



BRITISH AIRWAYS



2007/08
Annual Report and Accounts

1998

British Airways orders 59 aircraft in the Airbus A320 family and 16 Boeing 777s.

1999

British Airways opens its new World Cargo Centre.

2000

British Airways completes a 9 per cent acquisition of Iberia.

Where we fly to

as at May 15, 2008

UK & Ireland



Aberdeen
Dublin
Edinburgh
Glasgow
Jersey
Manchester
Newcastle
Newquay

Europe



Alicante
Amsterdam
Antalya
Athens
Barcelona
Bari
Basle
Belgrade
Berlin
Bologna
Bordeaux
Brussels
Bucharest
Budapest
Cagliari
Catania
Copenhagen
Dresden
Dubrovnik
Dusseldorf
Faro
Frankfurt
Geneva
Gibraltar
Grenoble
Hamburg
Helsinki
Istanbul
Izmir
Kiev
Krakow
Larnaca
Lisbon
Luxembourg
Lyons
Madrid
Malaga
Malta
Marseilles
Milan (Linate)
Milan (Malpensa)
Moscow
Munich
Naples
Nice
Oslo
Palma
Paris
Pisa
Poznan
Prague
Pristina
Rome
Salzburg
Sarajevo
Sofia
St Petersburg
Stockholm
Stuttgart
Thessaloniki
Tirana
Toulouse
Turin
Varna
Venice
Verona
Warsaw
Zurich

Americas



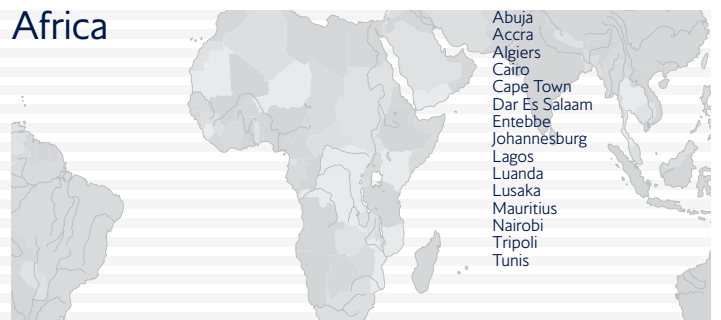
Antigua
Atlanta
Baltimore
Barbados
Bermuda
Boston
Buenos Aires
Calgary
Chicago
Dallas
Denver
Grand Cayman
Grenada
Houston
Kingston
Los Angeles
Mexico
Miami
Montreal
Nassau
New York (JFK)
New York (Newark)
Orlando
Philadelphia
Phoenix
Port of Spain
Providenciales
Rio De Janeiro
San Francisco
San Paulo
Seattle
St Lucia
Tampa
Tobago
Toronto
Vancouver
Washington

Middle East & South Asia



Abu Dhabi
Bahrain
Bangalore
Calcutta
Delhi
Dhaka
Doha
Dubai
Islamabad
Kuwait
Madras
Mumbai
Muscat
Tel Aviv

Africa



Abuja
Accra
Algiers
Cairo
Cape Town
Dar Es Salaam
Entebbe
Johannesburg
Lagos
Luanda
Lusaka
Mauritius
Nairobi
Tripoli
Tunis

Asia/Pacific



Bangkok
Beijing
Hong Kong
Shanghai
Singapore
Sydney
Tokyo



2001

Heathrow Terminal 5 is given the go-ahead by the UK Government.

2002

British Airways becomes the world's first airline to take part in a scheme to reduce greenhouse gas emissions.

2003

Concorde makes its last commercial flight.

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2004

British Airways becomes the first airline in the UK to enable passengers departing from Heathrow to print their own boarding passes online for selected flights.

2005

A new voluntary scheme is launched to enable customers to offset the carbon dioxide emissions from their flights by making a contribution to an environmental trust.

2006

British Airways unveils its next generation business class cabin, offering greater comfort, more space and storage.

Who we are

British Airways is the UK's largest international scheduled airline, flying to over 300 destinations at convenient times, to the best located airports.

We are one of the world's leading scheduled international passenger airlines. Our 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. We also operate a worldwide air cargo business, largely in conjunction with our scheduled passenger services. Operating one of the most extensive international scheduled airline route networks, with our codeshare and franchise partners, we fly to more than 300 destinations worldwide. In 2007/08, we carried more than 33 million passengers.

Our airline network generates economic value by meeting the demand for business travel, by providing vital arteries for trade and investment, as well as providing leisure travel opportunities for individuals and families. In 2007/08, we earned over £8.7 billion in revenue, 3.1 per cent up on the previous year. Passenger traffic accounted for 86.2 per cent of this revenue, while 7.0 per cent came from cargo and 6.8 per cent from other activities. We carried 805,000 tonnes of cargo to destinations in Europe, the Americas and throughout the world. At the end of March 2008, we had 245 aircraft in service, compared to 242 in March 2007.

Our fleet: 245 aircraft

57
Boeing 747s

42
Boeing 777s

21
Boeing 767s

13
Boeing 757s

33
Boeing 737s

11
Airbus A321s

25
Airbus A320s

33
Airbus A319s

10
Avro RJ100s

2007

British Airways places an order for 12 Airbus A380 aircraft and 24 Boeing 787 aircraft.

2008

British Airways' first flight from Terminal 5 departs to Paris on March 27, 2008.

Financial highlights

£8,753m
Revenue

Group revenue for 2007/08 was £8,753 million, compared with £8,492 million in the previous year.

£883m
Profit before tax

Group profit before tax for 2007/08 was £883 million, compared with £611 million in the previous year.

£875m
Operating profit

Group operating profit for 2007/08 was £875 million, compared with £602 million in the previous year.

10%
Operating margin

The operating margin in 2007/08 was 10.0 per cent compared with 7.1 per cent in the previous year.

59.0 pence
Basic earnings per share

Group earnings per share for 2007/08 were 59.0 pence, compared with 25.5 pence in the previous year.

£2,055m
Fuel costs

Fuel costs rose by 6.4 per cent in 2007/08 to £2,055 million, compared with £1,931 million in the previous year.

Group revenue by area of original sale

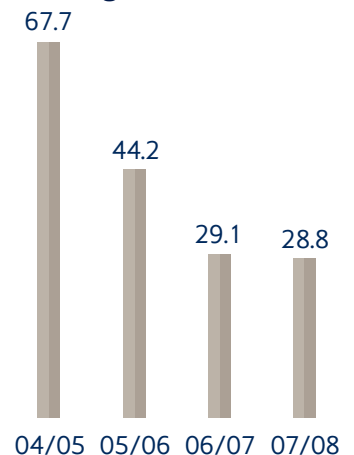


2007/08 (£m)



2006/07 (£m)

Gearing %



- United Kingdom 4,357
- Continental Europe 1,219
- The Americas 1,697
- Africa, Middle East and Indian sub-continent 821
- Far East and Australia 659

- United Kingdom 4,160
- Continental Europe 1,156
- The Americas 1,731
- Africa, Middle East and Indian sub-continent 803
- Far East and Australia 642



Chairman's statement

There is no doubt that the past year has been a turbulent one for our Company. There have been highlights and lowlights – some of our own making, others outside our control.

The embarrassing events surrounding the opening of Terminal 5 have been well documented, as has our deep regret at the frustration and inconvenience the disruption caused.

I want to reassure you that our recovery plan is in place and we are determined to rebuild our reputation worldwide and restore the trust of our customers in British Airways. In the meantime our staff are rising to the challenge of delivering the service our customers deserve, despite the difficulties of working across three terminals at Heathrow.

While the change to a phased move to Terminal 5 has had a broader impact on Heathrow, it is vital that our operation is embedded fully before the next stage of development at the airport. Although this has put back the move of other airlines into Terminal 4, BAA agrees that it is in the interests of our industry and UK plc that we move forward together.

These events have taken the gloss off a very good set of results which we achieved despite record fuel costs and the impact of economic slowdown, caused mainly by the credit crunch in the US.

Financial performance

Our operating profit of £875 million gives us a record operating margin of 10 per cent. Our pre-tax profit of £883 million is also a record.

Revenue up

3.1%

Pre-tax profit

£883m

Achieving 10 per cent operating margin was a major milestone for our Company. It has been our goal since 2002 and one of the necessary triggers for the restoration of the dividend. The other was addressing the pensions deficit which was one of the biggest of the FTSE 100 companies.

The Board has always maintained that we needed to tackle our pension deficit, strengthen our balance sheet and achieve a 10 per cent operating margin before we would restore a dividend. Based on successful resolution of these matters, the Board has decided on a dividend policy for the current year to start at a modest level that reflects our lowered financial expectations for the coming year and that will allow it to grow over time and be consistent with other cyclical companies and our major airline competitors.

Our revenue performance was good, up 3.1 per cent in 2007/08. Operating costs were down 0.7 per cent despite the impact of rising fuel costs. Fuel continues to be a major cost and at current prices we expect our fuel bill next year to be some £3 billion, up £1 billion on this year. Our cargo performance improved and cargo revenue was up 3.0 per cent.

Runway capacity

We await the recommendation from the government on plans to allow full utilisation of Heathrow's two existing runways and the construction of a short, third runway – subject to meeting stringent environmental safeguards.

Operating margin

10%

Operating profit

£875m

Chairman's statement continued

This follows a public consultation during which protestors made sure it was high on the media agenda. Interestingly, in the area around Heathrow, where you might expect opposition to expansion to be strongest, a Populus opinion poll of residents in the 12 boroughs closest to the airport showed 50 per cent backing for a third runway, with opposition running at 30 per cent. The majority in favour of mixed mode was larger still.

Business leaders were vocal in their backing for sustainable growth and made it clear that London and the UK needs a world-class airport that has the capacity to provide the range of air links you need for success in a global economy. We hope the government holds firm in its clear intent to go ahead with the third runway because it is important not just for British Airways but for London and the UK economy.

Climate change

In this context we realise that climate change is perhaps the biggest long-term challenge we face. It is important for the public to understand that the atmosphere has no preferences whether emissions come from aviation or agriculture, from China or the UK. But it does matter that cuts in those emissions are achieved in the most economically sensible manner. This message is often lost in the emotional headlines around the issue.

Aviation worldwide accounts for approximately 2 per cent of global CO₂ emissions, and allowing for growth, it is forecast by the UN to produce about 3 per cent by 2050. In comparison, road transport generates about six times as much CO₂ and power generation and deforestation around ten times as much.

We believe carbon trading is the most effective way of controlling emissions in an economically sensible manner. So when the UK Government endorsed the introduction of aviation into the EU Emissions Trading Scheme it should have been a decision to welcome. But we were disappointed that the implementation date was delayed until 2012 and not confined to intra-EU airlines.

To impose it on foreign airlines flying into and out of the EU will provoke significant international opposition and lead to further delays in implementation. A better approach would be to restrict the scheme to intra-EU travel and negotiate the global development of an emissions trading scheme.

HM Treasury announced its intention to replace Air Passenger Duty with a new 'per plane' tax with effect from November 2009. The Treasury's consultation on this proposal has now closed.

We have serious concerns that this new tax will distort competition and discriminate against UK network and longhaul carriers, while at the same time incentivising travel over rival European hub airports with no benefit to the environment.

Any new tax should be balanced and non-discriminatory and should retain the current transfer exemption for connecting passengers. In any event, once UK aviation joins the EU Emissions Trading Scheme in 2012, any existing taxes should be phased out.

EU – US

Looking at transatlantic regulatory issues, the limited progress made in stage one of the EU-US aviation agreement has allowed us to launch a new subsidiary airline called OpenSkies offering direct services from continental Europe to the US for the first time. The first service will be from Paris to New York on a Boeing 757 that offers flat beds and a unique style of service.

One reason we chose the name OpenSkies for our fledgling new business is to signal our commitment to stage two of the talks between the EU and US towards a genuine Open Aviation Area – with equal traffic rights and removal of ownership restrictions. Then the industry can finally reap the benefits of the kind of sensible cross-national consolidation that has taken place in electronics, motor manufacturing, pharmaceuticals, banking and almost every other business sector.

We will not hesitate to remind the government of its right to terminate the current deal if sufficient progress towards this bigger goal has not been made by 2010.

The new air treaty has also enabled us to move our flights to Dallas and Houston from Gatwick to Heathrow and we are increasing frequencies on flights to New York JFK, Washington, Seattle and Orlando.

Separate to the air treaty we have announced our intention to launch services from London City airport to New York using Airbus A318 aircraft in an all-business, 32-seat configuration.

We are the only airline offering the benefits of a full service carrier from Gatwick to destinations such as Antalya, Faro and Malaga.



New aircraft

We announced our long awaited order for longhaul replacement and growth aircraft during the year. Both the Airbus A380 and the Boeing 787 have huge potential for us and, of course, for our customers.

The 'whispering giant', as the Airbus A380 has been called, and the Boeing 787 Dreamliner, will set new benchmarks in the sky for comfort and technology, and in terms of emissions, NO_x and noise.

Boeing subsequently announced a delay to the original delivery schedule, and while this is a setback we are working closely with them to mitigate this.

Strategic partnerships

In an exciting development for the oneworld alliance, we are exploring opportunities for closer cooperation with American Airlines and Continental Airlines.

In the UK, our franchise model has outlived its purpose and we took the opportunity to end our franchise with GB Airways when they made it clear they wanted to sell their business. We subsequently launched our own services on some of the key routes previously operated by our franchisee and we are pleased that they have proved to be very popular. We are the only airline offering the benefits of a full service carrier from Gatwick to destinations such as Antalya, Faro and Malaga.

We have also announced we are ending our franchise agreement with Loganair, and earlier in the year we ended our relationship with BMED. Our overseas franchises, however, are not affected as they provide useful feeder traffic and extend our brand into areas we cannot serve ourselves.

Our relationship with Iberia continues to strengthen and during the year we increased our shareholding from 9.95 to 13.15 per cent. This purchase reflects the strategic importance we attach to our relationship with Iberia and our continued confidence in its management. We will continue to consider further opportunities to increase our stake.

Sponsorship

Sponsorship allows us to give our support to worthy causes and sporting events. We are delighted and proud to support London's bid for the 2012 Olympic and Paralympic Games. We will play an integral role in welcoming the world to London in 2012.

London 2012 is about inspiring young people, transforming and inspiring a nation, creating a lasting legacy for Britain and encouraging people to actively participate in the Games.

We will support this vision with a number of initiatives over the next four years that will invest in communities where the Games will be staged, support diversity and celebrate Britain at its best.

The British Airways Olympic Youth Bursary Scheme has been created with the specific aim of encouraging young people to get involved in sport and assist the next generation of Olympic hopefuls and aspiring athletes.

Looking forward

The history of aviation economics indicates that it is important to be in a healthy financial condition at the start of a cyclical downturn. With oil at \$120 a barrel, that's exactly where we are now. In the coming year we will need a sensible financial outcome, albeit down on the year just ended, but it will be especially important to win back our customers' trust.

Martin Broughton, Chairman



Chief Executive's statement

Last year turned out to be a mixed one for British Airways. We celebrated some real triumphs – including achieving a 10 per cent operating margin for the first time ever, announcing exciting new services and placing important aircraft orders. But the opening of Terminal 5 went badly wrong. Despite this, I think we can feel confident about our future.

After the early problems with Terminal 5 and a lot of hard work by people right across British Airways, we believe this fantastic new facility will increasingly help us to transform the travelling experience of our customers. That's what they deserve, and that's what we are determined to give them.

Key achievements in 2007/08

© Airbus



Financial success

For the first time ever we achieved an operating margin of 10 per cent in 2007/08.

Continuing tight control of our costs played a crucial role in hitting this important target and it puts us in a far stronger position than many of our competitors to cope with increasingly tough economic conditions in the year ahead.

Our profit before tax for the year was £883 million, up £272 million, on revenue of £8,753 million, an increase of 3.1 per cent.

Environmental commitment

Our industry's most pressing corporate responsibility is to reduce the carbon emissions from its operations.

The recent agreement between the International Air Transport Association and the airlines to a joint commitment on this is an important step forward for our industry.

We continue to be leaders in this field. We are the only airline to have taken part in an emissions trading scheme. Since 1990 we have cut our emissions by 28 per cent and in 2007/08 set ourselves the new target of cutting our CO₂ by a further 25 per cent by 2025.

Customer service developments

We have completed the fit out of our new award-winning Club World cabin on our Boeing 747 fleet and have started putting it on our Boeing 777 fleet.

It has already won design awards and set new benchmarks for comfort in the air.

On the ground we continue to improve our online booking engine ba.com and customers can now buy online, check-in online and email messages on ba.com in 11 languages.

We have placed an \$8 billion order for new aircraft and our design teams have begun work on defining the interiors of these aircraft.

Chief Executive's statement continued

The next few years will be immensely challenging for the airline industry. Like our competitors we will have to respond to sharply rising infrastructure and fuel costs, changes in regulation, fierce competition, possible restructuring of our industry and significant environmental challenges. We must contend with these while striving to meet the relentlessly high expectations of our customers.

Thanks to a great deal of hard work in recent years the fundamentals of our business are vastly improved. So we will meet these challenges from a position of financial strength that few other carriers enjoy. Once Terminal 5 is fully running, as it can and should, we will have the tools to transform the travelling experience of our customers.

Terminal 5 – a new start

I want to put on record again my deep regret for the inconvenience and frustrations we caused to customers in the days after Terminal 5 opened.

Our people have worked tirelessly to put things right and, thanks to this ongoing effort, customers will begin to see this tremendous new facility in its true light.

The first phase of the move of additional flights into Terminal 5 will take place on June 5. The services to be switched include flights to and from New York JFK. The other seven destinations are Abuja, Bangalore, Beijing, Cairo, Cape Town, Lagos and Phoenix. All these flights currently operate from Terminal 4 and combined they amount to about a quarter of the airline's Terminal 4 schedule.

We will switch further flights from Terminal 4 when we have full confidence that good standards of service will be maintained, with the terminal handling larger volumes of customers and bags.

BA038 incident

Another incident which attracted intense media focus was the BA038 which landed short of the runway on its approach to Heathrow in January.

There were 136 customers on board, 13 members of cabin crew and three pilots. Thanks to the heroism and skill of the flight crew, the Boeing 777 aircraft landed safely and the excellent work of the cabin crew ensured that all our customers were evacuated on the Captain's command with only a few injuries sustained.

An incident of this kind is something we hope will never happen but this is why we place so much emphasis on safety. We focus a great deal of importance on the quality and standard of our training. Our flight and cabin crew have shown the value of their training and skills and were able to deal with the incident professionally, effectively and safely.

All the crew did a magnificent job supported by our frontline staff from engineering to call centre staff and volunteers to care for the passengers and keep our operations going.

I am very proud of them, and from the emails and letters that I received after this incident, I know many people around the world share this view. The Air Accident Investigation Board (AAIB) continues to investigate what caused the incident.

Customer development

I fully understand why many will be tempted to view our performance this year through the prism of Terminal 5. But we have made great strides forward enhancing our service for customers on the ground and in the air.

We completed the installation of our new Club World cabin on our entire 57 Boeing 747 fleet, offering better sleep to our premium customers, and an improved Club kitchen. We have also striven to set new benchmarks for comfort in the air, and the awards it has attracted tell us that we are achieving that. We have started the fit out of the new Club World on our 42 Boeing 777 fleet.

On the ground we continue to develop our online booking service ba.com.

I referred earlier to our order of new aircraft. While the delivery of the Boeing 787 and Airbus A380 may be some years away, our design team has already begun the process of developing our unique next generation interior. In terms of CO₂ emissions per seat, the Airbus A380 will be 17 per cent cleaner than the Boeing 747-400 and the Boeing 787 will be 30 per cent cleaner than the Boeing 767.

12 Airbus A380 on order, with options on a further seven.



© Airbus

New services

We are also investing in new services to prepare for new opportunities in our markets. We have ordered two Airbus A318s to operate our new business-only service from London City airport to New York – a service we think will prove popular and convenient for people working in these two financial centres.

In longhaul we are expanding services to our two most important markets, the US and India. This summer we will fly 41 times a day to 18 US destinations. We will also launch a new daily service to Hyderabad in India.

The alliances we have with other airlines remain very important to us and mean we can be much more responsive to our customers' needs. Our ties with Iberia, where we now have a 13.15 per cent stake, continue to get stronger and you can expect us to enter new code-sharing agreements with the Spanish carrier beyond those we already have.

As the Chairman notes, we have also announced plans to start flying from continental Europe to the US.

Controlling costs

Of course our ability to invest in growth depends directly on us controlling our cost base. In the last seven years this has been an absolute priority. To that end we tackled our pension deficit and worked hard to reduce our debt levels from the peak of over £6 billion to £1.3 billion.

As a result of this concerted action, we have delivered a 10 per cent operating margin for the first time ever.

However, we expect to see our margins decrease in 2008/09, due mostly to sharp increases in fuel costs – which we now expect to rise by around a half to £3 billion (at current prices) this year – higher employee costs, economic slowdown and increased competition.

The expected reduction in margin in the current year only serves to underline how important our cost control efforts have been and must continue to be.

Another area of significant cost is airport charges which have been set by the CAA for the five years between April 2008 and March 2013. We continue to believe they were set at an

overly generous level at Heathrow that is far in excess of what is needed to upgrade facilities through investment in infrastructure and improved service quality levels.

We suffer from very poor regulation and the CAA's objective should be to ensure that BAA provides the infrastructure and services that customers want, but in a cost effective and efficient way that does not overcompensate the airport operator financially.

The focus of the Competition Commission's current review into the UK airports' market should be to ensure that the right conditions are put in place that best meet customers' needs.

Environmental leadership

We have put corporate responsibility at the centre of our business priorities and our ambition is to be a leader in this field.

During the year we announced that Silla Maizey – formerly Head of Procurement – had been appointed as our first ever Head of Corporate Responsibility, reporting directly to me. We are determined to grow. But we are equally determined to grow responsibly, and I hope Silla's appointment will be seen as a statement of our serious intent.

Undoubtedly, climate change is our most significant challenge in this respect. Our industry gets pilloried by some environmentalists for its contribution to global warming. We don't agree with their analysis, but I want to be very clear that we do intend to be in the vanguard in tackling this issue.

The corporate responsibility report can be found on pages 38 to 50.

Confidence

At the end of a testing year for British Airways, I'd like to thank everyone in the Company for their tremendous support and dedication – not least as we worked to overcome difficulties at Terminal 5 and restore the confidence of our customers. It's this spirit that, above all, gives me such a strong sense of confidence in the future of this airline.

Willie Walsh, Chief Executive



Chief Financial Officer's report

Our profits reached record levels in 2007/08, as we achieved our target of a 10 per cent operating margin for the first time.

This Chief Financial Officer's report forms part of, and should be read in conjunction with, the Directors' report set out on pages 54 to 58.

Financial performance

Our operating profit in the year, at £875 million, was up £273 million, against a background of ever-increasing fuel prices. Pre-tax profits were £883 million, up £272 million on the previous year. Our financial strength has been significantly improved over the last few years and these results put us in a good position to deal with the extremely difficult climate which is now gripping the industry – caused by economic slowdown and record fuel prices.

Revenue

Revenue for the year was £8,753 million, up 3.1 per cent, despite the negative impact of exchange rate movements. Excluding the impact of exchange, primarily down to the weaker US dollar, revenue was up 4.6 per cent.

