of the Company (or derivatives or any other financial instruments relating to those shares) of each director (including the interests of their connected persons of which the Company is aware) as at March 31, 2008 and any changes in those interests from that date until the date of this report can be found in the Remuneration report on pages 65 to 73 and form part of this Directors' report.

Directors' and officers' liability insurance

The Company has purchased insurance against directors' and officers' liability as permitted by the Companies Act 1985 and Companies Act 2006 for the benefit of the directors and officers of the Company and its subsidiaries.

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 investor relations website, bashares.com by clicking on the heading Corporate Governance.

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 52. 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 the auditor's report of 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 make him or herself 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.

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 (EU).

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;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4

The directors confirm that, to the best of each person's knowledge:

- (a) the Group and Parent Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and
- (b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Corporate governance

Information on corporate governance is set out in the statements on pages 59 to 61 which form part of this Directors' report.

Employee involvement

Information on employee involvement is set out within the corporate responsibility report on pages 38 to 50 and forms part of this Directors' report.

Diversity and inclusion

Information on the Company's policy on equal opportunities for disabled employees is set out within the corporate responsibility report on pages 38 to 50 and forms part of this Directors' report.

Charitable donations

Information on charitable donations is set out within the corporate responsibility report on pages 38 to 50 and forms part of this Directors' report.

Political donations

At the annual general meeting in 2006, shareholders passed a resolution to authorise the making of political donations and the incurring of political expenditure for the purposes of section 347C of the Companies Act 1985 for a period of four years. As from October 1, 2007, the provisions of the Companies Act 1985 relating to political donations and expenditure were repealed and replaced by provisions of the Companies Act 2006. The resolution passed at the annual general meeting in 2006 is treated, by virtue of applicable transitional provisions, as complying with the requirements of section 367 of the Companies Act 2006 (notwithstanding that it does not comply with the requirements of that section as to the heads under which donations and expenditure are to be stated). A new resolution will, however, be proposed at the annual general meeting to be held on July 15, 2008 to authorise donations or expenditure under the heads specified in section 367(3) of the Companies Act 2006, for a further period of four years. This authorisation is being taken on a four-year basis as a precaution only and the directors have no present intention of using it. In the event that any political donation is made or political expenditure incurred, the Board would seek further shareholder approval.

The Board has repeatedly confirmed that it does not make political donations or incur political expenditure within the ordinary meaning of those words and that it has no intention of doing so. The amount of political donations made and political expenditure incurred in the period from April 1, 2007 to March 31, 2008 was £nil (2006/07: £nil).

Waiver of dividends

The British Airways Employee Benefits Trust (Jersey) Limited, which holds British Airways shares for the purpose of satisfying awards and options granted to employees under the Company's employee share schemes, has waived its rights to dividend. The Trustee does not vote the shares that it holds. At March 31, 2008 there were 2,087,147 shares held in the Trust.

Going concern

After making enquiries, the directors have a reasonable expectation 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' report continued

Payment policy

Information on the policy and practice of the Company regarding payment of the Company's creditors can be found within the corporate responsibility report on pages 38 to 50 and forms part of this Directors' report.

Impact of change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- All of the Company's share schemes contain provisions relating to a change in control. Other than the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time, all outstanding options would normally vest and become exercisable on a change of control;
- Joint business agreement with Iberia, which coordinates schedules, marketing, sales, freight, pricing and customer service activities;
- Codeshare agreements with American Airlines, Cathay Pacific, Iberia, bmi, Qantas and Aer Lingus; and
- Contracts to sell miles to Alaska Airlines, American Airlines, Lloyds TSB and Tesco.

Neither of the executive directors' service contracts provides for compensation to be paid in the event of change of control of the Company.

Substantial interests in shares

The Company has been notified pursuant to the DTRs of the following interests in 3 per cent or more of the Company's issued ordinary shares as at May 15, 2008:

Name of shareholder	Percentage of holding	Direct %	Indirect %
INVESCO plc	11.05	Nil	11.05
Standard Life plc	9.07	7.69	1.38
Barclays PLC	6.90	6.90	Nil
AMVESCAP Plc	6.74	Nil	6.74
AXA S.A.	4.85	0.75	4.10
Legal & General Group Plc	4.07	4.07	Nil

Receipts and returns to shareholders

Dividend

No interim dividend was paid during the year. The Board has decided to recommend the payment of a final dividend of 5 pence per share.

Prior to this the Company last paid a dividend in July 2001.

Share issues, buy-backs and treasury shares

The authorised share capital of the Company is unchanged from the previous year. However, there has been an increase in the issued share capital. Details of the current authorised and issued share capital are set out in the sections headed 'Shares and Shareholders' and 'Capital Structure and Shareholder Rights' respectively.

Under UK legislation, 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. The Board currently has authority to allot shares in the Company up to an aggregate nominal value of £89 million by virtue of a resolution passed at the annual general meeting of the Company held on July 14, 2003. This authority expires on July 15, 2008 and shareholders will be asked to renew this authority at the 2008 annual general meeting.