Our passenger revenue, at £7,541 million, was up 3.8 per cent, on capacity up 0.8 per cent. Seat factor, being the measure of how full our flights are, was down 0.5 points to 75.6 per cent. Despite the negative impact of exchange rates, yields (measured as revenue per passenger kilometre flown) were up 3.6 per cent, mainly due to more premium passengers travelling with us. Demand for our premium cabins remained strong. The new Club World product is now available on our entire 747 fleet, and this added almost 10 per cent additional premium capacity during the second half of the year. Shorthaul premium traffic weakened, partly due to concerns within the financial markets. Non-premium traffic on the North Atlantic was soft during the year and this, in part, contributed to a reduction in non-premium revenue.

Our cargo revenue for the year was £616 million, up 3.0 per cent. Excluding the impact of exchange, it was up 4.8 per cent. Cargo capacity, measured in available tonne kilometres (ATK), decreased by 0.2 per cent. Our cargo volumes, however, recovered strongly in the year and were up by 4.2 per cent. Premium product volumes continued to grow and were up by 12.6 per cent. Our cargo yield (revenue per cargo tonne kilometre) decreased by 1.2 per cent. Increased cargo fuel surcharges and a better premium mix in the second half of the year helped offset ongoing price pressures evident in a number of markets.

The strong euro continues to impact demand from Europe, and price pressures due to overcapacity continued to be a feature in South Asia. Flown volumes from the Americas and the UK improved, and Asia Pacific continues to perform strongly.

Overall load factor for the year was 71.2 per cent, up 0.8 points on last year.

Total revenue £ million

2007/08	8,753
2006/07	8,492
2005/06	8,213
2004/05	7,772
2003/04	7,560

Operating expenditure

Our cost performance in the year was strong. Our expenditure on operations decreased by 0.7 per cent compared to last year, with unit costs (total expenditure on operations per ATK) reducing by 0.5 per cent. This was a major achievement, considering that we were facing rapidly rising fuel costs throughout the year and we had also concentrated significant additional resources on the operation for the move to Terminal 5. Excluding fuel costs, our expenditure on operations reduced by 3.0 per cent.

The table overleaf summarises total Group expenditure on operations and year on year changes in expenditure over the two financial years ended March 31, 2008 and March 31, 2007.

Our employee costs reduced by 4.9 per cent to £2,166 million. Within this, pension costs were down some £92 million primarily due to the agreed changes to the future service benefits as part of a 10-year programme to fund the deficit in the New Airways Pension Scheme (NAPS). The changes were implemented in February 2007. Lower redundancy costs and manpower efficiencies more than offset inflation-linked wage increases. Our employee costs included £35 million in respect of our Employee Reward Plan (ERP) and management bonuses. The average number of employees in the Group, measured in manpower equivalents (MPE), fell by 2.5 per cent to 42,403 and productivity (measured in ATKs per MPE) improved by 2.4 per cent.

Chief Financial Officer's report continued

(£ million)	2007/08	2006/07	Better/ (worse)
Employee costs	2,166	2,277	4.9%
Depreciation, amortisation and impairment	692	714	3.1%
Aircraft operating lease costs	68	81	16.0%
Fuel and oil costs	2,055	1,931	(6.4)%
Engineering and other aircraft costs	451	414	(8.9)%
Landing fees and en route charges	528	517	(2.1)%
Handling charges, catering and other operating costs	977	930	(5.1)%
Selling costs	359	436	17.7%
Currency differences	6	18	66.7%
Accommodation, ground equipment and IT costs	576	618	6.8%
Total Group expenditure on operations*	7,878	7,936	0.7%

*Before non-recurring items.

Our depreciation, amortisation and impairment costs reduced by 3.1 per cent compared to last year. This is partly due to changes in dilapidations charges and changes to the useful economic lives of a number of assets.

The number of aircraft we have on operating leases reduced during the year and this, along with lease renegotiations and the weaker US dollar, resulted in our aircraft operating lease costs reducing by £13 million compared with last year.

Record fuel prices drove our fuel and oil costs up by £124 million compared with last year. This increase was after the benefits of hedging of \$392 million, and the favourable exchange impact of the weaker US dollar.

Our engineering and other aircraft costs, at £451 million, increased by 8.9 per cent compared with last year. This was partly due to contractual price increases on our flying hour engine maintenance contracts and partly due to prior year inventory provision releases on the back of a sustained improvement in the control environment. We also had an increased number of wet leases (aircraft with crew) this year, and additional shorthaul freighter costs. These increases were partly offset by reduced fleet insurance rates due to the soft aviation market.

Landing fees and en route charges cost us £528 million, up 2.1 per cent. This was partly due to rate increases and adverse exchange movements, primarily the stronger euro.

Our engineering and other aircraft costs, at £451 million, increased by 8.9 per cent compared with last year.



Handling charges, catering and other operating costs increased by 5.1 per cent compared with last year. The increase was primarily down to the costs of repatriating mishandled baggage and compensation, following the baggage issues we had in the summer and more recently following the opening of Terminal 5. We also incurred additional costs as a result of our ongoing investment in First and Club World.

Operating expenditure

down **0.7%**

Unit costs

down **0.5%**

Our selling and marketing costs fell by 17.7 per cent, year on year. This primarily reflects increased booking through ba.com, lower advertising costs and agency commissions.

Our £576 million spend on accommodation, ground equipment and IT was 6.8 per cent lower than last year. This reflects savings in IT development and operating costs as well as lower property costs – mainly due to rent and rates savings, less onerous lease costs and reduced dilapidation provisions. Our spend on legal fees reduced, but this was partially offset by higher consultancy costs associated with Terminal 5.

Financial derivatives

Net unrealised gains on fuel derivatives were £12 million (2006/07: £12 million loss), 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

Our finance costs for 2007/08 were £175 million, compared with £168 million in 2006/07.

Despite increases in the UK and US floating rates, our interest payable on bank and other loans reduced, mainly as a result of lower debt levels. Our interest costs also benefited from increased capitalised interest, thanks mostly to Terminal 5 and aircraft orders.

Our finance income for the year was £111 million, down £18 million on last year. The reduction was due to lower average cash balances, only partially offset by higher interest rates. The lower cash balance was due to one-off payments into NAPS and the fine paid to the US Department of Justice (DOJ) for anti-competitive activity.

Pension financing income and retranslation expenses

Pension financing income was £34 million in 2007/08 compared to a charge of £19 million in 2006/07. This was primarily the result of a higher return on assets in the pension scheme following the one-off cash contributions into NAPS.

The retranslation of currency borrowings generated a charge of £11 million, compared with a credit of £13 million the previous year. The movement versus last year was due mainly to a strengthening of the Japanese yen this year, partly offset by lower yen debt levels.

Profit on sale of fixed assets and investments

Profit on the sale of fixed assets and investments for the year was £14 million (2006/07: £47 million which included a profit of £48 million on the sale of our holding in World Network Services).

Chief Financial Officer's report continued

Share of post-tax profits in associates

During the year, we increased our holding in Iberia from 9.95 per cent to 13.15 per cent. The increase in our share of post-tax profits in associates – up from £5 million in 2006/07 to £26 million in 2007/08 – in part reflects this increased shareholding.

Taxation

The analysis and explanation of tax is set out in note 11 to the financial statements.

Our total tax charge arising on profits from continuing operations was £187 million (2006/07: £173 million) giving us an effective tax rate for the year in relation to our profits from continuing operations of 21 per cent (2006/07: 28 per cent). The tax charge benefited from a one-off deferred tax credit of £76 million arising from the reduction in the UK corporation tax rate from 30 per cent to 28 per cent, which is effective from April 1, 2008, and there were charges relating to prior years totalling £4 million (2006/07: £14 million credit). Excluding these one-off items the effective tax rate for the Group would have been 29 per cent (2006/07: 31 per cent).

We paid corporation taxes totalling £66 million during the year, compared with £128 million last year, and we had a corporation tax provision of £4 million at March 31, 2008 (March 31, 2007: £54 million). Our deferred tax balance at March 31, 2008 was £1,154 million (March 31, 2007: £930 million).

Earnings per share

The total earnings attributable to shareholders for the year was £680 million, equivalent to 59.0 pence per share. This represents a 131 per cent increase on last year's earnings per share of 25.5 pence. The increase was driven by both the higher profit before tax, and by a one-off credit to the tax charge, arising from the reduced corporation tax rate effective from April 1, 2008.

Dividend

The directors propose a dividend of 5 pence per share (totalling £58 million) for the year ended March 31, 2008. The dividend will be submitted for approval at the annual general meeting to be held on July 15, 2008. The financial statements do not reflect the dividend payable which will be accounted for as a reduction in shareholders' equity in the year ending March 31, 2009.

Capital expenditure

(£ million)	2007/08	2006/07
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	428	258
Property and equipment	209	81
Landing rights and other intangible assets	40	41
Investments	57	0
	734	380

Our capital spend in the year was £734 million, up £354 million on last year. This was primarily down to higher spend on fleet assets, mainly due to the delivery of seven new Airbus shorthaul aircraft, higher investment in property and equipment for Terminal 5, and additional investment in Iberia.

Capital commitments

Capital commitments authorised and contracted for but not provided in the accounts amount to £5,189 million for the Group (2006/07: £554 million) and £5,185 million for the Company (2006/07: £553 million).

The outstanding commitments include £5,162 million for the acquisition of four Boeing 777 aircraft scheduled for delivery in 2009, 19 Airbus A320 family (from 2008 to 2010), 12 Airbus A380 (from 2012 to 2014) and 24 Boeing 787 (from 2012 to 2015).

Working capital

At March 31, 2008 our total current assets and receivables were £3,148 million, compared to £3,431 million at March 31, 2007. The reduction primarily reflects lower current interest-bearing deposits, due mainly to the payments to NAPS and the DOJ, partially offset by increases in short-term derivative financial instruments.

Our total current liabilities at March 31, 2008 were £3,244 million, down £381 million versus March 31, 2007. This mostly reflects a reduction in short-term provisions, due mainly to the \$300 million (£149 million) payment to the DOJ, and a reclassification of some elements of the remainder of the provision for anti-competitive activity from short-term to long-term provisions.

We believe the working capital is sufficient for our current requirements.

Cash flow

Our cash and cash equivalents position at March 31, 2008 was £1,864 million. This was a reduction of £491 million compared with the position at March 31, 2007. The reduction was driven by a number of one-off items during the year.

Firstly, we paid £560 million into NAPS in April 2007 as part of the changes agreed to address the deficit in NAPS. Secondly, as discussed, we were fined \$300 million (\$100 million for longhaul passenger fuel surcharges and \$200 million for cargo) by the DOJ for anti-competitive activity. This was paid during the first half of the year. Finally, we paid an additional £50 million into NAPS in March 2008. Again, this was in line with the changes agreed last year, under which we agreed to pay up to an additional £50 million a year for three years if our year end cash balance exceeds £1.8 billion.

Net cash inflow from operating activities was £303 million, a reduction of £453 million over 2006/07. This was primarily due to the one-off payments highlighted above and changes to working capital, partially offset by improvements in operating cash flow.

The £78 million increased cash outflow on investing activities was primarily due to our increased spend on property, plant and equipment (new aircraft and Terminal 5), and increasing our shareholding in Iberia.

Liquidity

At March 31, 2008 we had short-term loans and deposits and cash at bank and in hand amounting to £1,864 million (March 31, 2007: £2,355 million). In addition, we had undrawn long-term committed aircraft financing facilities totalling approximately \$2,880 million, further committed general facilities of \$115 million and ¥75 billion, undrawn uncommitted overdraft lines totalling £20 million and €20 million, and undrawn uncommitted money-market lines of £45 million.

Net debt/total capital ratio

Net debt at March 31, 2008 amounted to £1,310 million, an increase of £319 million compared with March 31, 2007. This is net of cash and cash equivalents and other interest-bearing deposits totalling £1,864 million.

Despite our increase in net debt, the net debt/total capital ratio at March 31, 2008 was 28.8 per cent, a 0.3 point reduction on last year. This was mainly due to growth in retained profits. Including operating leases, our net debt/total capital ratio was 38.4 per cent, a 1.2 point reduction from last year.

Financial risk management

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. This is covered in more detail in note 30 to the financial statements.

Keith Williams, Chief Financial Officer



Business review

Our strategy set out our priorities for the three years to March 2010. Within its timeframe, the plan would see us established in Terminal 5 and, subject to our financial performance, allow us to order new aircraft for our fleet.

This business review forms part of, and should be read in conjunction with, the Directors' report set out on pages 54 to 58.

Our business plan – BP10

Bring Terminal 5 alive

Terminal 5 represents our single biggest change and challenge within BP10. In year one of the plan our 'Fit for 5' programme was set to be completed, securing the necessary agreement changes and the implementation of greatly

improved working practices across the terminals at Heathrow. A successful delivery of Terminal 5 continues to be the key to improving our operational performance and enhancing the customer experience at our Heathrow base.

BA Basics and Brilliance

To justify the premium we charge our customers we need to deliver the 'BA Basics' consistently and offer 'Brilliance' in areas where it really counts. BP10 introduced an immediate focus on punctuality and baggage performance, with further plans to improve 'BA Basics' in a number of other areas for

the long term. To set ourselves apart from our competitors, we particularly focused on offering 'Brilliance' to our customers in several key areas including our network and schedule from London, ba.com, customer service, our premium customer experience and Terminal 5.

Competitive cost base

Controlling our costs remains a priority throughout BP10, with savings expected across a number of areas of the business. But BP10 particularly recognised the need to resolve

our pensions problem and reduce our significant deficit position. Achieving a competitive cost base is critical if we are to achieve our investment and growth plans.

Invest in growth

Subject to satisfactory resolution of the pensions deficit, BP10 included plans to launch a competition for new longhaul aircraft in the first year of the plan. We wanted to secure the first of these aircraft in 2009 to meet specific growth plans, while the second batch would be used to begin replacing our

fleet from 2011. We recognised the strategic importance of our Gatwick and London City airport operations in BP10. The retention of BA Connect's London City operations, as part of the sale of our regional business to Flybe, was key to our network development plans from this airport.

BP10 enablers

Continued involvement and engagement of our people is critical to the implementation of BP10. Local face-to-face communication was recognised to be the most effective type of engagement, and it formed a key part of our broader communications strategy. IT remained the second key enabler

for change across the business. Our investment plans in this area included Terminal 5, continued improvements in the usability and functionality of ba.com, using Employee Self Service to simplify and automate corporate processes and supporting a wide range of departmental change programmes.

During the course of the year we drew up a new three-year business plan that builds on the priorities and themes of BP10. The new plan, BP11, will take us through to the end of 2010/11. We describe the new plan in more detail on pages 34 and 35 of this report.

Business review continued

The markets we operate in

Regulation

The international airline industry is subject to a high degree of global, European and UK Government regulation covering both commercial activity and operational standards.

UK airlines are regulated by the Secretary of State for Transport and the Civil Aviation Authority (CAA), an independent statutory body. Under the UK Civil Aviation Act 1982, the CAA is responsible for supervising many aspects of an airline's financial condition, management and operations. European airlines are also subject to 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 Member States.

International regulation of airline operations derives from the Chicago Convention of 1944, which established the International Civil Aviation Organization (ICAO). This is a specialist agency of the United Nations, which fosters 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 are generally derived from the International Air Services Transit Agreement of 1944. Rights to carry traffic between countries and the regulation of fares are normally agreed on a bilateral basis between governments.

Route flying rights

Our rights to carry scheduled passengers and cargo on 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.

Once an agreement has been reached, the UK Government designates the airlines that will operate the agreed services. We must also obtain the necessary operating permits from the foreign governments concerned. These are unlikely to be withheld so long as our operations meet the required

international safety standards. A government may have the right to prevent an airline from operating the agreed services if it is not satisfied that it is substantially owned and effectively controlled by the other government or its nationals (commonly referred to as the 'nationality clause'). For this reason, our 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 British Airways Plc.

In order to comply with EU law, all new or revised bilateral agreements signed by EU countries must contain a Community designation clause in place of the nationality clause. This clause allows any EU airline to apply for available traffic rights between that EU Member State and the third country on a non-discriminatory basis. Currently, most UK agreements still reserve traffic rights to UK airlines, but this is changing gradually as the agreements are renegotiated.

In 2003, EU Member States granted the European Commission a mandate to negotiate changes to existing bilateral agreements between Member States and third countries, to comply with EU law. A general framework was also agreed covering the processes whereby Member States may continue to negotiate bilaterally with third countries.

Within the EU there is a single internal market for air transportation. The most significant elements of this are a liberal pricing regime, free access to all routes within the EU for airlines and a carrier licensing procedure. EU single market policies extend to the European Economic Area (EEA) comprising the EU, European Free Trade Area countries and Switzerland.

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 on international routes; and making 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.

A new multilateral agreement covering air services between the EU and the US signed March 22, 2007, has enabled us to launch our new OpenSkies subsidiary.



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.

EU – US Open Skies

A new multilateral agreement covering air services between the EU and the US was signed on March 22, 2007. This first stage agreement, which came into effect on March 30, 2008, removes all restrictions on transatlantic flights by EU and US airlines. It also grants rights for EU airlines to carry passengers and freight from the US to third countries on services that originate in the EU, and, in turn, for US airlines to carry passengers and freight from EU to third countries (both within and beyond the EU) on services that originate in the US. Talks on a second stage agreement, which will aim to achieve further liberalisation, commenced in May 2008.

Airport slots

Our ability to obtain slots at airports is critical to producing schedules that are attractive to our customers. Allocation of slots at a significant number of airports where we operate, 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). These guidelines give priority to the historic rights of existing users. Airport Coordinators advise their slot allocations at the biannual IATA Schedule Coordination Conference. These allocations provide the basis for slot negotiations with the Airport Coordinators and other airlines.

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.

We believe that we have sufficient slots to operate our existing routes and generally we have been able to obtain slots to cover previous route changes and expansions.

Fare setting

The CAA no longer regulates fares of UK carriers. But some foreign governments still require all airlines to file and seek approval of their fares. 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. We respond competitively to such market conditions and accordingly a large proportion of our revenue is derived from such sales.

We continue to offer our customers interline passenger and cargo services with other IATA airlines but we no longer participate in IATA tariff conferences. Multilateral interline passenger tariffs for scheduled journeys and tariffs for cargo interline services are now determined through the IATA e-tariff and Flex Fare mechanism.

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 European 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 meet a short-term operational need without compromising safety.

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

Business review continued

The markets we operate in

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 European 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 our high safety standards is a key priority. 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. We have a formal safety management system in place, and we operate a comprehensive monitoring system 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. 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 require us to meet specific security standards.

Our security department continuously assesses the threats to our business, develops policies for the protection of our operations and assets, directs our staff or agents to implement appropriate countermeasures and monitors 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. Changes in customs, immigration or other regulation may have the same effect.

Widespread passenger disclosure requirements and enhanced security measures exist and continue to be introduced by the EU and various governments to help control terrorism and illegal immigration. We engage actively with the European Commission, the UK and other governments and airports to try to minimise inconvenience to our customers while maintaining the necessary level of security.



Our security department continuously assesses the threats to our business, develops policies for the protection of our operations and assets, directs our staff or agents to implement appropriate countermeasures and monitors their effectiveness.

We maintain commercial arrangements with other airlines covering scheduled passenger and cargo services on a small number of our international routes.



Environmental regulation

Our activities are covered by a comprehensive network of regulations at local, national and international levels. These cover emissions to the local and global atmosphere, disposal of solid waste and aqueous effluents, noise and other relevant factors. In managing our environmental performance we aim to comply with these regulations as a minimum, but to exceed them in a number of key areas. For further detail see the environment section on corporate responsibility on pages 48 and 49.

Competition

Most of the markets in which we operate are highly competitive. We face 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, our pricing decisions are affected by competition from other airlines, some of which have cost structures that are lower than ours or other competitive advantages allowing them to operate at lower fare levels.

It is UK Government policy 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.

Commercial arrangements

We maintain commercial arrangements with other airlines covering scheduled passenger and cargo services on a small number of our international routes. Commercial arrangements can govern, among other things, capacity offered by each airline, how revenue is shared between airlines and how schedules are coordinated. In very few cases, some commercial arrangements between ourselves and other airlines are required under the relevant air services agreements. For further details on some of our key commercial arrangements see the key alliances section on pages 28 and 29.

Business review continued

The markets we operate in

The economic landscape

There has historically been a strong correlation between our revenue performance and the health of the major economies of the UK and US. This relationship has continued throughout 2007/08 as both these markets began to show signs of weakness.

The long awaited softening in the UK economy, which the Bank of England had been trying to engineer through higher interest rates, failed to materialise in 2007. Indeed, real GDP growth accelerated to 3.1 per cent from 2.9 per cent in 2006.

But during the latter part of 2007, there was growing evidence that the UK economy was approaching a turning point. The financial market crisis had intensified, while high interest rates, high household debts, and reduced credit availability were finally starting to affect housing demand and prices. Against this background, there were also signs that the long expected slowdown in consumer spending had finally begun.

Economic slowdown really began to bite in the early part of 2008. The credit crunch has started to affect the real economy, with households and businesses finding access to credit materially reduced. Growth in the housing market has stalled, and house prices have started to edge down. Rising fuel and food prices have further squeezed real disposable incomes, although retail sales have remained remarkably resilient. The downside risks have increased, and growth is expected to slow.

The US economy experienced a clear softening in 2007, largely as a consequence of problems in the residential housing sector, which culminated in the sub-prime crisis. Conditions have continued to deteriorate and at a faster pace, with consumers hit by higher unemployment, rising energy prices, continued problems in the housing market, and falling wealth. There are also signs of weakness in the business sector.

The Federal Reserve has so far responded with aggressive cuts in interest rates contributing to a further weakening of the US dollar, particularly against the euro and yen. In addition, the US Government has responded with significant tax cuts.

The competitor landscape

The airline industry remains highly competitive, with more competition than ever before in a number of our market segments.

Domestic and shorthaul

We face competition on the ground and in the air. There is a clear relationship between shorter rail journey times and the ability of train operators to capture a bigger share of the total air/rail travel market. For example, between 2004 and 2007, rail journey times between London and Manchester decreased by 17 per cent and the train's share of the total market grew by 20 per cent.

The development of Eurostar services has had a significant impact on air travel. With Eurostar now based at St. Pancras International and journey times cut by up to 25 minutes, customers will experience greater benefits from travelling into city centre terminals by train.

Furthermore, increased awareness of the environment is affecting demand in this market.

In the air, competition in shorthaul is mostly coming from the budget airlines, who will soon account for more than half of the London market. These carriers are now planning to increase their fleets significantly, but only a small proportion of this growth seems destined for the London markets, with focus shifting towards intra-European services.

Traditionally, full service airlines have had two cabins, with a premium and an economy cabin. In recent years, there has been a move away from this configuration, with some airlines removing premium cabins and others shifting to a hybrid three class offer.

Private jets

Demand for private charter airlines meeting the needs of business travellers is increasing. These services are premium/luxury standard and entirely flexible, offering a fast and efficient service from smaller airports.

People are searching for products and services that make their lives less complex and challenging. They are also looking to punctuate their busy lifestyles by taking time out to escape their hectic routines or to reward themselves for dealing with the pressures of the day.



Longhaul

The quality and number of competitors has grown in the last five years. Competition will continue to increase.

While our traditional markets such as the UK and the US will continue to be strong, new ones, particularly India and China, look likely to grow. The rise of the Gulf, as a destination and as the home of key competitors, is expected to intensify. We are also starting to see the first successful steps towards airline consolidation in Europe with the mergers of Air France/KLM and Lufthansa/Swiss.

Mainstream competitors have begun to invest in their products, focusing on inflight entertainment and new seat technology. New aircraft, in particular the Airbus A380, will offer opportunities for further product upgrades.

Full service carriers continue to invest in special facilities for premium passengers, in some cases creating dedicated premium terminals.

Premium-only carriers

The operation of premium-only services became a high profile activity in 2005 with the almost simultaneous launch of the US carriers Eos and MAXjet with a focus predominantly on the London-US market, especially London-New York.

Despite their appeal to consumers, these carriers have not proven commercially sustainable and have both collapsed in recent months.

Low cost longhaul carriers

Dedicated low cost airlines still remain a rarity in the longhaul segment, and most are linked to charter or tour companies. Indeed, it could be argued that existing charter airlines have already been serving the low cost longhaul segment for some years.

The consumer landscape

Consumer expectations and spending power continue to rise. Consumers are leading increasingly complex and busy lives. As pressure on their time grows, leisure time will become increasingly precious to them. An ageing population also means that there will be a greater number of older people with the wealth and health to travel more. There will also be growth in the affluent, younger segment.

An increasing proportion of our customers are e-literate. The development of broadband and mobile technologies will make it easier for them to access information quickly and change the way they buy goods and services. Social networks will become increasingly important with consumers relying more on peer advice than traditional advertising when making purchase decisions. Environmental concerns are moving higher up the agenda, with consumers expecting brands to be environmentally responsible.

Consumer travel and purchase behaviour

People are taking more holidays. Short breaks – many arranged independently – are growing particularly strongly. Although the package holiday is not dead, there has been a significant increase in the number of consumers creating trips and holidays for themselves.

The value of trips booked online shows the strongest growth. The internet has undoubtedly been the single biggest influence on changing the way we research and buy products, goods and services.

Business review continued

The markets we operate in

Changing consumer trends

Consumers are living increasingly fast, full and flexible lives. The boundaries between work and leisure are blurring and, for many people, time and personal energy have become the most valuable resources in daily life. Many of our products and services are designed to help customers make the best use of their time – whether on the ground or in the air. For example, we have smooth and fast check-in processes for all, and fastrack departures and lounges for premium customers.

Consumers are looking for ways to control their energy levels and to save time by doing tasks more quickly or by outsourcing them. That's why, in our lounges at Heathrow and New York JFK we now offer a concierge service for customers to help them while they are on the move.

People are searching for products and services that make their lives less complex and challenging. They are also looking to punctuate their busy lifestyles by taking time out to escape their hectic routines or to reward themselves for dealing with the pressures of the day.

Award-winning ba.com allows customers to research, book and manage their travel whenever they need – while at home or when travelling. We are constantly developing and adapting our site to respond to the changing needs of our customers.

Health and wellbeing

There is a growing interest in health and wellbeing, a trend strongly associated with increasing affluence and with an ageing population. Good health underpins personal freedom, and is naturally a big priority as people get older.

Alongside health, people are concerned about individual safety and international security. For travellers these fears include the threat of global conflicts, terrorism, the impact of climate change, environmental disasters like the tsunami or the New Orleans floods and health threats such as bird flu and SARS.

Many people are now focusing on developing their emotional-wellbeing, contentment and quality of life. Consumers increasingly expect more basic needs to be fulfilled and thus have higher expectations of their overall wellbeing than previous generations.

Our 'Well Being in the Air' programme provides customers with information to help them reach their destination feeling healthy, refreshed and relaxed. We also offer a series of podcasts from our resident sleep expert 'Dr Sleep' to help people manage the effects of jetlag. Our wellbeing information is available on both ba.com and onboard through our inflight entertainment programme, Highlife.

Professional consumers

Consumers are becoming more demanding and sophisticated in their shopping patterns. As markets become more competitive and spending power increases, the balance of power is shifting from supply to demand, giving consumers the upper hand.

We offer a range of products and services to meet the differing demands of our customers. This ranges from different cabins, to choices on how customers book and manage their travel, to the service offered on board.

Despite the increasing affluence of consumers, value remains a critically important factor in their choices. Equally they are prepared to 'trade up' and pay a premium price for better quality products. Many brands are responding to this by offering more luxurious and more expensive versions of everyday commodities. For customers who want to treat themselves, we have recently introduced attractive and popular Club Europe upgrade prices for a range of leisure destinations and will continue to look at options to extend this further.

Communication channels

The overload of available information is forcing consumers to think about the communications and the information sources they use. Increasingly they are choosing for themselves what media and communications tools suit them. Digital technology has made it easier for them to be creative in developing their own content, and in sharing their ideas with others, for instance by turning to peer networks for word-of-mouth recommendations. We are experimenting with our own 'Google gadget' so that customers can have the latest flight and operational news and offers built into their Google homepage. We continue to look at other ways that we can harness the knowledge and experience of our customers and staff for social networking and blogging.

The way we run our business

Commercial

Our Commercial team is responsible for managing revenue and pricing, sales, marketing and distribution, as well as planning our fleet and network.

Revenue Management monitors and controls the sale of seats to improve our overall profitability. It also sets the pricing structure to ensure that, in all the countries across our network, we offer the right mix of prices and a flexible range of products.

Our sales force develops and maintains relationships with key customer groups and intermediaries using account management teams around the world. Product information, fares and schedules are distributed either through travel agents using global distribution systems, direct through the contactBA call centres and, increasingly, through our website, ba.com.

Our Marketing and Distribution team develops, designs, delivers and promotes our products and services. This team sets our distribution and booking channel strategy, including managing ba.com and relationships with the major global distribution systems. It also includes the management of our subsidiaries, British Airways Holidays and Air Miles.

Fleet Planning develops our fleet strategy. It determines when we need to acquire or dispose of aircraft to ensure we have the right fleet to meet our network requirements. Network Planning develops our schedule to maximise network profitability, plans the requisite infrastructure and manages our slot portfolio across the network.

Engineering

Our in-house engineering function manages and maintains our fleet of aircraft and provides limited services to other operators.

Our main base is located on the east side of Heathrow airport, where aircraft management, technical and support staff are located. The main base has extensive facilities to service and repair our Heathrow-based fleet. We have a second, smaller maintenance base at Gatwick to support the fleet based there. Heavy overhaul facilities for Boeing 747, 767, and 777 aircraft are located at Cardiff, Wales, and at Glasgow, Scotland, for Boeing 737 and Airbus A320 family aircraft. In addition, we have component overhaul facilities in Wales and London.

We retain a significant in-house engineering capability to support our fleet, but we also outsource maintenance where it is higher quality or more competitive to do so.

Flight Operations

Our Flight Operations team is responsible for the safe operation of our fleet and is responsible for the recruitment, training and support functions for our pilot community. Approximately 2,900 of our pilots are based at Heathrow, with a further 350 based at Gatwick.

To ensure we operate our aircraft as safely and efficiently as possible, a team of technical experts works closely with the aircraft manufacturers and our own engineers to create and maintain the policies and standards to which we operate our aircraft. Flight planning specialists create the routing, performance and briefing material for our 400 departures per day.

Within Flight Training we run 14 full-flight and four fixed-base simulators. We provide all of our own training requirements, but also generate revenue by selling simulator facilities to other airlines, corporate customers and the general public. A team of fleet-specific training managers is responsible for the management of all recurrent and conversion training.

Operations

Our Operations team is responsible for the planning and control of the worldwide operation, with ultimate accountability for network punctuality and baggage performance. It is responsible for the planning of ground resources and of both flight and cabin crew. The team is also responsible for operational scheduling of aircraft, ensuring they are available to fly the schedule and, with Engineering, for maintenance. Control of this operation is particularly important when the schedule is disrupted, for example, due to weather conditions. At such times it is our Operations team that decides how to reschedule aircraft, crew and resources.

Operations also incorporates British Airways World Cargo (BAWC), responsible for our cargo network. The majority of cargo is carried in the holds of passenger aircraft, with the

Business review continued

The way we run our business

balance in third-party freighter aircraft. In the UK, BAWC has handling facilities at Heathrow, Gatwick and Stansted airports. With the exception of the US, all overseas handling is subcontracted.

Customer Service

The Customer Services directorate was created in November 2007 as part of our commitment to upgrade the customer experience. The new directorate brings together all staff involved in the customer journey, including contact centres, customer relations and passenger services on the ground and in flight.

At our main hub, Heathrow, our passenger services team is responsible for check-in, boarding and special services including assistance for children travelling alone and passengers with disabilities. The worldwide airport solutions team ensures the same level of service is provided by our third-party agents at airports around the network.

Throughout 2007/08, customer service staff prepared for our move to Terminal 5. These preparations included, amongst other things, improvements at our contact centres to support increased online check-in and training on new processes and systems in the terminal.

Information Management

IT is increasingly important to us. It is helping us to reduce costs, simplify our processes and automate complex manual tasks. Our website, ba.com, provides customers with the ability to book and check-in for flights online and, thanks to recent developments, now also provides revenue from ancillary sales.

There has been significant investment in IT at Terminal 5. This includes both infrastructure to run the terminal and systems to ensure passengers are 'ready to fly' before they reach the airport. Self-service check-in will eventually reduce queues and significantly improve the airport experience for our customers.

IT has transformed the way all our staff interact, thanks to our Employee Self Service (ESS) programme. Almost all our staff now use ESS every month and the system will eventually become the place where everyone can find the information and systems they need to do their job.

IT also plays an important role in helping us manage our environmental impact. The power used by our data centres has remained the same despite a big increase in the number of processors we use. Our new notebook laptops are 70 per cent more power efficient and personal computers are automatically powered off overnight. Whenever we dispose of PCs and laptops we follow 'Waste – Electrical & Electronic Equipment' (WEEE) principles and we donate reconditioned PCs to charities we support in the UK and overseas.

Key alliances

Qantas

Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational cooperation between ourselves and Qantas on all flights that serve markets between the UK/continental Europe and Southeast Asia/Australia. This cooperation provides our customers with improved flight departure times, routings and value for money, and means we can offer the very best of customer service to all passengers. In June 2005, the Australian Competition and Consumer Commission extended permission for us to cooperate in this way for a further five years, valid from February 2005.

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

American Airlines

We currently codeshare with American Airlines on points behind and beyond our respective US and London gateways. We now place our code on more than 120 American Airlines routes, whilst American Airlines applies its code to more than 80 of our routes. However, we continue to compete with American Airlines on North Atlantic routes.

We have recently announced we are exploring opportunities for cooperation with American Airlines and Continental Airlines.

At our main hub, Heathrow, our passenger services team is responsible for check-in, boarding and special services including assistance for children travelling alone and passengers with disabilities.



Iberia

Under the Joint Business Agreement (JBA), on the Heathrow-Madrid and Heathrow-Barcelona routes, our cooperation with Iberia provides customers with improved schedules and value for money. Together with Iberia, we codeshare on more than 30 domestic and international routings.

During 2007/08, we joined a Texas Pacific Group-led consortium which considered making an offer for the equity of Iberia. However, the consortium eventually decided not to make a formal offer. During the year, we increased our shareholding in Iberia from 9.95 per cent to 13.15 per cent.

Alliance and codeshare relationships

At March 31, 2008 the **oneworld** alliance included 10 airline members: British Airways, American Airlines, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malev, Qantas and Royal Jordanian. Aer Lingus left the alliance on April 1, 2007, although we have maintained our bilateral codeshare relationship with the airline.

The **oneworld** alliance offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

In addition to the above activities, during 2007/08 we maintained codeshare relationships with **oneworld** members, Cathay Pacific, LAN, Malev, Japan Airlines and Finnair.

In terms of relationships outside the **oneworld** alliance, we have maintained codeshare relationships with bmi, Brussels Airlines and Flybe. The relationships with Flybe and bmi were formed during the year, following the sale of BA Connect and termination of the BMED franchise respectively. Additionally, Caribbean Airlines and TAAG place their code on our services to Port of Spain and Luanda.

Franchising

As at March 31, 2008, we operated with three franchise partner airlines: Loganair in the UK, Sun Air in Scandinavia and Comair in South Africa. These three carriers carried 2.3 million passengers during the year to 38 destinations (including 24 destinations not served by our own network) in the UK, continental Europe, and Africa. In addition to providing connecting passengers to our own mainline services, the franchisees pay a fee to us and also pay for any services we provide to them.

BMED and GB Airways also operated under franchises for part of the year, prior to the termination of our agreements with them. The latter arrangement was terminated on March 28, 2008 following easyJet's acquisition of 100 per cent of the share capital of GB Airways.

In October 2007, Loganair announced that it will cease to be a British Airways franchise operator from October 2008. We expect to maintain a codeshare relationship with Loganair when the franchise ends.



Our key performance indicators

We have established a balanced set of performance indicators for our business, both financial and non-financial, to improve our performance over time. As part of the business planning process, and in line with our agreed strategic objectives, the Board sets annual targets for each of these key performance indicators (KPIs).

The following KPIs were set for 2007/08, with our performance against them detailed on pages 32 and 33.

Financial

We must achieve a consistent, strong financial performance if we are to continue investing in the future success of the business and reward our shareholders through the payment of a dividend. Operating margin – which we define as operating profit divided by revenue expressed as a percentage – is the main way we measure our financial performance.

In 2002 we set ourselves a target of achieving a 10 per cent operating margin through the economic cycle. In 2007/08 we set ourselves the goal of hitting a 10 per cent margin for the year for the first time.

Customers

Customer recommendation is a key measure of our success. Our Global Performance Monitor (GPM) survey, an onboard customer survey covering all the key stages of the flight experience, together with a follow-up online survey on the arrivals process, provides monthly insights into customers' views. The survey is carried out by GfK NOP, the independent market research company, and involves more than 55,000 customers each month.

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, we believe that this measure indicates how the customer experience will affect future profitability. Our target for 2007/08 was for 63 per cent of customers to be 'extremely likely' or 'very likely' to recommend British Airways.

Operations

We must run a robust operation if we are to meet our customers' expectations and create a cost-effective business. Having Heathrow at the heart of our operations, with all its infrastructure constraints, puts a significant strain on delivering operational excellence, day in, day out.

Within our business plan we have focused our efforts on five key areas of operational delivery – the 'BA Basics'. Among these, departure punctuality is our primary operational performance measure. Punctuality ensures other operational

processes run smoothly and remains a key factor in whether customers would recommend British Airways to other travellers.

We call our chosen measure of punctuality 'Ready to Go'. This measures how many of our flights are prepared for departure at three minutes before the scheduled departure time. So many issues can have an impact on punctuality, but using this measure ensures we focus on the aspects of the departure process within our control. The target range for 'Ready to Go' punctuality for 2007/08 was set at 44-48 per cent.

Employees

Progressive, high performing organisations are increasingly recognising that involved employees are more committed to organisational goals and values, and more willing to embrace change and improve customer service. Last year we started using an Employee Involvement index, as measured by an all-employee Speak Up! survey. This is run twice a year, with a full version in September and a shorter tracker version in March.

The Speak Up! surveys are conducted and hosted by the independent research organisation, Ipsos MORI, and are completely confidential. As a business we aim to match the involvement scores of other leading service sector organisations, and a target of 73 per cent for Employee Involvement was set for 2007/08.

Business review continued

Our key performance indicators

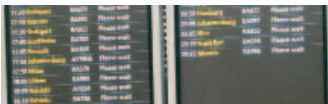
Linking with our strategy

Achievements in 2007/08

Financial

Despite weakening economic conditions and increasing fuel prices in the second half of the year, we focused on establishing a competitive cost base as part of the BP10 business plan to ensure we achieved record profits for the year.

We delivered record profits and an operating margin of 10 per cent in 2007/08.



Customers

BP10 redefined our customer promise under the banner of 'BA Basics and Brilliance'. This focused everyone in the business on delivering the 'BA Basics' to customers day in, day out, and developing products and services that offer 'Brilliance' where it really counts.

We achieved a customer recommendation score of 59 per cent during the year. This represented a fall of 2 points on the previous year, largely because of a disappointing performance on the 'BA Basics', particularly at Heathrow.



Operations

Delivery of the 'BA Basics' as part of the business plan is at the heart of our strategy for improving our operational performance. Punctuality, baggage performance, aircraft cleanliness, smooth connections and the reliability and product offering of our inflight entertainment systems are the key areas of focus.

'Ready to Go' performance averaged at 34 per cent during 2007/08, with a peak of 65 per cent in January 2008. This was a disappointing performance, which fell short of our target for the year.



Employees

An involved and motivated workforce is a key enabler to achieving the objectives in our business plan. Investing in and developing our people, through training and by ensuring all employees are equipped to do their jobs, is a fundamental building block in support of our plans.

The results of the MORI Speak Up! survey in September 2007 showed our Employee Involvement Index at 65 per cent.

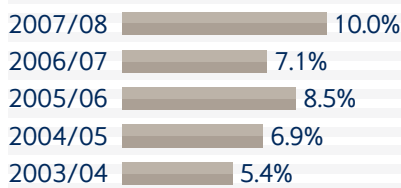


2008/09 will be a year of transition as our operations transfer between terminals at Heathrow. However, we are determined to deliver an improved customer experience and Terminal 5 will be a significant step in this direction, providing a fantastic opportunity for our customers and our employees.

Performance over time

KPI measure

Understanding our KPIs going forward



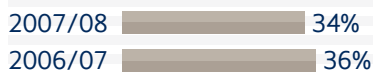
Operating margin

Operating margin will continue to be our key financial performance indicator. A more challenging economic outlook, the continuing rise in the price of fuel, and transitional costs relating to our move to Terminal 5 will all contribute to a reduction in our operating margin in 2008/09.



Customer recommendation

Customer advocacy – the likelihood of customers to recommend travel on British Airways – will continue to be our key customer metric in 2008/09. The move to Terminal 5, coupled with the continued investment in our inflight products and customer service on the ground, give us the opportunity to deliver improvement in this indicator over the next year.



Punctuality – 'Ready to Go'

Departure punctuality is key to our operational success, and focusing on the aspects within our control is critical. 'Ready to Go' performance does precisely that. A key driver of improved network punctuality over the next year is the performance at Heathrow. The move to Terminal 5, with its associated infrastructure and process changes, will begin to play a huge role in delivering improvements in this area.



Not applicable

We are currently reviewing the appropriate measure going forward for determining the level of employee involvement.

Business review continued

What the future holds

Our new business plan – BP11 – sets the direction we will take for the next three years.

It sets out four key priorities which build on last year's plan: an upgraded customer experience; planning for growth; the continuing need to control our costs; and taking a lead in corporate responsibility.

Delivering an upgraded experience to all of our customers – not just through Terminal 5 but through all aspects of our customer service – is absolutely fundamental to our long-term success.

BP11 also recognises the need to grow our business, and in 2008/09 we will take delivery of our first new longhaul aircraft since 2001.

To afford this investment in new aircraft and services, we need to control our costs. Faced with rising fuel costs and an economic slowdown in some of our key markets, this will be more important than ever before.

Finally, BP11 includes a new theme of corporate responsibility. We are determined to demonstrate we can grow in a responsible way and we will be doing and investing even more to manage our environmental impact.

An upgraded customer experience

Improving the service we give to our customers is central to our success as a business. Last year we introduced the idea of doing the basics better, and adding brilliance where it really matters to our customers. Terminal 5 is central to this, but our investment will not be limited to Terminal 5.

We are improving the service we offer our premium customers. The new Club World product that began its roll out in 2007 saw the start of this. Initial feedback from customers has been very positive. We will continue to invest at this level during the life of BP11 to complete the roll out of the Club World product across the remainder of the longhaul fleet. In 2009 we will introduce a new First cabin. In addition, we will be investing in our terminal at New York JFK and in a number of our lounges worldwide, complementing our new Galleries lounge in Terminal 5.

Another priority is to improve the way we look after customers when things go wrong. We know from experience that brilliant service recovery can turn frustration into loyalty and genuine gratitude.

Within our airline operations, delivering the basics means a focus on operational excellence in all the activities on the ground. In particular we are focused on regularity – which means operating the programme as planned – punctuality and baggage performance, all to the highest possible standards of ground safety.

In this business plan, Terminal 5 is critical to achieving operational excellence. We will continue to work hard to get this new facility working to its real capabilities. Ahead of its opening we had spent more than three years and £300 million developing new systems for the terminal.

To overcome the early problems we encountered with some of these systems, we have continued this intense work. And we believe Terminal 5 will progressively transform the experience for our customers, taking away the stress of travelling through the airport.

But Terminal 5 is not the only part of our operation where we will be striving for operational excellence. At various times during the first year of BP11 we will also be operating in Terminal 1, Terminal 4 and Terminal 3 at Heathrow, and, with all of the planned moves, we will make sure we deliver the highest possible standards of service there too. At Gatwick, punctuality and baggage performance remain two areas where we can stay ahead of our competitors. We will therefore be focusing on maintaining our excellent recent record of operational performance at Gatwick as we launch new routes from the airport this year.

Operating as one team across the world, we are committed to delivering on the promise of much better service to all our customers.

We are improving the service we offer our premium customers. The new Club World product that began its roll out in 2007 saw the start of this, and First will be relaunched next year.



A plan for growth

Successful businesses are growing businesses. We have clear plans to modernise our aircraft fleet and offer new services.

Last year we announced a new order for longhaul aircraft worth more than £4 billion. These will both replace existing fleet and expand our overall longhaul capacity. These aircraft are quieter, greener and more efficient and will establish a new gold standard for environmental performance. In 2008/09 we expect to launch a competition for additional longhaul aircraft, due for delivery in the second half of the decade.

To get the most of our investment in a modern fleet, we need Heathrow's capacity to grow. That is why we have strongly backed the government's plans for expanding the airport at Heathrow with a proposed third runway.

Over the course of BP11, we will launch services to 13 new destinations from Gatwick. We have purchased two new Airbus A318s to offer business class-only flights between London City airport and New York. Finally, through our new subsidiary OpenSkies, due to launch in June of this year, we will fly directly between continental Europe and the US.

Competitive cost base

In the last five years we have worked hard to improve our financial position so that we can invest in new products and services, and grow our business for the future.

We have to keep investing to stay ahead of the competition. But we will also need to stay in healthy financial shape to protect ourselves from the impact of a global economic slowdown and higher oil prices.

The price of fuel has almost trebled in five years. In 2007/08 our fuel bill was in excess of £2 billion for the first time. This financial year it will rise significantly again, and will represent around a third of our total costs.

Over the last few years, significant cost savings have been made across the business to offset the higher cost of fuel. Given the financial headwinds expected next year, we will continue to focus on maintaining a competitive cost base.

Corporate responsibility

BP11 establishes corporate responsibility as a new priority for our business. We will be doing even more to address our environmental impact. This will include cutting our carbon emissions further; reducing and recycling waste; minimising our contribution to air and noise pollution; and continuing to invest in our community relations programme.

Our partnership in the London 2012 Olympic and Paralympic Games will be the focus for some of our community activities, including community work in East London and the launch of a travel bursary scheme for young athletes.

We are putting corporate responsibility centre stage because we believe it matters and will help us stand out from our competitors. We intend to lead our industry in corporate responsibility.

Business review continued

Principal risks and uncertainties

The operational complexities inherent in our business, together with the highly regulated and commercially competitive environment of the airline industry, leave us exposed to a number of risks. Many of these risks – for example, changes in governmental regulation, acts of terrorism and the availability of finance – can be mitigated to a certain degree but remain outside of our control.

The directors of the Group believe that the risks and uncertainties described below are the ones that could have the most significant impact on the long term value of British Airways. The list (presented in alphabetical order) is not intended to be exhaustive.

Brand reputation

Our brand is of significant commercial value. Erosion of the brand, through either a single event, or series of events, could adversely impact our leadership position with customers and ultimately affect our future revenue and profitability.

Capital investment

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

Competition

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

Consolidation/Deregulation

Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue. Certain markets in which we operate remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for us, may negatively impact margins.