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.

Rules about the appointment and replacement of directors are set out in the Company's Articles of Association. The directors' powers are conferred on them by UK legislation and by the Company's Articles of Association.

At the annual general meeting held in July 2007 authority was given to conduct share buy-backs up to approximately 10 per cent of the Company's 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 gives 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 Company did not conduct any share buy-backs in 2007/08. Shareholders will be asked to renew this authority at the 2008 annual general meeting.

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 (subject to insider dealing rules) 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. No shares were held in Treasury during the year ended March 31, 2008.

Shares and shareholders

The number of ordinary shares issued and fully paid as at March 31, 2008 was 1,153,105,000 (March 31, 2007: 1,151,575,000). The increase over March 31, 2007 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 32 to the financial statements.

Capital structure and shareholder rights

The authorised share capital of the Company is £378,000,000 divided into 1,512,000,000 ordinary shares of 25 pence each and one special voting share of 25 pence. All ordinary shares have equal rights to dividends and capital and to vote at general meetings of the Company. The rights attached to the ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association.

The special voting share has no dividend rights, limited capital rights and restricted 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 holders of the UK shares,

are equal to 50 per cent of the total number of votes which are capable of being cast, plus one. On any resolution, votes cast by the holder of the special voting share may only be cast in the same manner and proportion as the votes cast by the UK shareholders. Full details of the rights attaching to the special voting share are set out in the Company's Articles of Association. 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 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. Full details of restrictions on the transfer of shares are set out in the Company's Articles of Association.

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 Company or any 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 restrictions set out in 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 as a result of default for the prescribed period in providing the Company with the required information concerning interests in shares held by them those shares shall no longer confer on the holder any right to vote either personally or by proxy at a general meeting of the Company or exercise any other rights conferred by membership in relation to general meetings of the Company or meetings of the holders of any class of shares.

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In addition, if the person served with a direction notice holds at least a 0.25 per cent interest in number or nominal value of the issued shares of that class in the Company, then the Board may also withhold payment of all or part of any dividends payable to such person in respect of the shares which are the subject of the direction notice and refuse to register any transfer of such shares until such time as the default is remedied and the Board determines that the direction notice shall cease to have effect.

There may also be restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them where (i) the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) their holder is precluded from exercising voting rights by the FSA's listing rules or the City Code on Takeovers and Mergers.

During 2007/08, the Company delisted its American Depositary Shares (ADSs) from the New York Stock Exchange (NYSE) and deregistered and terminated its reporting obligations under the Securities Exchange Act of 1934.

The Company maintains an American Depositary Receipts (ADR) programme in the US as a Level I programme. This means that the Company's ADSs are traded on the over-the-counter market. Each ADR is the equivalent of 10 ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depository is the registered holder of the shares. As at March 31, 2008, the equivalent of 26.2 million shares were held in ADR form (March 31, 2007: 33.7 million shares).

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 15, 2008, shareholders can appoint a proxy online via the Company's website or by posting the proxy form to the address set out in the notice of meeting. Proxies (whether submitted online or by post) must be received by 11am on Sunday July 13, 2008. If the shares are held in British Airways Investor Services, the Company Nominee, voting instructions must be received by 11am on Saturday July 12, 2008.

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 (EEA). At March 31, 2008, 31 per cent of the ordinary shares of the

Company were held by non-UK nationals (March 31, 2007: 39 per cent) and 19 per cent of the ordinary shares were held by persons who were not nationals of states comprising the EEA (March 31, 2007: 16 per cent). Although there are no large interests of single or associated non-UK nationals, the directors cannot rule out the possibility that the directors 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 March 31, 2008 there were 214,254 shareholders (April 30, 2007: 217,727). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	88.09	4.65
1,001 – 5,000	10.56	3.67
5,001 – 10,000	0.77	0.96
10,001 – 50,000	0.32	1.13
50,001 – 100,000	0.06	0.72
100,001 – 250,000	0.06	1.68
250,001 – 500,000	0.04	2.78
500,001 – 750,000	0.02	2.54
750,001 – 1,000,000	0.02	2.42
Over 1,000,000	0.06	79.45
	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	97.94	9.53
Bank or Nominee	1.75	88.29
Insurance companies	0.01	0.02
Pension trusts	0.01	0.13
Investment trusts	0.02	0.01
Other corporate bodies	0.27	2.02
	100.00	100.00

Auditors

Resolutions to reappoint the retiring auditor, Ernst & Young LLP, and to authorise the directors to determine their remuneration will be proposed at the 2008 annual general meeting.

Overseas branches

The Company flies to a number of destinations around the world (see inside front cover). In addition to the overseas branches it has established in many of these countries, it has overseas branches in countries to which it does not fly to such as New Zealand.

Approved by the Board and signed on its behalf by

Alan Buchanan

Company Secretary
May 15, 2008