Environment

Failure to adopt an integrated environmental strategy could lead to a deterioration in our reputation and consequential loss of revenue. An increased focus on corporate responsibility and a published emissions reduction target will help deliver the refocused strategy.

Financial commitments

We carry substantial debt which will need to be repaid or refinanced. Our ability to finance ongoing operations, committed aircraft orders and future fleet growth plans may be affected by various factors including financial market conditions. Although most of our debt is currently asset-related, there can be no assurance that aircraft will continue to provide attractive security for lenders in the future.

Fuel price

We use approximately six million tonnes of jet fuel a year. Volatility in the price of oil and petroleum products can have a material impact on our operating results. This price risk is partially hedged through the purchase of oil and petroleum derivatives in forward markets, which can generate a profit or a loss.

Global economic slowdown/Credit crunch

Our revenue is highly sensitive to economic conditions in the markets in which we operate. The financial services sector is one of our key customer segments and recent difficulties in the banking industry represent a significant risk to our revenue.

Government intervention

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

In February 2008, public consultation ended on the UK Government's conclusion that its environmental conditions on Heathrow expansion could now be satisfied and allow full utilisation of Heathrow's two runways and the construction of a short third runway to go ahead.



Heathrow and Gatwick airports and economic regulation

Our main operating bases, Heathrow and Gatwick, are subject to economic regulation by the UK CAA. The CAA sets the maximum level of airport charges, the airport's capital investment programme and service quality standards for five-yearly periods. A new five-yearly settlement came into force on April 1, 2008. Significant benefits of the settlement include:

- Major new capital investment that would be of benefit to our business for example Terminal 5's Satellite C, an automated transfer baggage link to Terminal 3 where our other Heathrow services and **oneworld** partners are due to operate, and allowance for 'mixed mode' use of Heathrow's existing two runways and investment in a third;
- A major cut in the cost of capital allowance for the airports – which reduces our airport charges; and
- Raising and extending service quality standards, which benefits our operations and customer service.

But the settlement also includes a large rise in allowed airport operating costs – which adds to our airport charges.

It is unclear if this settlement will stay in place as some other airlines are considering instigating a judicial review in 2008 which may lead to changes. We will seek to protect our interests should such a review take place.

In parallel, the UK Competition Commission is holding an inquiry into the UK airports market – notably BAA's airports in SE England and Scotland.

This inquiry is expected to issue its formal report in 2008 and must do so no later than March 2009. The report may lead to wide-ranging structural changes to the regulatory arrangements and to the ownership of airports. It may also involve a period of uncertainty during implementation if the Commission's recommendation is contested by the parties.

We will continue to put the case for a strengthened regulatory structure (with licence requirements on the regulated airports). We will also campaign for the right regulatory or ownership structure to make sure neither prevents urgent attention being given to expanding Heathrow and transforming it into a modern and globally-competitive hub.

Heathrow operational constraints

Heathrow has no spare runway capacity and operates on the same two runways it had when it opened 60 years ago. As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate against this. In February 2008 public consultation ended on the UK Government's conclusion that its environmental conditions on Heathrow expansion could now be satisfied and allow full utilisation of Heathrow's two runways and the construction of a short third runway to go ahead. This would create extra capacity and reduce delays, enabling Heathrow to compete more effectively against European hubs like Paris, Amsterdam and Frankfurt.

Industrial relations

We have 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. Our continued effort to reduce employment costs, through increased productivity and competitive wage awards, increases the risk in this area.

Pandemics

Epidemics, pandemics and other health risks that may occur, can adversely affect demand for air travel. For example, in the Spring of 2003, the SARS epidemic caused concerns among many travellers and resulted in a decline in demand for certain of our routes, most notably those to/from the Far East. Infectious disease experts consider that there is currently a serious risk of a global influenza pandemic.

Safety/Security incident

The safety and security of our customers and employees are fundamental values of ours. Failure to prevent a major safety or security incident could adversely impact our operations and financial performance. One of our Boeing 777 aircraft was involved in a landing accident in January 2008. Investigations by the UK AAIB are ongoing but at this stage the cause does not appear to be related to either the operation or maintenance of the aircraft.



Corporate responsibility

Our corporate responsibility vision is to become the world's most responsible airline, and we have developed guiding principles that describe what we are doing to achieve this goal.

This report covers the activities of British Airways' passenger and cargo businesses and it forms part of, and should be read in conjunction with, the Directors' report set out on pages 54 to 58.

The highlights of our corporate responsibility activities in 2007/08 are summarised under four headings – workplace, marketplace, environment and community investment.



Governance

In November 2007, we created a new corporate responsibility department, bringing together our former Community Relations and Environment teams. The activities of the team are overseen by our Corporate Responsibility Board (CRB), which is chaired by our Chief Executive, Willie Walsh and attended by Baroness Kingsmill, a non-executive director. In addition, the CRB includes representatives of health and safety, as well as people with responsibility for emerging issues such as climate change, whistleblowing, responsible procurement and fuel management.

The CRB, which meets quarterly, is supported by the Corporate Responsibility Team and Corporate Responsibility Champions drawn from across the business. Their work is further supported by a variety of steering groups including health and safety, diversity, disability, procurement, fuel, environmental management and information technology.



Strategy

Our approach to corporate responsibility has three main components – the vision, goals and programme plan.

Our activities are centred in four key areas:

- Workplace – ensuring that we provide sustainable employment for current employees and become the employer of choice for future employees;
- Marketplace – working with suppliers and customers to build a more sustainable business;
- Environment – making sure we minimise our impact on the environment, including our contribution to climate change, air quality, noise and waste; and
- Community investment activities – supporting diverse projects that help to make communities in the UK and overseas more sustainable.

We have identified performance goals to measure our progress in each of these four areas.

Finally, we have developed a programme plan containing over 80 programme level activities and several hundred individual projects aimed at delivering our corporate responsibility strategy.



Communications

In January 2008, we upgraded our corporate responsibility website 'Respecting our World'. The site features the four key corporate responsibility areas of workplace, marketplace, environment and community investment. It also provides information on responsible growth for aviation, future Heathrow development plans and information on responsible travel.

Also, in January 2008 we upgraded significantly our carbon offset scheme for passengers, introducing a highly-visible, 'one click' option into the booking process on ba.com.

Corporate responsibility

The workplace

People and organisational effectiveness

A new change programme

We have recently embarked on a culture change programme that will transform British Airways into an organisation where innovation, growth and clear customer focus are the defining qualities.

The programme has five main themes:

- Colleagues – engaging our people to make British Airways a high performance workplace;
- Customers – focusing all our people to deliver consistent customer service;
- Partnerships – developing and maintaining world-class partnerships with all key stakeholders, both internal and external;
- Performance – creating a performance-based culture; and
- Operational efficiency – driving continuous improvement, short and long-term.

This work, led by the Leadership team, involves and engages employees right across our business.

Training

We delivered 235,000 days of training during the year, including 30,000 training days to staff at Heathrow to support our move to Terminal 5.

We have invested significantly in the development of our customer service training portfolio and have developed a programme for those working in our Club and First cabins. Developed as part of a brands refreshment exercise, the programme aims to make sure cabin crew deliver the highest standards of service to our customers.

Over the past year, some 3,100 people have joined our Company. This has required a high level of induction training. We have refreshed our new entrant training programmes to make sure they reflect the priorities in our business plan.

External accreditation of our training programmes

Following the government review of vocational education, led by Lord Leitch, we have explored how we can invest more effectively in the development of our employees to build both their skills and educational standards. We have become the first national airline recognised as a training centre by the City & Guilds and, from February 2008, all new entrant cabin crew will achieve an NVQ Level 2 qualification on completion of their training. It is envisaged that further internal training programmes will become accredited and that employees undertaking courses will achieve nationally recognised qualifications.

Colleague involvement

Employee involvement continued to be a key focus during the year. Employees are asked to give their views and opinions on a wide range of topics every year via the Speak Up! opinion survey, administered by Ipsos MORI. The results from the survey are communicated widely and all departments are required to produce action plans to address areas of concern.

Results from the last survey showed significant improvements over the 12-month period in the perception of the effectiveness of line managers. However, despite these positive trends, the overall response rate to the survey – at just 35 per cent – was low. Employees expressed concerns about our ability to provide excellent customer service, reflecting some of the difficulties over the summer caused by increased security arrangements at UK airports.

Employee involvement continued to be a key focus during the year. Employees are asked to give their views and opinions on a wide range of topics every year via the Speak Up! opinion survey, administered by Ipsos MORI.



One of our main aims this year is to increase the number of people responding to the survey. We also want to speed up our action planning and, in support of the corporate change programme, identify issues that would improve our perception of British Airways as a 'great place to work'.

Leadership development

Leadership was a significant priority during the year. We have developed a number of programmes to improve the capability and performance of our leaders. These included a one-day programme for all managers, called 'Leading the Business', which focused on the challenges of managing change, engaging employees and delivering results to support our business strategy. As a result of this programme, a leadership website has been developed which provides information and training materials to help managers with all aspects of their roles.

Other development programmes included a three-day 'Leadership Matters' programme aimed at developing world-class leaders throughout the airline including our pilot and cabin crew communities.

There will be increased focus on talent and leadership development over the coming year as we build the capability we need for growth.

British Airways values

We have defined our corporate values as part of the business planning process. All training programmes now contain a module which helps customer service colleagues understand how they can demonstrate commitment to our values in the work they do. Our recruitment processes have been redesigned to make sure we select people who can clearly demonstrate these essential values.

Employee relations

During the year, we consolidated our UK operations in six regional airports, and transferred ground roles to third-party ground handlers. This affected some 1,000 employees. Those affected were helped to find alternative employment both inside and outside the airline.

As part of our transition to Terminal 5, a work practice and technology change agreement was reached in early 2007 for our customer service and ramp employees. Following this, the Terminal 5 change programme entered its implementation phase.

Since May 2007, we have held 113 full day, change implementation forums with employees represented by trades unions. As a result, a further 55 key implementation agreements were completed delivering extensive change to working practices, industrial agreements, operational processes and support systems in readiness for the consolidation of our operations in Terminal 5. As Terminal 5 comes into full operation, we are committed to working closely with the trades unions in this next phase.

A new system of performance pay has been implemented in our Heathrow terminals, linking pay to performance across many job functions.

Following the threatened cabin crew strike of early 2007, we committed ourselves to a fresh start. Since then we have continued to implement the settlement that was reached and to develop a better relationship with our cabin crew trades union.

Within Flight Operations, we have agreed radical changes with the trades union in a far-reaching agreement on work coverage. This has involved changes to rostering rules, work bidding practices, overtime payments and reserve establishment.

Corporate responsibility continued

The workplace

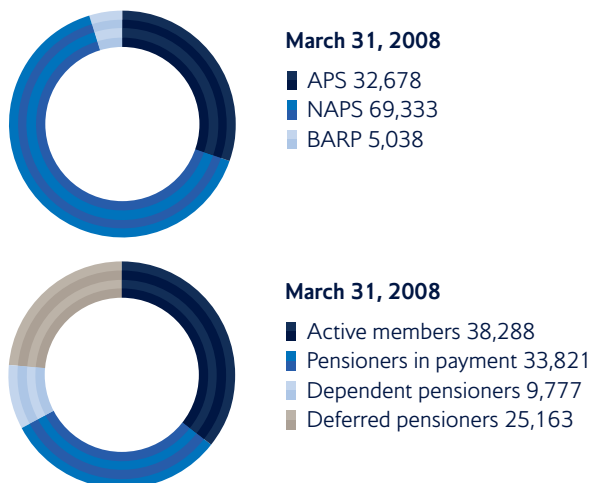
In early 2008 the pilots' union, BALPA, balloted its members for strike action over our plans to set up a new subsidiary, OpenSkies, flying between continental Europe and the US. We notified BALPA that we thought strike action would be unlawful, and BALPA did not call a strike. Instead it issued legal proceedings against British Airways in the High Court to clarify the position. A trial will start on May 19, 2008.

Our Industrial Relations Change Programme is continuing. This brings together trades union representatives and managers in specific training and action planning events, to help us find ways to solve problems together and involve colleagues across the business.

Reward

We operate two funded principal defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). Both are closed to new members. From April 1, 2003 we commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP).

Total members



In April 2007 we introduced changes to future service benefits as part of a 10-year programme to fund the deficit in NAPS. The changes provided people with choices about their level of future pension savings and benefits.

In February 2008, we also introduced a SmartPension arrangement, which allows our UK-based employees to make their pension contributions in a more tax-efficient way. The changes were introduced with trades union support and around 90 per cent of those eligible are now benefiting from this arrangement.

We operate an Employee Reward Plan (ERP) allowing our non-management workforce to share in the success of the business. The plan, introduced in 2005, awards amounts to employees based on our performance against a balance of financial and non-financial measures. These measures cover operational, customer and financial performance and the plan helps to reinforce the importance of all the various factors that affect our overall performance.

Management bonus schemes use the same financial and non-financial performance metrics as the ERP, but also include employee involvement as a further measure. Our managers are also rewarded for their individual contribution towards achieving the Company's goals and targets.

We also operate a recognition scheme, known as Bravo. The scheme enables people across our business to be recognised for their efforts and achievements. The Bravo scheme was reviewed and revised during the year, resulting in a significant increase in the number of awards being made.

In November 2007, we concluded consultations and announced a revised staff travel package, which will be launched in April 2009. The changes will make this employee benefit simpler, fairer and more flexible, and is designed to give greater choice.

Headcount

As at March 31, 2008, we employed 42,377 manpower equivalents (MPE). There has been an increased level of attrition during the year, particularly within the Contact Centres and Gatwick cabin crew. Average attrition is still low at 8 per cent. Our employment costs have reduced year on year, due to the pension changes, reduced severance costs and higher productivity achieved through changes in working practices.

Baggage and loading staff have completed their manual handling training with cabin crew, flight crew, engineering and cargo scheduled to start training later in the year. Each training programme will focus on risks associated with the specific roles and we will do a root cause analysis with employees who report an injury.



Diversity and inclusion

Our Diversity team launched a new Diversity and Inclusion Strategy during the year. This has two simple aims. Firstly, to ensure that everyone understands why and how diversity is important to us and, secondly, to ensure that diversity is integrated into every part of the business.

We are committed to creating an inclusive working culture in which all our employees feel valued, respected and motivated.

We try to promote types of behaviour, values and working practices which recognise and support individuals. We want to reflect the wide cultural diversity of our customers so that we can deliver the best products and services to them.

In the first phase of the strategy we used a survey, interviews and focus groups to find out and discuss what harassment and bullying meant, and how awareness about this could be raised. A booklet and film were produced and these have been distributed across the business. Further work on how bullying cases are resolved and on the role mediation might play in tackling harassment are also being explored. This work will continue to be a priority for the coming year and will be measured through the Speak Up! employee survey.

We are working with key members of our major trades unions on a joint Dignity at Work project. As a result, we have delivered joint training for senior trades union representatives across the business and run sessions on harassment and bullying with trades union representatives in the ramp areas at Heathrow.

We focused on religion and belief throughout the year and successfully defended an employment tribunal in November 2007 in this regard. We have become a steering group member of a new organisation called 'Employers Forum on Belief' and we have established a new interfaith network group which meets to discuss all aspects of religion in the workplace such as prayer rooms, catering and uniforms.

We also sponsored Gay Pride in London in July 2007. As well as having positive commercial impact, there was also an opportunity for our people to show their solidarity by marching together. We were proud that many of them chose to wear their uniforms for the parade.

As a responsible Company we take disability very seriously. We welcome applications from people with disabilities as we aim to employ the most talented people, and we support individuals with disabilities in reaching their full potential by making reasonable adjustments in the workplace.

We consult with our disabled employee group to identify disability issues and they help us to ensure that we are making all our products, services and training fully inclusive and accessible. All front line employees are trained in disability awareness to increase their knowledge about disabled customers and employees.

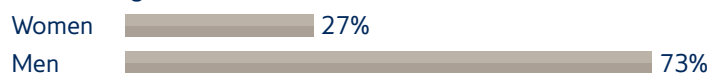
We are also constantly looking at how we can improve our journey experience for disabled travellers. We have put into place a disability strategy for the next four years, called 'Building Ability towards 2012', which covers many areas and will ensure that we can meet the needs of all our paralympic athletes.

Gender profiles

Total employees



Senior managers



Managers



Absence

We have continued to manage absence carefully and the latter part of 2007/08 has seen the previous decline in attendance start to improve, despite some trades union unrest and a challenging operating environment. Overall this recovery has resulted in the annual headline absence figure holding at 11.7 average days per person per annum.

Recent focus on the poorest attendees in each month is bringing results. Proposals for a revised world-class approach, supported by accountable managers in the new People and Organisational Effectiveness department, are targeted to achieve a minimum 15 per cent improvement during the coming year.

Corporate responsibility continued

The workplace

Due to improvements in the way we manage ill health retirements we are continuing to achieve a 40 per cent reduction in ill health pensions, halting inappropriate awards and saving more than £10 million per annum.

Absence – average days per person per annum



Health and safety

In 2007/08, there were a total of 23 major injuries recorded across our business. The majority of these injuries related to employees slipping or tripping.

But within this total, there was an increase in reported injuries involving engineers suffering fall injuries while working on aircraft both in the hangars and on the line. As a consequence of these incidents, we launched a review of the access equipment used by our engineers. Following trials and a significant investment, we started taking delivery of new equipment in March 2008 and will continue this replacement programme up to September 2008. A combined communication and supervision process is being introduced to ensure that the correct equipment is used for the many tasks that are carried out and we expect to see a reduction in fall-related injuries as a result.

Manual handling injuries continue to be the most common injury. In conjunction with our employer's liability insurers, we are introducing a series of focused training programmes across our business. Baggage and loading staff have completed their training with cabin crew, flight crew, engineering and cargo scheduled to start training later in the year. Each training programme will focus on risks associated with the specific roles and we will do a root cause analysis with employees who report an injury.

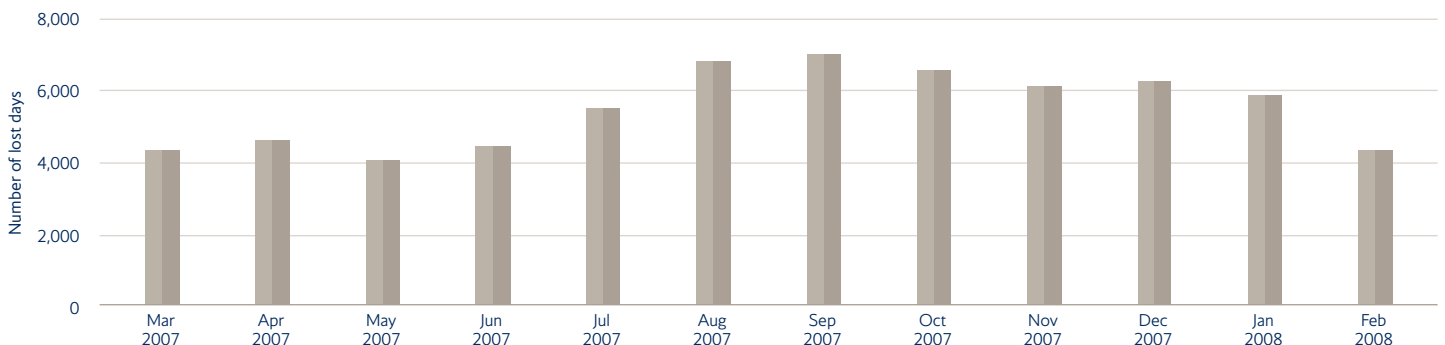
Employees injured whilst at work are able to benefit from a company-sponsored rehabilitation programme. This benefit has been extended to employees who are injured away from work to help them return to work as soon as possible.

During the year, British Airways Maintenance Cardiff received a Prohibition Notice from the Health and Safety Executive for a piece of access equipment that was deemed unsuitable. The piece of equipment was immediately removed from service and the Notice closed.

Moving a huge number of vehicles and pieces of equipment into Terminal 5 – safely and efficiently – required a considerable amount of planning. This involved closing a runway and moving convoys of equipment from both Terminals 1 and 4 to Terminal 5 throughout the night. The migration was completed successfully and safely.

Our behavioural safety programme, Rampsafe, continues to deliver safety improvements with a reduction in damage to aircraft and equipment.

Working days lost from work-related injury and ill health per 100,000 employees



Employment tribunals

During 2007/08, the Group was served with 69 new proceedings in the Employment Tribunals.

British Airways Plc was the Respondent in all but six of the 69 proceedings. The other six are one each in BA Avionic Engineering and BA CityFlyer, and two each in BA Interiors and BA Regional.

Of the 69 proceedings, the following points are noted:

1. Eight claims were multi-applicant proceedings, i.e. there is more than one claimant. Of these eight, five were groups of fewer than 100 claimants. Of the remaining, two related to how holiday pay should be calculated under the Civil Aviation (Working Time) Regulations, and were brought by pilot and cabin crew trades unions on behalf of all their (respectively) over 3,000 and 10,759 members who are British Airways employees and the third was a claim for a payment under the Employee Reward Plan by 114 employees of BA Regional Limited.
2. 17 of the claims were for unfair dismissal, or unfair dismissal plus other claims of which none were discrimination claims. Of these, seven remain ongoing, two were settled and the other eight were withdrawn, won by British Airways or struck out by the Tribunal.
3. 30 of the claims were for discrimination, or discrimination plus other claims. Of these, 17 remain ongoing, three were settled and the other 10 were withdrawn, won by British Airways or struck out by the Tribunal.
4. For the first time, therefore, the number of claims including a discrimination element outweighs the number of claims for unfair dismissal.

Corporate responsibility continued

The marketplace – suppliers

Supplier market

Overall supplier costs, excluding fuel, were held flat over the year, despite significant inflationary pressures on suppliers' own costs.

We had a busy year with our suppliers, with a number of major sourcing projects either started or completed during the period. We placed new aircraft orders with Airbus and Boeing, for 12 Airbus A380 and 24 Boeing 787 aircraft. We have also begun to review our in-flight catering needs at Heathrow, with a new supply contract required by March 2010. Additionally, the launch of our OpenSkies subsidiary in mainland Europe, and direct flights from London City to the US, will mean new work with suppliers.

Supplier risk

Our procurement team records and measures risk across our most important suppliers. We have currently identified 25 suppliers who, if they ceased trading or experienced severe operational difficulties, would have a serious impact on our ability to operate. For these suppliers, risk is measured across five dimensions, updated each month and we take mitigating action when any supplier is deemed to be at risk.

In addition to managing risks relating to key suppliers, we also routinely monitor the financial health of a number of other critical suppliers using monthly Dun & Bradstreet company reports. This information provides an early warning of increased risk.

We use Business Continuity Plans to cover the risks of supply failures from our key suppliers and make sure that we can demonstrate these plans are tested regularly. Equally, we make sure contingency plans are in place to respond to any supply interruption, from securing alternative suppliers, switching to the use of our own resources, or scaling down the services required.

Payment performance

We have again made good progress on paying suppliers promptly. On average, 88 per cent of payments were on time in the UK for the year ended March 31, 2008. This compares with 84 per cent in the preceding year.

Next year our aim is to maintain this momentum and eventually to achieve a target of 90 per cent on time payment worldwide. Increased use of e-invoicing and purchasing cards will help us in this effort.

We are a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and are committed to the payment to our suppliers on agreed terms. The number of days' purchases in creditors at March 31, 2008 is calculated in accordance with the provisions of the Companies Act 1985 and was 33 days (2007: 34 days).

Corporate responsibility in the supplier base

We are committed to being fully responsible in our purchasing decisions, and during 2008/09 we will develop our purchasing process to make sure this happens. We will continue to survey potential suppliers to assess their corporate responsibility credentials, and ensure that our staff are familiarised with key issues. In addition, we will look at using independently-held, self-certification data to better inform supplier selection decisions.

Procurement delivery

We are committed to driving spend through preferred suppliers. In December 2007, 97 per cent of our external spend was with 2,050 suppliers and they have been awarded formal preferred supplier status. We have also focused on ensuring our spend is committed through our approved order-based process, and in December 2007, 99 per cent of spend was through this process.

The marketplace – customers

The wellbeing of our customers is extremely important to us. Every year, we research and listen to the views of over 600,000 customers. This year, we have also sought the advice of young travellers through our newly launched Kids Council, the first group of its kind of any airline. As a result we offer and continue to develop a range of high-quality products and services to meet the needs of all our customers.

Terminal 5

Preparing for our move to Terminal 5 has been a major focus this year. Despite the initial difficulties on opening, this state-of-the-art building will progressively offer a smoother check-in, fewer queues and less waiting around. The building boasts a huge range of options for eating, drinking and relaxing as well as the world's largest lounge complex for premium passengers.

Club World

Club World has been redesigned from end-to-end. In 2007/08, we finished fitting the new Club World cabin to all our Boeing 747 aircraft and have been preparing to introduce it on our Boeing 777s. The new cabin combines comfort, control and privacy. It features Club Kitchen – where customers can find a wide range of hot and cold food – and a new seat, which is 25 per cent wider. A softer mattress, memory-foam headrest and cosy quilt mean that customers can comfortably stretch out on a fully flat bed and sleep in privacy behind a touch button screen.

Audio visual on demand

Our new in-flight entertainment system is now available on all our Boeing 747s and Boeing 767s, offering increased choice and control to our customers with more than 200 movies, TV shows, audio options and interactive games. We have seen marked improvements in satisfaction among passengers who have used the new system.

ba.com

A quarter of all bookings are now made through ba.com and we continue to improve our booking process. People travelling together can now easily share flight itinerary and price information prior to purchase. Customers also now have the option to offset the carbon emissions of their journey when they book their ticket on ba.com, with all proceeds going towards UN certified emission reduction projects.

Our award-winning online check-in system continues to improve. It now allows passengers to check-in on other carriers for connecting codeshare journeys and select how many checked bags they will be taking to the airport, highlighting important allowance information. The system is helping us with advance flight planning.

More than 70 per cent of Executive Club redemptions are made online and this year we introduced an enhanced mileage calculator helping customers work out where they can go with their miles.

Service style

We are committed to providing excellent service and this year we have updated and modernised our service style vision, driven directly by feedback from employees. We are now making sure everyone is aware of the new service style to help them offer a brilliant service whether they work in the airports, onboard, in the contact centres or in customer relations.

Baggage policy

As a result of the lifting of hand baggage restrictions by the UK Department for Transport, with the exception of Newquay airport, we were able to reintroduce our hand baggage allowance of two pieces for all passengers travelling to, from and through UK airports.

We also launched our new checked baggage policy. First and Club World passengers are now entitled to three bags. In addition, unlike many of our competitors, all of our customers are now able to carry, free of charge and in addition to their normal checked baggage allowance, one piece of sporting equipment, from our defined list of sporting items.

BA World Cargo

In September 2007, the LIFT loyalty and reward programme was launched to support key regional customers. The programme is the first of its kind in the air cargo industry and this is reflected in the high level of customer enrolment.

Premia, our new premium products facility at Heathrow, has seen its first full year of operation. Volumes of specialist and time-sensitive cargo have increased significantly as our customers have recognised the added value that our new building provides to the logistics supply chain.

Corporate responsibility continued

Environment

Environmental regulation

Our activities are covered by a number of environmental regulations as discussed on page 23.

Climate change

We have made good progress in implementing a comprehensive climate change programme. This includes fuel and energy efficiency initiatives, support for effective policy measures to address absolute emissions growth, voluntary carbon offsetting and support for scientific research.

We have developed a company-wide target to improve carbon efficiency, expressed in grams of CO₂ per passenger kilometre (gCO₂/pkm), by 25 per cent from 111 grams in 2005 to 83 grams in 2025. In 2007 our performance was 110 gCO₂/pkm.

CO₂ emissions actual and targeted



This goal is now one of our overall corporate goals, signalling the importance of climate change to our business (as discussed on page 35).

During the year we have carried out an extensive assessment of our carbon footprint, applying the greenhouse gases (GHG) protocol corporate standard guidelines. Our carbon footprint in 2007/08 was 17.7 million tonnes.

In January 2008, we launched a significant upgrade to our passenger carbon offset scheme introducing a 'one click' highly visible option into the ba.com booking process. This scheme helps fund UN certified emission reduction initiatives in developing countries, such as clean energy projects in China and Brazil.

We continue to work to secure the timely and pragmatic inclusion of aviation CO₂ emissions into the EU Emissions Trading Scheme in preference to aviation taxes which we believe are ineffective in tackling climate change. We are actively leading the development of a global agreement in aviation climate policy – both within industry (e.g. at IATA and AEA and as a leading member of the UK Sustainable Aviation Group) and in broader global forums such as the World Economic Forum and the Gleneagles Climate Change Dialogue, and the European Round Table of Industrialists.

We are also supporting a number of climate change scientific research projects. These include work led by Cambridge University to investigate research pathways for improving understanding of non-CO₂ aircraft climate effects, the European Commission IAGOS project which is investigating the feasibility of using aircraft to collect atmospheric data in-flight and work by the Global Canopy Programme to prevent deforestation – a large source of climate change emissions.

Waste

The total amount of waste managed through contracts at Heathrow and Gatwick has decreased by 3.3 per cent during the year. We continue to develop new waste management initiatives including recycling waxed paper coffee cups, plastic lids, unwanted office furniture and recycling newspapers offered onboard.

In 2007 we recycled 30 per cent of waste at Heathrow and Gatwick. We have set ourselves the target of recycling half our waste by 2010.

The proportion of waste at Heathrow and Gatwick disposed to landfill reduced by 9.2 per cent. We continue to work towards a target of zero waste to landfill by 2010.

Water

Water is a valuable resource and consumption is routinely monitored whenever possible. During the year, we cut water consumption at Heathrow and Gatwick by 8.8 per cent compared to the previous year.

Noise

We are subject to restrictions on departure noise and night flights at many airports worldwide. Major changes to current noise management systems are subject to the requirements of the 'Balanced Approach' established by the Committee on Aviation Environmental Protection (CAEP) of the International Civil Aviation Organisation (ICAO). These are designed to ensure that noise management is balanced and targeted.

Last year at Heathrow, we contravened the noise limits 47 times, a reduction of 28 per cent, principally as a result of Boeing 747-400 departures being delayed into the night period. However, we continue to look for new ways to reduce noise and work continues on the Departures Code of Practice, with other stakeholders, which will also include ground operations. At Heathrow, our Continuous Descent Approach adherence

We remain committed to protecting and enhancing the 240 acres of Harmondsworth Moor surrounding our Waterside headquarters at Heathrow.



(for fuel efficiency and noise reduction) was 95 per cent for daytime and 94 per cent for night-time for the last calendar year, compared to 84 per cent for daytime and 88 per cent for night-time for the airport average.

Air quality

Aircraft engines are regulated for low altitude emissions and areas around many airports have to meet stringent air quality limits. To help reduce NO_x emissions, we continue to use reduced take-off thrust to the lowest available when possible for our aircraft operations worldwide. We are also working with ICAO to define aircraft emissions' characteristics and continue to work with CAEP to help them model the impact of aircraft emissions on local air quality.

British Airways NO_x emissions to 1,000 feet (metric tonnes)



Terminal 5

In the planning for Terminal 5 an independent environmental assessment advisory group (EAAG) was established to minimise the environmental impact of the terminal's design, construction and operation. Together with BAA and the EAAG, we focused on improving links to public transport, reducing noise and emissions, exploiting innovations in energy, water and waste management, and maximising the use of sustainable resources. Features included innovative vacuum flush toilets, taps and showers fitted with water-saving devices, using timber from managed sustainable sources for lounge furniture and veneers, and cladding shower pavilions with faux timber converted from recycled plastic milk bottles.

Using aircraft stands with fixed ground power and pre-conditioned air means we will rely less on aircraft auxiliary power units (APUs), reducing noise and carbon emissions.

Ground fleet

We are also improving our performance on the ground. In Terminal 5, we invested £25 million in 550 new vehicles, including 38 new buses specified to the future Euro 5 exhaust emission standard. Remote monitoring by telematics technology will be used to manage fleet efficiency. A fuel management

system will be fitted to refuelling equipment at Heathrow. We are part of the Heathrow Clean Vehicles Programme which aims to improve the environmental performance of our ground vehicle fleet.

Fleet modernisation

Improved environmental performance was a major consideration behind our order in September 2007 of 12 Airbus A380 aircraft and 24 Boeing 787 aircraft to replace some of our Boeing 767-300 and 747-400 aircraft. All aircraft options were evaluated using environmental criteria for fuel efficiency, total NO_x emissions, external noise and noise footprints, internal cabin noise and ground noise for ramp operations including the use of the APU. The aircraft we have selected are greener, cleaner and quieter, with both the Airbus A380 and Boeing 787 rated as producing a quarter of the noise level of the Boeing 747-400, on approach.

Summary of environmental achievements and targets

	Target	2007*	2006*	2005*
Carbon efficiency gCO ₂ /pkm	83**	110	110	111
CO ₂ emissions (million tonnes)***		17.7	16.6	16.1
Total waste at Heathrow and Gatwick – including our catering companies (metric tonnes)		26,041	26,920	28,456
% recycling (Heathrow and Gatwick)	50% by 2010	30.1	28.9	30.6
Waste to landfill (tonnes) (Heathrow and Gatwick)	zero by 2010	3,688	4,063	4,540
Waste per passenger (kg) (Heathrow and Gatwick)	reduce by 2% per annum	0.76	0.78	0.83
Heathrow departure noise violations – day		1	9	7
Heathrow departure noise violations – night		46	56	37
Continuous Descent Approach (Heathrow) % day		95	95	84
Continuous Descent Approach (Heathrow) % night		95	94	88
Heathrow air quality/NO _x emissions to 1,000 ft (metric tonnes)		1,107	1,096	1,080

* calendar years.
 ** by 2025 based on 2005.
 *** 2007 includes aircraft, property and vehicles; prior years include aircraft only.

Biodiversity

We remain committed to protecting and enhancing the 240 acres of Harmondsworth Moor surrounding our Waterside headquarters at Heathrow, and have retained the Wildlife Trust's new Biodiversity Benchmark.

Corporate responsibility continued

Community investment

Connecting communities

We are committed to developing strong community partnerships. Our priority is to invest in education and youth development, supporting employees, sustainable tourism, heritage and the environment. In 2007/08, we supported 130 community and conservation organisations worldwide, donating travel awards, excess baggage and cargo.

We continue 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 our total contributions to the community.

Education and youth development

Our Community Learning Centre – close to our Waterside headquarters at Heathrow – has welcomed over 44,000 young people and adult learners since opening in 1999. Interactive, airline-focused programmes relevant to the school curriculum are delivered to local school pupils. Programmes include global education weeks delivered in partnership with the United Nations International Children's Emergency Fund (UNICEF), focusing on places we fly to. The children are immersed in the culture of the country they are studying and also learn about the UN Convention on the Rights of the Child.

Languages

The British Airways' Language Flag Award is offered to schools across the UK and has been recognised by both the Foreign and Commonwealth Office and the British Language Champion Scheme in recognition of its work on the promotion of language learning.

Partnerships

In the UK, through corporate partnership with the Natural History Museum, we have developed programmes to provide opportunities for pupils from Heathrow schools to visit the museum, meet scientists and experience the work of the Darwin Centre. Overseas, we have been working with the Mukuru Promotion Centre in Nairobi, Kenya, for over five years supporting over 4,000 children. On the development of IT and education programmes, 15 teachers have participated in teacher exchange programmes to gain a better understanding of both the UK and Kenyan education systems. This programme will continue to be developed in 2008/09.

Change for Good

Our partnership with UNICEF, Change for Good, raised £2.5 million in the year to March 31, 2008. The onboard collection programme, supported by over 2,400 cabin crew champions, enabled us to fund UNICEF's work with vulnerable children. Programmes included HIV testing, treatment and counselling (Tanzania), HIV-prevention (Ghana) and emergency cyclone relief (Bangladesh). Change for Good launched the first branded Change for Good toy, Fudge the Dog. In 2008 Change for Good will celebrate its £25 million milestone.

Employee fundraising

Over 4,000 retired and current employees donated over £600,000 directly from their payroll to their chosen charities through our Giving Scheme. In addition, we hosted 10 fundraising events raising over £160,000 for a range of employee-supported charities. Our employees have been taking part in the BA Fun Run for over 14 years, raising over £735,000 for Cancer Research UK. During 2007/08, our World Cargo team collected and delivered 15 tonnes of high-quality gifts, donated by employees from around the airline.

Donations

BITC reported our total direct and in-kind donations for 2007/08 at £5.7 million (2006/07: £6.3 million). Of these, direct charitable donations amounted to £398,000 (2006/07: £1.2 million). Over the past year we have donated more than £800,000 of surplus merchandise to charities in the UK and overseas.



Corporate governance

Board of directors

The names and details of the current directors are set out below. All served throughout the financial year ended March 31, 2008.

Board members as at May 15, 2008.

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 (June 2006). Chairman of the Nominations Committee. Martin is President of the Confederation of British Industry (CBI).

Chief Executive

Willie Walsh

Executive Board Member since May 2005, becoming Chief Executive in October 2005. Formerly Chief Executive of Aer Lingus, he is 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 in January 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. Maarten is Chairman of Akzo Nobel NV, Deputy Chairman of BT Group and 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 adviser to The Royal Bank of Scotland and a member of the Microsoft European Policy Council.

Jim Lawrence

Independent non-executive director since November 2006. Remuneration Committee. Jim is Chief Financial Officer of Unilever and serves on the Board of Avnet, Inc..

Chumpol NaLamlieng

Independent non-executive director since November 2005. Audit Committee. 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 was Group Chief Executive of LogicaCMG plc from 1993 to 2007. Senior adviser to Candover Partners Limited and served as non-executive director at Asda Group plc (1996 to 1999) and The Boots Company PLC (1999 to 2006).

Alison Reed

Independent non-executive director since December 2003. Chairman of the Audit Committee. Remuneration Committee. Alison 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. Ken is Chairman of the UK Aviation and Maritime Industries Confidential Human Factors Incident Reporting Programme (CHIRP), a member of the Flight Safety Foundation Board of Governors 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. Alan is also Head of 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, Willie Walsh, Maarten van den Bergh, Baroness Kingsmill, Ken Smart and Baroness Symons will retire and seek re-election by shareholders at the annual general meeting to be held on July 15, 2008. Biographical notes about the directors seeking re-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 65 to 73.

Leadership team

In the day-to-day running of the Company, the Chief Executive is supported by the Chief Financial Officer and the Leadership team, the members of which as at May 15, 2008 are:

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.

The six members of the Leadership team are designated as persons discharging managerial responsibility, along with the 11 directors.

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	8	4	1	5	4
Martin Broughton	8/8		1/1		
Willie Walsh	8/8				
Keith Williams	8/8				
Maarten van den Bergh	7/8		1/1	4/5	4/4
Jim Lawrence*	6/8	2/3		1/1	2/3
Baroness Kingsmill	8/8	4/4	1/1		4/4
Chumpol NaLamlieng	7/8	4/4			4/4
Dr Martin Read	8/8		1/1	5/5	
Alison Reed	8/8	4/4		5/5	
Ken Smart	8/8	4/4			4/4
Baroness Symons	8/8	3/4			3/4

*Due to Jim Lawrence's appointment as Chief Financial Officer of Unilever in September 2007, he was unable to attend two Board Meetings, one Audit Committee and one Safety Review Committee. As a consequence of this appointment a review of the Committees took place and he stood down from both the Audit and Safety Review Committees on November 1, 2007 and joined the Remuneration Committee on January 1, 2008.

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.

Directors' report continued

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

Corporate governance statement

This corporate governance statement forms part of, and should be read in conjunction with, the Directors' report set out on pages 54 to 58.

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 adopted the code of best practice set out in Section 1 of the Combined Code as amended from time to time and appended to the Listing Rules of the Financial Services Authority (the 'Combined Code') as its corporate governance statement.

In accordance with the Listing Rules, the Company is required to report firstly on how it applies the principles of the Combined Code and secondly to confirm that it has applied the Code's provisions or, where it has not, to provide an explanation. The following section outlines the way in which the Company has applied the main and supporting principles in the Code.

The Board provides 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.

As a unitary Board, all directors are involved in, and responsible for, the development of the Company's strategy. The non-executive directors review the performance of the Company with the executive directors on a regular basis. The Board delegates certain of its functions to committees consisting of non-executive directors as detailed within this section. 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 pages 54 and 55 and a statement on going concern is given on page 55.

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 eight 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. The Committee is responsible for ensuring that there are adequate succession plans to maintain the appropriate blend of skills and experience both on the Board and in the Leadership team.

In addition to the Nominations Committee, the Board has three other specific Board Committees: Audit, Remuneration and Safety Review. Each of the Committees meets regularly under terms of reference set by the Board. Copies of these are also available on bashares.com. Every Committee 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 work carried out by each of the four specific Committees is described in their respective reports.

The Board receives briefings on changes in regulation or law, as circumstances require. A significant example of this is the process the Board and the Company have gone through during the year to ensure that the Company's decision-making processes take account of the changes to directors' duties made in the Companies Act 2006. As a result, management is now required to ensure that factors such as the impact of proposals on relationships with suppliers or on the environment are taken into account in order to ensure the long-term success of the Company.

Corporate governance statement continued

The Board receives regular feedback on investors' views. As part of its commitment to ensuring that the Board presents a balanced and understandable assessment of the Company's financial position and prospects, an external review of the Company's investor relations function was carried out during the year. Feedback from this exercise was used to ensure the information given to those attending or watching the annual investor day in March 2008 was appropriate to their needs.

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 presentations from these institutional investor events are also available to private shareholders through the Company's investor relations website, bashares.com. The annual investor day in March 2008 was attended by every member of the Board and major investors were given the opportunity to discuss corporate governance matters with non-executive 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.

Towards the end of 2007/08, a performance evaluation of the Board, its committees and individual directors 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.

Throughout the year, the Company has complied with all relevant provisions set out in Section 1 of the Combined Code.

Internal control

The directors are responsible for, and reviewing the effectiveness of, 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. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss. 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.

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 awareness of controls, 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 2007/08, the Company has worked to enhance controls in relation to IT risks.

The business agenda is determined by the business plan (see pages 34 and 35) 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 management with financial and operational performance measurement indicators. 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 2007/08, the Capital Investment Committee was instrumental in maintaining tight control of capital and external expenditure and headcount. All major corporate projects are audited regularly.

Corporate governance remains key to the business. The Company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. The effectiveness of the framework has been under regular review by the Leadership team. The Group will continue to comply with the Combined Code on corporate governance and the UK Listing Authority rules.

Business controls are reviewed on an ongoing 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. A risk-based 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. A further risk-based audit plan for the first six months of 2008 was approved by the Audit Committee in January 2008 to cover the transition phase to a 12-month audit plan from July 2008 to June 2009.

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. No significant failings or weaknesses were identified during 2007/08.

Risk management approach

The Company has put in place a structure and process to help identify, assess and manage risks. This process has been in place throughout the year to which these statements apply and up to the date of their approval.

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 those responsible for managing the individual risks, and to the departmental 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 to assist the Board in the management of risk in accordance with the revised guidance for directors on the Combined Code (June 2006).

The Board carried out a risk review in December 2007 in preparation for its review of the annual business plan at its meeting in January 2008.

During 2007/08, the Company has continued to monitor any staff concerns about possible improprieties relating to financial reporting or other matters. This can be in confidence through a third-party helpline if the staff member so chooses.

Report of the Audit Committee

Members: Alison Reed (Chairman), Baroness Kingsmill, Chumpol NaLamlieng, Ken Smart, Baroness Symons, Jim Lawrence (until November 1, 2007).

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 Committee met four times during 2007/08 and has held closed meetings and has also met privately with both the external and internal auditors.

Regular attendees at Committee meetings, at the invitation of the Committee, included the Chairman, the Chief Executive, Chief Financial Officer, the Head of Internal Control, the Group Financial Controller, the Group Reporting Manager and representatives from the external 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, which were amended following the delisting from the New York Stock Exchange, 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;
- 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;
- 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;
- 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. The external auditor is only permitted to carry out work for the Group in the following categories: audit work; advice and assurance on accounting standards; tax and regulatory requirements; tax compliance, planning and advice; due diligence in relation to alliances, investments and joint ventures; and the provision of attestation reports or comfort letters confirming compliance or reasonableness as required by third parties. Managers are required to obtain prior approval before contracting such services from the external

auditor. The Audit Committee has also specified certain non-audit services which the external auditor may not supply to the Group such as bookkeeping and actuarial services; and

- Take responsibility for the oversight of the Company's policy on whistleblowers and the risk management process (see Internal Control on pages 60 and 61).

Items reviewed during the year include:

Financial reporting

The Committee reviewed the draft annual and interim management report 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 2007/08 it considered reports from the Head of Internal Control summarising the work planned and undertaken, recommending improvements and describing actions taken by management.

Terminal 5 Readiness Programme

The Committee reviewed reports from Internal Control in relation to the Company's preparation for the move to Terminal 5.

Internal audit

The Committee evaluated the performance of internal audit from the quality of reports and recommendations from the Head of Internal Control. An external quality assessment of internal audit was undertaken by PricewaterhouseCoopers and overall the report commended the Company's Internal Control team.

Risk group

The Committee reviewed the reports produced by the risk management process during the year. The Committee also reviewed and approved the Company's new Insurance Governance Statement.

Whistleblowing

The confidential helpline run by Safecall, which allows employees to raise concerns, is working well and confidence in it is continuing. The Committee receives regular reports on the confidential reporting system to ensure that the Company's whistleblowing processes work appropriately.

Reappointment of external auditors

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, reappointment 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. In doing so, it takes into account relevant 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 its qualifications, expertise, resources and the effectiveness of the audit process, including 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 2007/08 can be found in note 6 to the financial statements.

The terms of reference of the Committee are reviewed at least annually and any changes are recommended to the Board. As mentioned above, they were changed during the year.

Report of the Safety Review Committee

Members: Ken Smart (Chairman), Baroness Kingsmill, Chumpol NaLamlieng (to May 7, 2008), Baroness Symons, Jim Lawrence (to January 2008), and Maarten van den Bergh.

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, which were amended during the year, are available on the Company's website at bashares.com.

The Safety Review Committee reviews reports from the various safety boards within the airline including the senior management's safety review board. Where appropriate the Committee also reviews relevant reports published by the UK Air Accident Investigation Branch (AAIB), major incidents to other operators and external reports. During 2007/08, issues raised at the Safety Review Committee included:

- The restructuring and centralisation of the team responsible for the Company's safety data. This has delivered improved consistency and enhanced value of the data provided, which is used as a basis for the Company's safety actions;
- The development and monitoring of the British Airways Safety Plan ensuring that safety remains the Company's highest value. The plan sets high-level safety goals across all operational departments leading to a continuous development in the safety culture and sets measurements to effectively monitor the Company's safety performance; and
- Presentations on various topics including the Boeing 777 accident at Heathrow on January 17, 2008. This enabled the Board at a very early stage to be assured that the Company had taken appropriate action in regard to the safety of continued operations.

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 four 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 Corporate and Air 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.

During the year under review, management has introduced a new Safety Review Board chaired by the Chief Executive which meets in advance of each meeting of the Committee. This has improved the flow of information about issues which have arisen and enables management to be clear about the issues and proposed actions to address them.

Report of the Remuneration Committee

Information not subject to audit

Members: Dr Martin Read (Chairman), Maarten van den Bergh, Alison Reed, Jim Lawrence (from January 1, 2008).

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 53), 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 aware of the risk of an upward ratcheting of remuneration that can result from the use of pay surveys.

New Bridge Street Consultants LLP (which became Hewitt New Bridge Street on March 18, 2008 (Hewitt)) 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 investor relations website. The Chairman, Chief Executive, Chief Financial Officer, Company Secretary, Acting Director for People, Director People and Organisational Effectiveness and 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 Hewitt. Towers Perrin and Hay provided no other services to the Company other than advice on remuneration matters during 2007/08. In addition to its advice on remuneration, Hewitt also provided some advice to the Company on general employee reward and on pensions. PwC also provided other services relating to the Internal Control function of the Company.

Where appropriate, the Committee consults 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 2008/09 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. It concluded that the structure of the existing package remains generally appropriate, but that the executive directors' total target remuneration was significantly below market median, primarily due to below-market levels of incentive opportunity. The Committee considers that the Chief Executive and Chief Financial Officer are high calibre, talented individuals and that the Company needs to offer its senior executives competitive remuneration packages with a sufficient level of incentive pay to retain them and to reward them appropriately if the Company performs well. Therefore, as noted on page 66, following consultation with the Company's major shareholders and the main shareholder bodies, the Committee decided to increase the bonus maximum for the executive directors for 2008/09. The proposed changes are intended to bring the executive directors' total target remuneration closer to the market median.

The package for the executive directors for 2007/08 and 2008/09 consists of a basic salary, benefits-in-kind (including private healthcare, 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 60 per cent of total target remuneration (excluding pension arrangements).

Report of the Remuneration Committee continued

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 similar companies from the survey sources referred to previously. The Committee has regard to the performance of the individuals and the pay and employment conditions elsewhere in the Company when determining annual salary increases.

The Committee has recently reviewed base salaries and from July 1, 2008, Willie Walsh's base salary will be £735,000 and Keith Williams' will be £440,000.

Annual bonus

The amount of annual bonus available for distribution to senior executives for 2007/08 was subject to a maximum limit of 100 per cent of salary.

An executive director was potentially able to earn up to 10 per cent of salary based on his personal contribution against objectives. In addition, whatever was earned for personal performance was 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 was to be applied unless the minimum operating margin target was achieved. The Committee retained discretion to prevent any bonus payments if the Company's performance was judged by it to be inadequate.

The Company achieved its operating margin target of 10 per cent, but did not achieve its targets in respect of customer recommendation, punctuality and employee involvement, and no bonus multiplier was awarded in respect of these measures.

Half of the bonus is payable in the form of deferred shares (under the British Airways Deferred Share Plan) which vest after three years (as detailed on page 68), normally subject to continued employment over that period. On vesting, executives will receive the benefit of any dividends paid over the deferral period.

For 2008/09, an executive director's bonus will be based one third on operating margin, one third on customer recommendation and one third on punctuality. The Committee will continue to set demanding targets on each of these measures. Unlike previous years, these three measures will operate independently. However, no bonus will be payable on the customer recommendation or punctuality measures unless the Company reports a pre-tax profit. The Committee was not satisfied that the employee involvement measure used in 2007/08 was appropriate for use in 2008/09 and has asked that this should be reviewed over the next year with a view to reintroducing it in 2009/2010.

As was mentioned on page 65, the Committee decided to increase the bonus maximum for the Chief Executive and Chief Financial Officer for 2008/09. Accordingly, a total maximum of 150 per cent and 125 per cent of salary respectively would be available if the Company achieved the maximum performance on all of the three measures. The amount of bonus awarded is then determined according to personal performance. If nothing is earned on the Company measures, up to 15 per cent of salary and 12.5 per cent of salary is payable as a cash-only bonus for personal performance. Otherwise half of any bonus will be payable in the form of deferred shares as was the case for 2007/08. The Committee also retains discretion to prevent any bonus payments if the Company's performance is judged by it to be inadequate.

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 predefined 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 under the PSP. For the 2008 award, both the Chief Executive and the Chief Financial Officer will receive this level of award. Other members of the Leadership team will receive awards equivalent to 100 per cent of their respective base salaries.

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) 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 on page 72. 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 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 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 groups of airlines used in the 2005, 2006 and 2007 awards are shown in the table below:

Air Canada	Lufthansa
Air France	Northwest Airlines
Air New Zealand	(2005 award only)
Alitalia	Qantas Airways
All Nippon Airlines	Ryanair
American Airlines	SAS
Cathay Pacific Airways	Singapore Airlines
Continental Airlines	Southwest Airlines
Delta Airlines	United Airlines
(2005 award only)	(2006 and 2007 awards only)
easyJet	US Airways
Iberia	(2006 and 2007 awards only)

It is currently intended that the comparator group for awards that are made in 2008 will be the above companies, except that Air Berlin will replace Southwest Airlines. Southwest Airlines is not deemed to be a suitable comparator as its operation is confined to the US domestic market.

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 (ie. 12.5% of total award) vest	100% of shares (ie. 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%+
2008 award	2008/09 – 2010/11	Less than 5%	5%	10%+

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

As with previous awards under the PSP, the Remuneration Committee has set an operating margin target which takes into account anticipated market and economic conditions and is considered to be stretching.

Report of the Remuneration Committee continued

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 in September 2005 and is the mechanism for delivering the deferred element of the annual bonus. The only award under the DSP to date was made in November 2006. An award of deferred shares to the value of 50 per cent 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 71 to 73 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 33 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

Each of the two executive directors serving at the year end has a rolling contract with a one-year notice period. As a matter of policy, in the event of new external appointments, the length of service contracts would be determined by the Remuneration Committee in the light of the then prevailing market practice. However, the Remuneration Committee recognises that, in some cases, it may be necessary to offer a contract with a notice period in excess of one year in order to attract a new executive director. In these circumstances, the Remuneration

Committee acknowledges that the notice period should reduce to one year after the initial period in accordance with paragraph B.1.6 of the Combined Code.

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 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.

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 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 €31,000 as a non-executive director of Fyffes Plc. He retired from the Board of Fyffes Plc on October 31, 2007.

Pension schemes

The Company has three main pension schemes. Two of these, APS and 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. 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 70.

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. Following a review by the Committee, it was set at £350,000 in July 2007, taking into account the level of fees payable in similar companies and recognising his above average time commitment. 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 last 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 1, 2002	July 19, 2005	2008
Baroness Kingsmill	November 1, 2004	July 19, 2005	2008
Jim Lawrence	November 1, 2006	July 18, 2007	2010
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 18, 2007	2010
Ken Smart	July 19, 2005	July 19, 2005	2008
Baroness Symons	July 19, 2005	July 19, 2005	2008

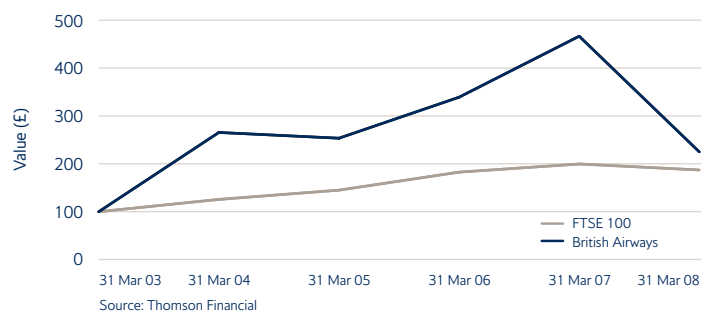
Except where appointed at a general meeting, directors stand for election by shareholders at the first annual general meeting following appointment, and stand for re-election every three years thereafter, under Article 94. Either party can terminate on one month's written notice. Neither the Chairman nor any of 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.

Total shareholder return



This graph shows the value, by March 31, 2008, of £100 invested in British Airways Plc on March 31, 2003 compared with the same value invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year ends.

Report of the Remuneration Committee continued

Information subject to audit

Directors' remuneration

	Basic salary and fees £'000	Taxable benefits* £'000	Payments relating to termination of employment £'000	Performance-related bonuses**		Total 2007/08 £'000	Total 2006/07 £'000
				Cash £'000	Value of deferred shares £'000		
Executive directors							
Willie Walsh	679	22		0	0	701	625
Keith Williams	407	15		67	67	556	396
Non-executive directors							
Martin Broughton	338	30				368	330
Maarten van den Bergh	50					50	46
Baroness Kingsmill	40	1				41	39
Jim Lawrence	40	1				41	17***
Chumpol NaLamlieng	40	1				41	39
Dr Martin Read	50					50	46
Alison Reed	50					50	46
Ken Smart	50					50	46
Baroness Symons	40	1				41	39
Aggregate emoluments	1,784	71		67	67	1,989	1,669

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

** Given his overall responsibility for the Company's affairs, Willie Walsh and the Remuneration Committee mutually agreed that it would be inappropriate for him to receive any annual bonus for 2007/08.

*** Figures shown from date of appointment.

Martin George, a former director: Martin George's defence costs in relation to the competition law investigations 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, 2008, the Company paid £273,000 in relation to his defence costs, and further amounts are likely to be payable. He also received £213,000 in relation to his termination of employment in accordance with the payment in lieu of notice clause in his contract, as he had been unable to find alternative employment.

The base salaries for the executive directors are currently £700,000 for Willie Walsh and £415,000 for Keith Williams.

The pension entitlements of the executive directors were:

	Accumulated accrued benefits March 31, 2008 £	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	85,076	11,390	8,516	55,700

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

	March 31, 2008 £	March 31, 2007 £	Director's contributions during the year £	Movement, less director's contributions £
Keith Williams	872,178	857,064	33,810	(18,696)

* 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)'.

Keith Williams is a member of both the 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. For service after April 1, 2007, he is entitled to 1/60th of pensionable pay for each year of service, payable at age 65. In line with other NAPS members, Mr Williams is entitled to buy-back to 1/56th payable at age 60 should he so elect.

Willie Walsh is a member of BARP, a defined contribution scheme and the Company paid contributions during the year of £81,046 (2007: £73,296).

Directors' beneficial interests in shares

	British Airways Plc Ordinary Shares	
	March 31, 2008	April 1, 2007
Current Board members		
Martin Broughton	69,090	49,090
Willie Walsh	22,000	0
Keith Williams	5,000	0
Maarten van den Bergh	2,000	2,000
Baroness Kingsmill	2,000	2,000
Chumpol NaLamlieng	20,000	10,000
Dr Martin Read	8,000	8,000
Alison Reed	10,000	10,000
Ken Smart	2,000	0
Baroness Symons	0	0
Total	140,090	81,090
	British Airways Plc American Depository Shares*	
	March 31, 2008	April 1, 2007
Jim Lawrence	1,000	1,000

*Each American Depository Share is equivalent to 10 ordinary shares.

There have been no changes to the shareholdings set out above between March 31, 2008 and the date of this report.

No director has any beneficial interest in any subsidiary undertaking of the Company.

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 Depository 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, 2007	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 2008
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								

The performance condition applicable to share options granted in 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 4 per cent per annum more than the increase in the Retail Price Index during three consecutive financial years ending on March 31, 2008. EPS is calculated as set out in the Statement of Investment Practice No. 1 of the Institute of Investment Management and Research (IIMR).

Report of the Remuneration Committee continued

The options granted in 2005 were tested at the end of 2007/08. In 2004/05, the Company's EPS under the IIMR definition was 29.3 pence. Taking this base figure and adding RPI plus 4 per cent per annum gives a target EPS level of 36.1 pence. EPS for 2007/08 using the IIMR definition was 49.1 pence. The Remuneration Committee therefore determined that the performance condition had been satisfied in relation to the grants made in 2005. These options will become exercisable on the third anniversary of the original grant, June 23, 2008.

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, 2007	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, 2008
Willie Walsh	PSP	August 30, 2005	319,148							319,148
	PSP	November 24, 2006	185,950							185,950
	PSP	August 9, 2007						254,854		254,854
Total			505,098					254,854		759,952
Keith Williams	LTIP	June 9, 2003	46,631							46,631
	LTIP	June 16, 2004	29,788	22,141				7,647		22,141
	PSP	August 30, 2005	34,219							34,219
	PSP	Nov 24, 2006	77,479							77,479
	PSP	August 9, 2007						125,910		125,910
Total			188,117	22,141				7,647	125,910	306,380

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

- 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 award lapsed; and
- 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 vested and the remainder of the award lapsed.

Upon vesting of the LTIP awards, the Remuneration Committee having considered in both cases that underlying financial performance was satisfactory, participants were granted nil-cost options in accordance with the rules of the scheme. Options are exercisable for seven years from the date of vesting of the relevant LTIP award. No payment is due upon the exercise of these options.

PSP awards granted in 2005, 2006 and 2007 are subject to the performance conditions outlined earlier in this report on page 67. In each case, the performance conditions will be measured over a single three-year performance period, which begins on April 1 prior to the award date. 50 per cent of the award is subject to TSR performance measures against a group of airlines, and 50 per cent is subject to average operating margin performance.

The award granted in 2005 was tested at the end of 2007/08. As a result, none of the shares subject to the TSR performance condition will vest, and 31.25 per cent of the award will vest based on the operating margin performance condition. Taking the TSR performance condition and operating margin performance together, 31.25 per cent of the total original award will vest on the third anniversary of the award, August 30, 2008.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2007 PSP award, (August 9, 2007), was 412 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, 2007	Awards released during the year	Awards lapsing during the year	Awards made during the year	Number of awards as at March 31, 2008
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.

Share scheme dilution limits

The Company follows the guidelines laid down by the Association of British Insurers (ABI). These restrict the issue of new shares under all the Company's share schemes in any 10-year period to 10 per cent of the issued ordinary share capital and restricts the issues under the Company's discretionary schemes to 5 per cent in any 10-year period. As at March 31, 2008, the headroom available for the all employee share schemes was 5.10 per cent and 0.15 per cent for the discretionary schemes.

The highest and lowest prices of the Company's shares during 2007/08 and the share price at March 31, 2008 were:

	2008	2007*
At March 31	234.25	486.00
Highest in the year	519.00	577.50
Lowest in the year	218.00	320.00

*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 15, 2008

Report of the Nominations Committee

Members: Martin Broughton (Chairman), Maarten van den Bergh, Dr Martin Read and Baroness Kingsmill.

The Committee is chaired by the Chairman and all other members of the Committee are independent non-executive directors. All non-executive Board members are invited to attend its meetings and the Chief Executive 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.

Under the Company's Articles of Association, all directors are required to offer themselves up for re-election every three years. Following a review of their respective performances as part of the Board evaluation exercise the Committee has put forward for re-election at the annual general meeting in July 2008 Willie Walsh, Maarten van den Bergh, Baroness Kingsmill, Ken Smart and Baroness Symons. Their biographical details are set out in the explanatory notes of the notice of annual general meeting and demonstrate the skills and experience which they bring to the benefit of the Company.

Independent auditor's 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, 2008 which comprise the Group Consolidated Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 38. 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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are 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 and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report and business review is consistent with the financial statements.

In addition we 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 is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 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, the Chief Financial Officer's report 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.

Independent auditor's report to the members of British Airways Plc continued

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, 2008 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, 2008;
- 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, as regards the Group financial statements, 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 15, 2008



Financial statements

Group consolidated income statement

For the year ended March 31, 2008

£ million	Note	2008	Group 2007
Traffic revenue			
Passenger		7,541	7,263
Cargo		616	598
		8,157	7,861
Other revenue		596	631
Revenue	3	8,753	8,492
Employee costs	7	2,166	2,277
Depreciation, amortisation and impairment	4	692	714
Aircraft operating lease costs		68	81
Fuel and oil costs		2,055	1,931
Engineering and other aircraft costs		451	414
Landing fees and en route charges		528	517
Handling charges, catering and other operating costs		977	930
Selling costs		359	436
Currency differences		6	18
Accommodation, ground equipment and IT costs		576	618
Total expenditure on operations before non-recurring items		7,878	7,936
Operating profit before non-recurring items		875	556
Credit arising on changes to pension scheme	35	–	396
Provision for settlement of competition investigations	29	–	(350)
Operating profit	4	875	602
Fuel derivative gains/(losses)		12	(12)
Finance costs	8	(175)	(168)
Finance income	8	111	129
Net financing income/(expense) relating to pensions	8	34	(19)
Retranslation (charges)/credits on currency borrowings	8	(11)	13
Profit on sale of property, plant and equipment and investments	9	14	47
Share of post-tax profits in associates accounted for using the equity method	19	26	5
(Charges)/income relating to financial assets	10	(3)	14
Profit before tax		883	611
Tax	11	(187)	(173)
Profit after tax from continuing operations		696	438
Loss from discontinued operations (after tax)	5	(2)	(134)
Profit after tax		694	304
Attributable to:			
Equity holders of the parent		680	290
Minority interest		14	14
		694	304
Earnings/(loss) per share			
Continuing operations:			
Basic	12	59.2p	37.2p
Diluted	12	58.8p	36.8p
Discontinued operations:			
Basic	12	(0.2)p	(11.7)p
Diluted	12	(0.2)p	(11.7)p
Total:			
Basic	12	59.0p	25.5p
Diluted	12	58.6p	25.2p

Balance sheets

At March 31, 2008

£ million	Note	Group		Company	
		2008	2007	2008	2007
Non-current assets					
Property, plant and equipment:	14				
Fleet		5,976	6,153	5,794	5,957
Property		977	932	924	876
Equipment		310	272	301	266
		7,263	7,357	7,019	7,099
Goodwill	17	40	40	–	–
Landing rights	17	159	139	159	139
Software	17	22	33	22	34
		221	212	181	173
Investments in subsidiaries	19	–	–	2,207	1,185
Investments in associates	19	227	125	–	–
Available-for-sale financial assets	20	80	107	24	41
Employee benefit assets	35	85	116	85	116
Derivative financial instruments	31	80	8	80	8
Prepayments and accrued income		19	20	9	10
Total non-current assets		7,975	7,945	9,605	8,632
Non-current assets held for sale	16	–	8	–	8
Current assets and receivables					
Inventories	21	112	76	109	74
Trade receivables	22	586	654	574	635
Other current assets	23	308	268	371	336
Derivative financial instruments	31	278	78	278	78
Other current interest-bearing deposits	24	1,181	1,642	399	1,639
Cash and cash equivalents	24	683	713	433	662
		1,864	2,355	832	2,301
Total current assets and receivables		3,148	3,431	2,164	3,424
Total assets		11,123	11,384	11,769	12,064
Shareholders' equity					
Shareholders' equity:					
Issued share capital	32	288	288	288	288
Share premium		937	933	937	933
Investment in own shares		(10)	(10)	(10)	(10)
Other reserves	34	1,818	1,000	1,344	683
Total shareholders' equity		3,033	2,211	2,559	1,894
Minority interest	34	200	200	–	–
Total equity		3,233	2,411	2,559	1,894
Non-current liabilities					
Interest-bearing long-term borrowings	27	2,751	2,929	2,971	3,113
Employee benefit obligations	35	330	1,142	322	1,134
Provisions for deferred tax	11	1,154	930	1,069	855
Other provisions	29	210	153	185	114
Derivative financial instruments	31	33	6	33	6
Other long-term liabilities	26	168	188	132	150
Total non-current liabilities		4,646	5,348	4,712	5,372
Current liabilities					
Current portion of long-term borrowings	27	423	417	421	413
Trade and other payables	25	2,590	2,726	3,849	3,924
Derivative financial instruments	31	57	18	57	18
Current tax payable		4	54	3	38
Short-term provisions	29	170	410	168	405
Total current liabilities		3,244	3,625	4,498	4,798
Total equity and liabilities		11,123	11,384	11,769	12,064

Willie Walsh
Keith Williams
May 15, 2008

Cash flow statements

For the year ended March 31, 2008

£ million	Note	Group		Company	
		2008	2007	2008	2007
Cash flows from operating activities					
Operating profit		875	602	855	607
Operating loss from discontinued operations		(2)	(122)	–	–
Credit arising on changes to pension scheme		–	(396)	–	(396)
Depreciation, amortisation and impairment		692	834	672	695
(Group includes £120 million from discontinued operations in 2007)					
Operating cash flow before working capital changes		1,565	918	1,527	906
Decrease/(increase) in inventories, trade and other receivables		96	61	89	(136)
Decrease in trade and other payables and provisions		(354)	(15)	(351)	(18)
Cash payment to NAPS pension scheme	35	(610)	(240)	(610)	(240)
Provision for settlement of competition investigations		–	350	–	350
Payment to DOJ in settlement of competition investigations	29	(149)	–	(149)	–
Other non-cash movements		3	(2)	(32)	(2)
Cash generated from operations		551	1,072	474	860
Interest paid		(182)	(188)	(169)	(170)
Taxation		(66)	(128)	(56)	(127)
Net cash flow from operating activities		303	756	249	563
Cash flows from investing activities					
Purchase of property, plant and equipment	14	(596)	(331)	(592)	(326)
Purchase of intangible assets	17	(33)	(36)	(32)	(36)
Purchase of interest in associate	19	(54)	–	–	–
Purchase of subsidiary undertaking	19	–	–	(1,016)	(13)
Purchase of minority interest		–	(13)	–	–
Proceeds from sale of associated companies		–	3	–	–
Proceeds from sale of other investments		–	52	–	52
Proceeds from sale of property, plant and equipment		11	7	11	7
Insurance recoveries from write-off of Boeing 777 aircraft		51	–	51	–
Cash inflow/(outflow) from disposal of subsidiary company		1	(149)	–	–
Interest received		117	113	123	112
Dividends received		3	1	4	20
Decrease in interest-bearing deposits		458	389	1,238	390
Net cash flow from investing activities		(42)	36	(213)	206
Cash flows from financing activities					
Proceeds from long-term borrowings		172	–	172	–
Repayments of borrowings		(68)	(97)	(57)	(77)
Payment of finance lease liabilities		(356)	(388)	(355)	(383)
Exercise of share options		4	50	4	50
Purchase of own shares		–	(12)	–	(12)
Distributions made to holders of perpetual securities		(14)	(14)	–	–
Net cash flow from financing activities		(262)	(461)	(236)	(422)
Net (decrease)/increase in cash and cash equivalents		(1)	331	(200)	347
Net foreign exchange difference		(29)	(16)	(29)	(11)
Cash and cash equivalents at April 1		713	398	662	326
Cash and cash equivalents at March 31	24	683	713	433	662

Statements of changes in equity

For the year ended March 31, 2008

£ million	Group						Total equity
	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	Total shareholders' equity	Minority interest	
At April 1, 2007	288	933	(10)	1,000	2,211	200	2,411
Profit for the period				680	680	14	694
Exchange differences and other movements				24	24		24
Net movement on cash flow hedges				119	119		119
Share-based payments				3	3		3
Tax effect of share-based payments				(7)	(7)		(7)
Deferred tax – rate change adjustment				6	6		6
Share of other movements in reserves of associates				(2)	(2)		(2)
Net losses on available-for-sale financial assets				(5)	(5)		(5)
Total income and expense for the period				818	818	14	832
Issue of shares		4			4		4
Distributions						(14)	(14)
At March 31, 2008	288	937	(10)	1,818	3,033	200	3,233

For the year ended March 31, 2007

£ million	Group						Total equity
	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	Total shareholders' equity	Minority interest	
At April 1, 2006	283	888		690	1,861	213	2,074
Profit for the period				290	290	14	304
Exchange differences and other movements				(3)	(3)		(3)
Net movement on cash flow hedges				(4)	(4)		(4)
Share-based payments				10	10		10
Tax effect of share-based payments				18	18		18
Share of other movements in reserves of associates				8	8		8
Net gains on available-for-sale financial assets				3	3		3
Total income and expense for the period				322	322	14	336
Exercise of share options			2	(12)	(10)		(10)
Issue of shares	5	45			50		50
Purchase of own shares			(12)		(12)		(12)
Purchase of minority interest						(13)	(13)
Distributions						(14)	(14)
At March 31, 2007	288	933	(10)	1,000	2,211	200	2,411

For the year ended March 31, 2008

£ million	Company				Total equity
	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	
At April 1, 2007	288	933	(10)	683	1,894
Profit for the period				540	540
Share-based payments				3	3
Tax effect of share-based payments				(7)	(7)
Deferred tax – rate change adjustment				6	6
Net movement on cash flow hedges				119	119
Total income and expense for the period				661	661
Issue of shares			4		4
At March 31, 2008	288	937	(10)	1,344	2,559

For the year ended March 31, 2007

£ million	Company				Total equity
	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	
At April 1, 2006	283	888		653	1,824
Profit for the period				18	18
Share-based payments				10	10
Tax effect of share-based payments				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

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, 2008 were authorised for issue by the Board of Directors on May 15, 2008 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 and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

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 Summary of significant accounting policies

Basis of presentation

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 IFRS, which also include International Accounting Standards (IAS), as issued by the IASB and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

The financial statements for the prior period include reclassifications that were made to conform to the current period presentation. The amendments have no material impact on the financial statements.

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's and Company's 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 the Group's accounting policies.

Subsidiaries are entities controlled by the Group. Control exists when the Group has 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 intra-group account balances, including intra-group 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 are not held by the Group and are presented separately within equity in the consolidated balance sheet.

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets 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 that 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 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 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 comprised the Group's scheduled regional operation and revenues ancillary to the provision of those services. The regional airline business utilised a dedicated fleet of aircraft to provide services from UK regional airports principally to shorthaul destinations within the UK and Europe. The regional airline business segment was re-presented as discontinued operations in the March 31, 2007 financial statements.

Non-airline businesses primarily include Airmiles Travel Promotions Ltd, BA Holidays Ltd and Speedbird Insurance 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 UK. 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 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 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

b Landing rights

Landing rights acquired from other airlines are capitalised at cost or at fair value and amortised on a straight-line basis over a period not exceeding 20 years.

c Software

The cost 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 four years on a straight-line basis.

The carrying value of intangibles 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 property, plant and equipment. 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 property, plant and equipment.

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 rotatable spares purchased separately, are carried as property, plant and equipment 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.

Notes to the accounts continued

2 Summary of significant accounting policies continued

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 property, plant and equipment 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 borrowings. The amount included in the cost of property, plant and equipment 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 10 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 extendable operating leases.

Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method.

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. 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.

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.

Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method. Such financial assets are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Gains and losses are recognised in income when the deposits are derecognised or impaired, as well as through the amortisation process.

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. A provision for impairment of trade receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

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 per cent 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 per cent 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 payments

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.

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 cash flows 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.

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 the income statement.

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. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in equity is included in the income statement. 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.

Impairment in financial assets

The Group assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

Notes to the accounts continued

2 Summary of significant accounting policies continued

Investment in own shares

Shares in the Company held by the Group are classified as 'Investments in own shares' and shown as deductions from shareholders' equity at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves.

No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

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 on the income statement under a caption to which they relate, and are separately disclosed in the notes to the consolidated financial statements. Certain exceptional items have been classified as non-recurring items and they are included on the face of the consolidated income statement.

Discontinued operations

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations.

Key accounting estimates and judgements

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 18).

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

b) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 33.

c) Pensions and other post-retirement benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty (note 35).

d) Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair value in shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the income statement. Impairment losses recognised in the income statement is disclosed in note 10.

e) Passenger revenue recognition

Passenger revenue is recognised when the transportation is provided. 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.

Impact of new International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial year except as follows:

IFRS 7 'Financial Instruments – Disclosures'; effective for annual periods beginning on or after January 1, 2007. This standard replaces disclosure rules previously set out in IAS 32 'Financial Instruments: Presentation and Disclosures'. IFRS 7 requires disclosure of additional information about the Group's financial instruments, of adoption of the new standards and the nature and extent of risks to which they give rise. More specifically, the Group is required to make specified minimum disclosures about credit risk, liquidity risk and market risk. There is no effect on reported income or shareholders' equity. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements.

IAS 1 'Presentation of Financial Statements'; effective for annual periods on or after January 1, 2007. This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. All disclosures relating to the Group's objective, policies and processes for managing capital, including all comparative information, have been updated to reflect the new requirements.

IFRIC 8 'Scope of IFRS 2 – Group and Treasury Share Transactions'; effective for annual periods beginning on or after May 1, 2006. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation had no impact on the Group.

IFRIC 9 'Reassessment of Embedded Derivatives'; effective for annual periods beginning on or after January 1, 2007, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation had no impact to the Group.

IFRIC 10 'Interims and Impairment'; effective for annual periods beginning on or after November 1, 2006, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This interpretation has not had any impact on the timing or recognition of impairment losses as the Group already accounted for such amounts using principles consistent with IFRIC 10.

IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'; effective for annual periods beginning on or after March 1, 2007, which requires arrangements whereby an employee is granted rights to an entity's instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation had no impact on the Group.

New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards and interpretations with an effective date after the date of these financial statements:

IFRIC 13 'Customer Loyalty Programmes', effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale. IFRIC 13 will become mandatory for the Group's consolidated financial statements beginning April 1, 2009 with earlier application permitted. The Group expects to early adopt IFRIC 13 from April 1, 2008 with initial adoption expected to result in a reduction in opening shareholders' equity.

IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction'; effective for annual periods beginning on or after July 1, 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. The Group will apply IFRIC 14 from April 1, 2008, but management has not yet determined the potential effect of this interpretation.

IAS 1 (Amendment) 'Presentation of Financial Statements' – A Revised Presentation; effective for annual periods beginning on

or after January 1, 2009, requires separate presentation of owner and non-owner changes in equity by introducing the statement of comprehensive income. The statement of recognised income and expense will no longer be presented. Whenever there is a restatement or reclassification, an additional balance sheet, as at the beginning of the earliest period presented, will be required to be published. There will be no effect on the Group's reported income or net assets. IAS 1 revised has not yet been adopted by the EU.

IFRS 3 (Revised) 'Business Combinations'; effective for annual periods beginning on or after July 1, 2009, requires the purchase method of accounting to be applied to business combinations but will introduce some changes to existing accounting treatment. Management does not expect this interpretation to impact the Group.

IAS 27 (Amendment) 'Consolidated and Separate Financial Statements'; effective for annual periods beginning on or after July 1, 2009, requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Such transactions will no longer result in goodwill or gains or losses. Where control is lost, any remaining interest in the entity is remeasured to fair value and a gain or loss recognised in the income statement. Management does not expect this interpretation to impact the Group.

IFRS 2 (Amendment) 'Share-based Payment'; effective for annual periods beginning on or after January 1, 2009, clarifies that only service conditions and performance conditions are vesting conditions, and other features of a share-based payment are not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management does not expect this amendment to impact the Group.

IAS 23 (Amendment) 'Borrowing Costs'; effective for annual periods beginning on or after January 1, 2009, requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Management does not expect this amendment to impact the Group, as the Group's current policy is to capitalise borrowing costs on qualifying assets.

IAS 32 (Amendment) 'Financial Instruments: Presentation' and IAS 1 (Amendment) 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation'; both effective for annual periods beginning on or after January 1, 2009, require entities to classify as equity certain financial instruments provided certain criteria are met. The instruments to be classified as equity are puttable financial instruments and those instruments that impose an obligation on the entity to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Management does not expect this amendment to impact the Group.

IFRIC 12 'Service Concession Arrangements'; effective for annual periods beginning on or after January 1, 2008. Management does not expect this interpretation to impact the Group.

IFRS 8 'Operating Segments'; effective for annual periods beginning on or after January 1, 2009, subject to EU endorsement. IFRS 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from April 1, 2009. Management has not yet determined the potential effect of the standard.

Notes to the accounts continued

3 Segment information

a Business segments

For the year ended March 31, 2008

£ million	Continuing operations				Discontinued operations*	Total
	Airline business	Non-airline business	Unallocated	Total		
Revenue						
Sales to external customers **	8,561	192		8,753		8,753
Inter-segment sales	31			31		31
Segment revenue	8,592	192		8,784		8,784
Segment result	850	25		875	(2)	873
Other non-operating income	9			9		9
Profit/(loss) before tax and finance costs	859	25		884	(2)	882
Net finance costs			(41)	(41)		(41)
Profit/(loss) on sale of assets	16	(2)		14		14
Share of associates' profit	26			26		26
Income tax expense			(187)	(187)		(187)
Profit/(loss) after tax	901	23	(228)	696	(2)	694
Assets and liabilities						
Segment assets	10,797	99		10,896		10,896
Investment in associates	227			227		227
Total assets	11,024	99		11,123		11,123
Segment liabilities	3,260	298		3,558		3,558
Unallocated liabilities ***			4,332	4,332		4,332
Total liabilities	3,260	298	4,332	7,890		7,890
Other segment information						
Property, plant and equipment – additions	636	1		637		637
Intangible assets – additions	40			40		40
Depreciation, amortisation and impairment	690	2		692		692
Exceptional items (note 4b)	1			1		1

* As disclosed in note 5, 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.

** Sales to external customers within the 'Non-airline business' segment include certain elements of other revenue related to the 'Airline business' segment.

*** Unallocated liabilities primarily include deferred taxes of £1,154 million (2006/07: £930 million) and borrowings of £3,174 million (2006/07: £3,346 million) which are managed on a Group basis.

3 Segment information continued

For the year ended March 31, 2007

£ million	Continuing operations				Discontinued operations*	Total
	Airline business	Non-airline business	Unallocated	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
Other non-operating income/(expense)	2			2	(3)	(1)
Profit/(loss) before tax and finance costs	602	2		604	(125)	479
Net finance costs			(45)	(45)	(5)	(50)
(Loss)/profit on sale of assets	(1)	48		47	(28)	19
Share of associates' profit	5			5		5
Income tax (expense)/credit			(173)	(173)	24	(149)
Profit/(loss) after tax	606	50	(218)	438	(134)	304
Assets and liabilities						
Segment assets	11,147	112		11,259		11,259
Investment in associates	125			125		125
Total assets	11,272	112		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						
Property, plant and equipment – 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)	38			38		38

* As disclosed in note 5, 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.

** Sales to external customers within the 'Non-airline business' segment include certain elements of other revenue related to the 'Airline business' segment.

*** Unallocated liabilities primarily include deferred taxes of £1,154 million (2006/07: £930 million) and borrowings of £3,174 million (2006/07: £3,346 million) which are managed on a Group basis.

b Geographical segments – by area of original sale

£ million	Continuing operations		Discontinued operations		Group	
	2008	2007	2008	2007	2008	2007
Europe:	5,576	5,316		224	5,576	5,540
United Kingdom	4,357	4,160		184	4,357	4,344
Continental Europe	1,219	1,156		40	1,219	1,196
The Americas	1,697	1,731		7	1,697	1,738
Africa, Middle East and Indian subcontinent	821	803		2	821	805
Far East and Australasia	659	642			659	642
Revenue	8,753	8,492		233	8,753	8,725

Notes to the accounts continued

4 Operating profit

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

Depreciation, amortisation and impairment of fixed assets

£ million	2008	Group 2007
Owned assets	362	340
Finance leased aircraft	119	116
Hire purchased aircraft	118	153
Other leasehold interests	62	77
Impairment reversals on property, plant and equipment		(2)
Amortisation of intangible assets	31	30
Total depreciation, amortisation and impairment expense	692	714

Operating lease costs

£ million	2008	Group 2007
Minimum lease rentals – aircraft	80	90
– property	119	136
Sub-lease rentals received	(16)	(16)
Net onerous lease provision (release)/arising	(9)	1
	174	211

Cost of inventories

£ million	2008	Group 2007
Cost of inventories recognised as an expense, mainly fuel and other	2,128	2,012
Includes write-down of inventories to net realisable value	5	

b Exceptional items

£ million	2008	Group 2007
Recognised in operating profit:		
Employee costs – restructuring costs	1	84
Credit arising on changes to pension scheme		(396)
Provision for settlement of competition investigations		350
	1	38

During the prior 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 the Flybe Group Ltd. The acquisition of BA Connect by the Flybe Group Ltd 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 financial statements for the year ended March 31, 2006. The Group paid the Flybe Group Ltd £129 million, and took a 15 per cent investment in the Flybe Group Ltd, valued at £49 million at March 31, 2007.

Following the sale of the regional business of BA Connect to the Flybe Group Ltd in March 2007, the Group has agreed contractual terms to transfer its regional ground handling 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.

5 Discontinued operations continued

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 that has been recognised in the income statement (discontinued operations).

The £2 million loss from discontinued operations for the year ended March 31, 2008 is attributed to the resolution of uncertainties that arose from the terms of the disposal transaction, primarily adjustments to the restructuring provision previously reported within discontinued operations.

a Results from discontinued operations

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

£ million	2008	Group 2007
Revenue		233
Operating expenses		(231)
Impairment		(106)
Restructuring costs	(2)	(18)
Operating loss	(2)	(122)
Disposal transaction costs		(3)
Loss arising on disposal of net assets		(28)
Net finance costs		(5)
Loss before tax	(2)	(158)
Tax:		
UK corporation tax credit		3
Tax arising from disposal of discontinued operations		(4)
Total current income tax credit (discontinued operations)		(1)
Deferred tax credit (note 11c)		25
Total tax credit (note 5b)		24
Loss from discontinued operations	(2)	(134)
Analysis of deferred tax credit above:		
Fixed asset related temporary differences		29
Pensions		(4)
Deferred tax credit		25

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 per cent (2006/07: 30 per cent). The differences are explained below:

£ million	2008	Group 2007
Accounting loss before income tax from discontinued operations	(2)	(158)
Accounting loss multiplied by standard rate of corporation tax in the UK of 30 per cent (2006/07: 30 per cent)	(1)	(47)
Effects of:		
Non-deductible expenses	1	5
Untaxed profits on disposals		8
Goodwill write-off		10
Total tax credit on discontinued operations for the year (note 5a)		(24)

Notes to the accounts continued

5 Discontinued operations continued

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	
	2008	2007
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 Group Ltd (consideration)		49
Loss arising on disposal of net assets	-	(28)
Cash and cash equivalents in BA Connect on disposal		(129)
Settlement of trade receivable 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
Investing cash flows	(2)
Financing cash flows	(20)

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

6 Auditors' remuneration

£'000	Group		Company	
	2008	2007	2008	2007
Group auditors – Audit fees				
Fees payable to the Group's auditors for the audit of the Group's accounts	1,985	2,020	1,985	2,020
Fees payable to the Group's auditors and its associates for other services:				
Audit of the Group's subsidiaries pursuant to legislation	271	271		
Other services pursuant to legislation*	57	1,266	43	1,248
Other services relating to taxation	308	81	308	81
Services relating to corporate finance transactions	286	9	286	9
All other services	113	678	113	678
	3,020	4,325	2,735	4,036

*The 'Other services pursuant to legislation' amount in 2007 is primarily attributed to Sarbanes Oxley section 404 audit fees. Compliance with Sarbanes Oxley is no longer required due to the Company's deregistration from the New York Stock Exchange during the year ended March 31, 2008.

Of the Group fees, £2,788,000 relates to the UK (2006/07: £4,234,000) and £232,000 relates to overseas (2006/07: £91,000).

Of the Company fees, £2,527,000 relates to the UK (2006/07: £3,969,000) and £208,000 relates to overseas (2006/07: £67,000).

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.

7 Employee costs and numbers

a Staff costs

The average number of persons employed during the year was as follows:

Number	Group		Company	
	2008	2007	2008	2007
United Kingdom	39,193	41,409	36,962	37,718
Overseas	5,947	6,661	5,159	5,721
	45,140	48,070	42,121	43,439

£ million	Group		Company	
	2008	2007	2008	2007
Wages and salaries	1,433	1,522	1,362	1,400
Social security costs	150	158	142	145
Costs related to pension scheme benefits	216	308	211	296
Other post-retirement benefit costs	4	3	3	3
Other employee costs	363	364	352	346
Total employee costs	2,166	2,355	2,070	2,190
Employee costs relating to continuing operations	2,166	2,277	2,072	2,180
Employee costs/(income) relating to discontinued operations		78	(2)	10

In addition, included in 'Wages and salaries' is a total expense of share-based payments of £3 million (2006/07: £10 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 for 2006/07 exclude the £396 million credit arising on changes to NAPS which is disclosed separately on the face of the income statement.

b Directors' emoluments

£'000	Group	
	2008	2007
Fees	734	648
Salary and benefits	1,123	1,484
Aggregate gains made by directors on the exercise of options		555
	1,857	2,687

During the year, one director 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 65 to 73.

Notes to the accounts continued

8 Finance costs and income

£ million	2008	Group 2007
a Finance costs		
On bank loans*	36	34
On finance leases	70	68
On hire purchase arrangements	31	45
On other loans*	39	23
Interest expense	176	170
Unwinding of discounting on provisions**	10	1
Interest capitalised	(15)	(5)
Change in fair value of cross currency and interest rate swaps	4	2
	175	168

* Total interest expense for financial liabilities not at fair value through the income statement is £75 million (2006/07: £57 million).

** Current year unwinding of discount is on the competition investigation, restoration and handback provisions (see note 29).

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	2008	Group 2007
b Finance income		
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	111	129
	111	129
c Financing income and expense relating to pensions		
Net financing income/(expense) relating to pensions	34	(18)
Amortisation of actuarial losses on pensions		(1)
	34	(19)
d Retranslation charges/(credits) on currency borrowings	11	(13)

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

£ million	2008	Group 2007
Net profit on sale of property, plant and equipment	12	
Write-off of Boeing 777 aircraft	(60)	
Insurance recoveries on Boeing 777 aircraft	63	
Net profit on disposal of investment in WNS		48
Net loss on sale of other investments	(1)	(1)
	14	47

A prior year sale of seven Boeing 767 aircraft resulted in a provision to cover guarantees. This has subsequently been released and has resulted in a net profit of £12 million.

A £60 million loss on disposal has been recognised as a result of the incident involving a Boeing 777 at Heathrow in January 2008. This is offset by a £63 million recovery of insurance proceeds, of which £51 million was received during the year.

10 Income and charges relating to financial assets

£ million	2008	Group 2007
Income from available-for-sale financial assets*	5	16
Amounts written off investments**	(8)	(2)
	(3)	14

* Includes £4 million (2006/07: £3 million) attributable to interest earned on loans to the Airline Group Ltd, an available-for-sale financial asset and a £nil (2006/07: £12 million) reversal of prior year provisions on loans to the Airline Group Ltd.

** £6 million attributable to impairment of investment in the Flybe Group Ltd (see note 20) and £2 million (2006/07: £2 million) impairment of investment in Inter-Capital and Regional Rail Ltd, a loss-making entity that manages Eurostar UK Ltd until 2010.

11 Tax

a Tax on profit on ordinary activities

Tax charged in the income statement relating to continuing operations

£ million	2008	Group 2007
Current income tax (continuing operations)		
UK corporation tax	72	171
Relief for foreign tax paid	(2)	(5)
Advance corporation tax credit	(47)	(22)
UK tax	23	144
Foreign tax	1	1
Adjustments in respect of prior years – UK corporation tax	(8)	(14)
Adjustments in respect of prior years – overseas tax		(10)
Total current income tax charge (continuing operations)	16	121
Deferred tax		
Effect of the change in the rate of UK corporation tax on opening balances	(76)	
Property, plant and equipment related temporary differences	(57)	(74)
Pensions	237	178
Unremitted earnings of associated companies	5	
Advance corporation tax charge/(credit)	47	(52)
Share option deductions written back	5	2
Other temporary differences	(2)	(12)
Adjustments in respect of prior years	12	10
Total deferred tax charge (continuing operations)	171	52
The deferred tax charge in the year has been calculated at a rate of 30 per cent on items reversing during the year and at 28 per cent on items creating a new deferred tax balance at March 31, 2008.		
Tax charge in the income statement (continuing operations)	187	173
Tax credit relating to discontinued operations (note 5a)		(24)
Total tax charge in the income statement	187	149

Tax charged/(credited) directly to equity

£ million	2008	Group 2007
Current tax		
Current income tax credit to reserves relating to exercise of share options		(17)
Deferred tax		
Deferred tax on net movement on revaluation of cash flow hedges charge/(credit)	67	(41)
Deferred tax on foreign exchange in reserves (credit)/charge	(21)	41
Deferred tax on share options in issue charge/(credit)	7	(1)
Corporation tax rate change for items charged directly to reserves	(6)	
Tax charge/(credit) taken directly to equity	47	(18)

Notes to the accounts continued

11 Tax continued

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 per cent (2006/07: 30 per cent).

The differences are explained below:

£ million	Group	
	2008	2007
Accounting profit before tax from continuing operations	883	611
Accounting profit multiplied by standard rate of corporation tax in the UK of 30 per cent (2006/07: 30 per cent)	265	183
Effects of:		
Provision for the settlement of competition investigations		105
Non-deductible expenses	5	2
Untaxed profits on disposals charge/(credit)	1	(17)
Tax effect arising from associates' profits being disclosed on an after tax basis	(7)	(1)
Tax on associates' unremitted earnings	2	
Accounting effect of preference share minority interest	(4)	(4)
Adjustments in respect of prior years charge/(credit)	4	(14)
Recognition of previously written-off advance corporation tax		(74)
Other differences	(5)	(7)
Effect of corporation tax change in income statement deferred tax movement	2	
Effect of corporation tax change on opening deferred tax balances	(76)	
Total tax charge for the year on profit from continuing operations (note 11a)	187	173

c Deferred tax

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

£ million	Group		Company	
	2008	2007	2008	2007
Fixed asset related temporary differences	1,105	1,213	1,019	1,124
Pensions	(56)	(291)	(54)	(289)
Exchange differences on funding liabilities	68	97	67	97
Advance corporation tax	(47)	(72)	(47)	(72)
Tax losses carried forward	(1)			
Tax on subsidiary and associated companies unremitted earnings	18	8	4	2
Tax on fair value profits recognised on cash flow hedges	78	11	78	11
Tax on share options	(3)	(15)	(3)	(15)
Other temporary differences	(8)	(21)	5	(3)
	1,154	930	1,069	855

Movement in provision

	Group		Company	
	2008	2007	2008	2007
Balance at April 1	930	896	855	792
Deferred tax charge relating to profit arising from continuing operations (note 11a)	171	52	167	64
Deferred tax credit relating to loss arising from discontinued operations (note 5a)		(25)		
Deferred tax charge/(credit) reported directly in reserves (note 11a)	47	(1)	47	(1)
Deferred tax relating to sold companies (note 5c)		8		
Deferred tax charge arising on acquisition of equity in Iberia	3			
Revaluation of foreign currency balances	3			
Balance at March 31	1,154	930	1,069	855

d Factors that may affect future tax charges

The Group has unutilised UK capital losses of £198 million (2006/07: £217 million). These losses can be carried forward indefinitely and offset against any future UK chargeable gains that may arise. No deferred tax asset has been recognised in respect of these capital losses as their utilisation is not currently anticipated. The Group has made £69 million (2006/07: £100 million) of rollover relief claims that have reduced the tax basis of fixed assets. No deferred tax liability has been recognised in respect of the potential tax liability arising from these claims as they could be offset by the UK capital losses carried forward.

11 Tax continued

The Group has now fully recognised its advance corporation tax surplus brought forward of £94 million. £47 million of the asset has been offset against UK corporation tax liabilities for the years to March 31, 2008. The remainder of the asset (£47 million) has been recognised as a deferred tax asset at March 31, 2008 as it is anticipated that the advance corporation tax will be offset against UK corporation tax liabilities within the foreseeable future.

Deferred tax has been provided on the unremitted earnings of associate companies where it is not considered that the Group can control the timing or manner of the reversal of the temporary difference associated with such earnings. In addition, deferred tax has been provided for tax arising on dividends expected to be paid by the Group's overseas subsidiaries in the foreseeable future. If the retained earnings of other overseas subsidiary companies were to be remitted to the parent company by way of dividend, the temporary differences upon which the Group has not provided for deferred tax would be £19 million (2006/07: £18 million).

The UK corporation tax rate reduced from 30 per cent to 28 per cent from April 1, 2008. This rate change will affect the amount of future cash tax payments to be made by the Group and has also reduced the size of the Group's balance sheet deferred tax liability at March 31, 2008.

The Finance Bill 2008 proposed that from April 1, 2008 the rate of capital allowances applicable to plant and machinery expenditure will be reduced from 25 per cent to 20 per cent per annum on a reducing balance basis and the rate of allowances applicable to long-life assets increases from 6 per cent to 10 per cent also on a reducing balance basis. If enacted, these changes to the capital allowance rates will impact the rate at which tax relief is received on expenditure on new aircraft as the Group currently applies the agreement between the British Airline Transport Association and the UK tax authorities under which such expenditure is treated as half plant and machinery and half long-life asset.

The Finance Bill 2008 also proposed the phased abolition of industrial buildings allowances by March 31, 2011. It is estimated that the abolition of these tax allowances will cost the Group £79 million of future tax relief. This number is subject to adjustment if the Group makes substantial acquisitions or disposals of buildings that qualify for industrial buildings allowances before March 31, 2011. At the balance sheet date this proposed change in legislation was still subject to parliamentary agreement and its accounting effect, which will be an increase in the Group's net deferred tax liability, will not be reflected in the Group's financial statements until the legislation has been substantively enacted.

12 Earnings per share

	Profit		Earnings per share	
	2008 £m	2007 £m	2008 Pence	2007 Pence
Profit for the year attributable to shareholders and basic earnings per share	680	290	59.0	25.5
Represented by:				
Continuing operations	682	424	59.2	37.2
Discontinued operations	(2)	(134)	(0.2)	(11.7)
Diluted profit for the year attributable to shareholders and diluted earnings per share	680	290	58.6	25.2
Represented by:				
Continuing operations	682	424	58.8	36.8
Discontinued operations	(2)	(134)	(0.2)	(11.7)
Weighted average number of shares for basic EPS ('000)			1,150,537	1,141,133
Dilutive potential ordinary shares:				
Employee share options ('000)			8,093	10,810
Weighted average number of shares for diluted EPS ('000)			1,158,630	1,151,943

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 33.

13 Dividends proposed

The Directors propose a dividend of 5 pence per share (totalling £58 million) for the year ended March 31, 2008. The dividend will be submitted for approval at the annual general meeting to be held on July 15, 2008. These financial statements do not reflect the dividend payable, which will be accounted for as a reduction in shareholders' equity in the year ending March 31, 2009.

Notes to the accounts continued

14 Property, plant and equipment

a Group

£ million	Fleet	Property	Equipment	Group total
Cost				
Balance at April 1, 2006	11,318	1,427	780	13,525
Additions (note 14d)	258	62	19	339
Disposals	(344)	(63)	(66)	(473)
Reclassifications	10		20	30
Reclassifications to assets held for sale (note 16)	(19)	(28)		(47)
Balance at March 31, 2007	11,223	1,398	753	13,374
Additions (note 14d)	428	122	87	637
Disposals	(262)	(12)	(36)	(310)
Balance at March 31, 2008	11,389	1,508	804	13,701
Depreciation and impairment				
Balance at April 1, 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 16)	(16)	(23)		(39)
Balance at March 31, 2007	5,070	466	481	6,017
Charge for the year	542	72	47	661
Disposals	(199)	(7)	(34)	(240)
Balance at March 31, 2008	5,413	531	494	6,438
Net book amounts				
March 31, 2008	5,976	977	310	7,263
March 31, 2007	6,153	932	272	7,357
Analysis at March 31, 2008				
Owned	2,572	952	300	3,824
Finance leased	1,728			1,728
Hire purchase arrangements	1,549			1,549
Progress payments	127	25	10	162
	5,976	977	310	7,263
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

The net book amount of property comprises:

	Group total	
	2008	2007
Freehold	274	282
Long leasehold improvements	256	261
Short leasehold improvements*	447	389
	977	932

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

As at March 31, 2008 bank and other loans of the Group are secured on fleet assets with a cost of £477 million (2007: £477 million), and letters of credit of £330 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2007: £380 million).

Included in the cost of tangible assets for the Group is £345 million (2007: £330 million) of capitalised interest.

14 Property, plant and equipment continued

b Company

£ million	Fleet	Property	Equipment	Company total
Cost				
Balance at April 1, 2006	10,749	1,337	705	12,791
Additions	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 16)	(19)	(28)		(47)
Balance at March 31, 2007	10,875	1,310	688	12,873
Additions	427	121	81	629
Disposals	(260)	(10)	(33)	(303)
Balance at March 31, 2008	11,042	1,421	736	13,199
Depreciation and impairment				
Balance at April 1, 2006	4,517	423	413	5,353
Charge for the year	536	84	43	663
Disposals	(120)	(54)	(53)	(227)
Transfers to subsidiary companies			(1)	(1)
Impairment		3		3
Reclassifications	1	1	20	22
Reclassifications to assets held for sale (note 16)	(16)	(23)		(39)
Balance at March 31, 2007	4,918	434	422	5,774
Charge for the year	527	70	45	642
Disposals	(197)	(7)	(32)	(236)
Balance at March 31, 2008	5,248	497	435	6,180
Net book amounts				
March 31, 2008	5,794	924	301	7,019
March 31, 2007	5,957	876	266	7,099
Analysis at March 31, 2008				
Owned	2,394	899	292	3,585
Finance leased	1,728			1,728
Hire purchase arrangements	1,549			1,549
Progress payments	123	25	9	157
	5,794	924	301	7,019
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

The net book amount of property comprises:

	Company total	
	2008	2007
Freehold	226	232
Long leasehold improvements	256	261
Short leasehold improvements*	442	383
	924	876

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

As at March 31, 2008 bank and other loans of the Company are secured on fleet assets with a cost of £404 million (2007: £404 million).

Included in the cost of tangible assets for the Company is £343 million (2007: £327 million) of capitalised interest.

Notes to the accounts continued

14 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:

Per cent	Group	
	2008	2007
Boeing 747-400 and 777-200	3.7	3.7
Boeing 767-300	4.8	4.9
Boeing 757-200	4.4	4.4
Airbus A321, A320, A319, Boeing 737-400	4.9	4.9

For engines maintained under 'Power-by-the-hour' contracts, the depreciation lives and residuals are the same as for the aircraft fleets to which the engines relate. For all other engines, the engine core is depreciated to residual value over the average remaining life of the related fleet.

Major overhaul expenditure is depreciated over periods ranging from 54 to 78 months, according to engine type. During the year, the Group changed the depreciation period for the RB211 engine, used on Boeing 747 and 767 fleets, from 54 months to 78 months. The change resulted in a £32.5 million decrease in annual depreciation charge for this engine type.

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 four to 20 years, according to the type of equipment.

d Analysis of Group tangible asset additions

£ million	Fleet	Property	Equipment	Group total	
				2008	2007
Cash paid	434	106	56	596	331
Capitalised interest	4	11		15	5
Accrual movements	(10)	5	31	26	3
	428	122	87	637	339

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £5,189 million for the Group (2007: £554 million) and £5,185 million for the Company (2007: £553 million).

The outstanding commitments include £5,162 million for the acquisition of four Boeing 777 aircraft scheduled for delivery in 2009, 19 Airbus A320 family (from 2008 to 2010), 12 Airbus A380 aircraft (from 2012 to 2014) and 24 Boeing 787 aircraft (from 2012 to 2015).

16 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, 2008 aircraft with a fair value (less costs to sell) of £3 million (2007: £3 million) and property with a fair value of £5 million (2007: £nil) were sold.

At March 31, 2008 there were no assets held for sale (2007: £8 million).

17 Intangible assets

a Group

£ million	Goodwill	Landing rights	Software	Group total
Cost				
Balance at April 1, 2006	72	144	135	351
Additions		31	10	41
Disposals			(2)	(2)
Impairment	(32)			(32)
Balance at March 31, 2007	40	175	143	358
Additions		28	12	40
Disposals			(2)	(2)
Balance at March 31, 2008	40	203	153	396
Amortisation				
Balance at April 1, 2006		29	89	118
Disposals			(2)	(2)
Charge for the year		7	23	30
Balance at March 31, 2007		36	110	146
Disposals			(2)	(2)
Charge for the year		8	23	31
Balance at March 31, 2008		44	131	175
Net book amounts				
March 31, 2008	40	159	22	221
March 31, 2007	40	139	33	212

b Company

£ million	Landing rights	Software	Company total
Cost			
Balance at April 1, 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
Additions	28	11	39
Disposals		(1)	(1)
Balance at March 31, 2008	203	153	356
Amortisation			
Balance at April 1, 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
Charge for the year	8	23	31
Disposals		(1)	(1)
Balance at March 31, 2008	44	131	175
Net book amounts			
March 31, 2008	159	22	181
March 31, 2007	139	34	173

Landing rights are depreciated over a period of 20 years.

c Analysis of Group intangible asset additions

£ million	Landing rights	Software	Group total	
			2008	2007
Cash paid	21	12	33	36
Non-cash additions	7		7	5
Total additions	28	12	40	41

Notes to the accounts continued

18 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 were reportable business segments. The two segments were the airline cash-generating unit and the regional airline cash-generating unit.

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 was reflected in discontinued operations.

The carrying amount of goodwill is now wholly reflected in the airline cash-generating unit.

£ million	2008	Group 2007
Carrying amount of goodwill	40	40

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 per cent. The pre-tax discount rate applied to the cash flow projections is 8.9 per cent (2007: 8.9 per cent). This discount rate is derived from the Group's post-tax weighted average cost of capital, adjusted for the risks specific to the market.

The calculation of value in use for the airline unit is most sensitive to the following assumptions:

- Operating margin;
- Discount rates; and
- 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. These are adjusted for the volatile trading conditions that have impacted the airline unit 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 exceeding its recoverable amount.

The discount rate reflects management's estimate of the long-run return on capital employed for the airline unit. Changes in the cash-generating unit's sources of funding or the cost of that funding (referring to long-term market rates) could result in changes to the discount rates used. An increase in discount rates by 1.5 points (2007: 4.1 points) would result in the airline unit's carrying amount being equal to its recoverable amount. A sensitivity analysis was performed by reducing the risk-adjusted cash flow projections (decrease in margins and increase in capital expenditures) by 10 per cent, which did not lead to an impairment of goodwill.

19 Investments

a Group

Investments in associates

£ million	2008	Group 2007
Balance at April 1	125	131
Exchange movements	24	(3)
Additions*	57	
Share of attributable results	23	3
Share of movements on other reserves	(2)	8
Reclassification of Comair Ltd		(10)
Disposals		(4)
Balance at March 31	227	125

*£3 million of the additions are non-cash, attributed to deferred tax liabilities recognised on Iberia's unremitted earnings.

19 Investments continued

Market value of listed associates

£ million	Group total	
	2008	2007
	275	256

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')*	13.15	Airline operations	Ordinary shares	Spain

*Held by a subsidiary company.

The Group accounts for its investment in Iberia as an associate although the Group holds less than 20 per cent of the issued share capital as the Group has the ability to exercise significant influence over the investment due to 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 34).

In February 2008, the Group purchased 28.7 million additional shares in Iberia at an average price of €2.34 per share (£54 million), taking its holding to 13.15 per cent (2007: 9.95 per cent). The acquisition of additional shares in Iberia resulted in goodwill of £9 million, which has been reflected in investment in associates.

On June 9, 2006 the Group's shareholding in Comair Ltd was reduced from 18.3 per cent to 12.9 per cent. Due to the Group's ability to exercise significant influence, the investment in Comair Ltd was accounted for using the equity method. In September 2006, the Group's shareholding in Comair Ltd decreased to 10.92 per cent 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 total	
	2008	2007
Non-current assets	218	168
Current assets	414	222
Current liabilities	(234)	(145)
Non-current liabilities	(188)	(128)
Share of net assets	210	117
Goodwill attributable to investments in associates	17	8
Revenues	556	399
Net profit after tax	26	5

b Company

Investments in associates and subsidiaries

£ million	Cost	Provisions	Company	
			Total 2008	Total 2007
Balance at April 1	2,191	(1,006)	1,185	1,350
Exchange movements	17		17	(1)
Additions	1,016		1,016	125
Intra group transfer	(5)		(5)	
Provision*		(6)	(6)	(289)
Balance at March 31	3,219	(1,012)	2,207	1,185
Investments in associates				
Balance at April 1				1
Disposals				(1)
Balance at March 31				

*The 2007 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.

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 130.

Notes to the accounts continued

19 Investments continued

During the year, the Company invested £999 million in a subsidiary funded by the transfer of interest-bearing deposits to the subsidiary whose primary purpose is to invest the Company's excess cash. In addition, in the current year the Company invested £17 million in a subsidiary relating to the launch of a new airline, OpenSkies.

20 Available-for-sale financial assets

£ million	Group		Company	
	2008	2007	2008	2007
Available-for-sale financial assets	80	107	24	41

Available-for-sale financial assets are measured at fair value. For listed investments the fair value comprises the market price at the balance sheet date. For unlisted investments the fair value is estimated by reference to the discounted cash flow analysis or by reference to other valuation methods.

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

The Group performed a review of its investment in the Flybe Group Ltd and due to an expected significant and prolonged decline in fair value, associated with fuel price increases, the Group recognised a £6 million impairment of the investment. The impairment charge has been reflected in the income statement relating to other financial assets.

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

The table below shows total listed and unlisted available-for-sale investments.

£ million	Group		Company	
	2008	2007	2008	2007
Listed	13	17		
Unlisted	67	90	24	41
	80	107	24	41

21 Inventories

£ million	Group		Company	
	2008	2007	2008	2007
Expendables and consumables	112	76	109	74

22 Trade receivables

£ million	Group		Company	
	2008	2007	2008	2007
Trade receivables	598	670	586	651
Less: provision for doubtful receivables	12	16	12	16
Net trade receivables	586	654	574	635

Movements in the provision for doubtful trade receivables were as follows:

£ million	Group		Company	
At April 1, 2006		17		17
Provision for doubtful receivables		2		2
Exchange movement on revaluation		(1)		(1)
Receivables written off during the year		(1)		(1)
Unused amounts reversed		(1)		(1)
At March 31, 2007		16		16
Provision for doubtful receivables		7		7
Receivables written off during the year		(7)		(7)
Unused amounts reversed		(4)		(4)
At March 31, 2008		12		12

The fair value of trade receivables is equal to their carrying value.

22 Trade receivables continued

As at March 31, the ageing analysis of trade receivables is as follows:

£ million	Total	Neither past due nor impaired	Past due but not impaired		
			< 30 days	30-60 days	> 60 days
Group					
2008	586	578	1	1	6
2007	654	637	9	2	6
Company					
2008	574	567	1	1	5
2007	635	624	3	2	6

Trade receivables are generally non-interest-bearing and on 30 days' terms.

23 Other current assets

£ million	Group		Company	
	2008	2007	2008	2007
Amounts owed by subsidiaries			116	99
Other debtors	103	68	102	68
Prepayments and accrued income	205	200	153	169
	308	268	371	336

24 Cash, cash equivalents and other current interest-bearing deposits

a Cash and cash equivalents

£ million	Group		Company	
	2008	2007	2008	2007
Cash at bank and in hand	180	594	175	589
Short-term deposits falling due within three months	503	119	258	73
Cash and cash equivalents	683	713	433	662
Other current interest-bearing deposits maturing after three months	1,181	1,642	399	1,639

At March 31, 2008 the Group and Company had the following undrawn general and committed aircraft financing facilities:

million	Currency	£ equivalent
US dollar facility expiring June 2010	\$266	134
US dollar facility expiring December 2015	\$115	58
US dollar facility expiring December 2015	\$509	256
US dollar facility expiring December 2015	\$940	472
US dollar facility expiring December 2015	\$1,615	812
Japanese yen facility expiring January 2011	¥75,000	381

At March 31, 2007 the Group and Company had the following undrawn general and committed aircraft financing facilities:

million	Currency	£ equivalent
US dollar facility expiring December 2007	\$172	88
US dollar facility expiring May 2008	\$180	92
US dollar facility expiring June 2012	\$15	8
Japanese yen facility expiring January 2011	¥75,000	325

The decrease in other current interest-bearing deposits maturing after three months, for the Company, is due to the investment in a new subsidiary (see note 19).

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 £683 million for the Group (2007: £713 million) and for the Company £433 million (2007: £662 million).

At March 31, 2008 the Group and Company had no outstanding bank overdrafts (2007: £nil).

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

Notes to the accounts continued

24 Cash, cash equivalents and other interest-bearing deposits continued

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

At March 31, 2008 the Group and Company had unused overdraft facilities of £20 million (2007: £20 million) and €20 million (£16 million) (2007: €20 million (£14 million) respectively).

The Group and Company held undrawn uncommitted money market lines of £45 million as at March 31, 2008 (2007: £45 million).

b Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2008	2007
(Decrease)/increase in cash and cash equivalents during the year	(1)	331
Net cash outflow from decrease in debt and lease financing	424	485
Decrease in current interest-bearing deposits maturing after three months	(458)	(389)
New loans and finance leases taken out and hire purchase arrangements made	(179)	(9)
Reduction in finance leases and loans due to disposal of BA Connect		85
Changes in net debt resulting from cash flows	(214)	503
Exchange and other non-cash movements	(105)	147
Movement in net debt during the year	(319)	650
Net debt at April 1	(991)	(1,641)
Net debt at March 31	(1,310)	(991)

c Analysis of net debt

£ million	Balance at April 1	Net cash flow	Other non-cash	Disposal of BA Connect	Exchange	Group
						Balance at March 31
Cash and cash equivalents	398	331			(16)	713
Current interest-bearing deposits maturing after three 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)
Cash and cash equivalents	713	(1)			(29)	683
Current interest-bearing deposits maturing after three months	1,642	(458)			(3)	1,181
Bank and other loans	(946)	68			2	(876)
Finance leases and hire purchase arrangements	(2,400)	184	(7)		(75)	(2,298)
Year to March 31, 2008	(991)	(207)	(7)		(105)	(1,310)

25 Trade and other payables

£ million	Group		Company	
	2008	2007	2008	2007
Trade creditors	648	723	621	697
Unredeemed frequent flyer liabilities	21	24	21	24
Amounts owed to subsidiary companies			1,543	1,515
Other creditors:				
Other creditors	577	560	572	556
Other taxation and social security	40	39	40	39
	617	599	612	595
Accruals and deferred income:				
Sales in advance of carriage	911	1,008	892	979
Accruals and deferred income	393	372	160	114
	1,304	1,380	1,052	1,093
	2,590	2,726	3,849	3,924

26 Other long-term liabilities

£ million	Group		Company	
	2008	2007	2008	2007
Other creditors	13	5	7	
Accruals and deferred income	155	183	125	150
	168	188	132	150

27 Long-term borrowings

£ million	Group		Company	
	2008	2007	2008	2007
a Current				
Loans, finance leases and hire purchase arrangements:				
Bank and other loans	113	68	102	57
Finance leases*	64	80	73	87
Hire purchase arrangements	246	269	246	269
	423	417	421	413
b Non-current				
Loans, finance leases and hire purchase arrangements:				
Bank and other loans	764	878	554	657
Finance leases*	1,376	1,275	1,567	1,476
Hire purchase arrangements	611	776	611	776
Loans from subsidiaries			239	204
	2,751	2,929	2,971	3,113

*Included in finance leases for the Company is £200 million (2007: £209 million) of finance leases with other subsidiaries of the Group, of which £9 million (2007: £8 million) is classified as current.

Bank and other loans are repayable up to the year 2019. Bank and other loans of the Group amounting to US\$132 million (2007: US\$155 million), and £410 million (2007: £437 million) and bank loans of the Company amounting to US\$132 million (2007: US\$155 million) and £189 million (2007: £205 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		Company	
	2008	2007	2008	2007
£250 million fixed rate 8.75 per cent eurobonds 2016	248	248	248	248
£100 million fixed rate 10.875 per cent eurobonds 2008	61	61	61	61
Floating rate sterling mortgage loans secured on aircraft	201	213	153	162
Floating rate US dollar mortgage loans secured on aircraft	67	79	67	79
Fixed rate sterling mortgage loans secured on aircraft	209	224	36	42
Floating rate US dollar mortgage loans not secured on aircraft	40	45	40	45
European investment bank loans	51	76	51	77
	877	946	656	714
Less: current instalments due on bank loans	113	68	102	57
	764	878	554	657

£250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment on August 23, 2016.

£100 million fixed rate 10.875 per cent 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 per cent and 0.59 per cent 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 per cent and 0.99 per cent 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 6.14 per cent to 7.35 per cent. The loans are repayable between 2012 and 2016.

Floating rate US dollar mortgage loans are unsecured and bear interest of 0.09 per cent 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 0.20 per cent below LIBOR and LIBOR. The loans are repayable between 2014 and 2017.

Notes to the accounts continued

27 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

£ million	Group		Company	
	2008	2007	2008	2007
Loans				
Bank:				
US dollar	\$211m	\$242m	\$211m	\$242m
Sterling	£461m	£514m	£240m	£282m
	568	637	347	405
Euro-sterling notes:				
Sterling	309	309	309	309
Loans from subsidiary undertakings:				
Euro			€300m	€300m
			239	204
Finance leases:				
US dollar	\$1,205m	\$991m	\$1,205m	\$990m
Sterling	£834m	£849m	£1,034m	£1,058m
	1,440	1,355	1,640	1,563
Hire purchase arrangements:				
Japanese yen	¥112,442m	¥129,694m	¥112,442m	¥129,694m
US dollar	\$89m	\$104m	\$89m	\$104m
Sterling	£244m	£430m	£244m	£430m
	857	1,045	857	1,045
	3,174	3,346	3,392	3,526

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 the Group. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

£ million	Group		Company	
	2008	2007	2008	2007
Future minimum payments due:				
Within one year	389	440	407	458
After more than one year but within five years	1,218	1,298	1,303	1,380
In five years or more	1,268	1,306	1,431	1,500
	2,875	3,044	3,141	3,338
Less: finance charges allocated to future periods	578	644	644	730
Present value of minimum lease payments	2,297	2,400	2,497	2,608
The present value of minimum lease payments is analysed as follows:				
Within one year	310	349	319	348
After more than one year but within five years	989	1,048	1,040	1,102
In five years or more	998	1,003	1,138	1,158
	2,297	2,400	2,497	2,608

28 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from five years for aircraft to 150 years for ground leases. Certain leases contain options for renewal.

a Fleet

The aggregate payments, for which there are commitments under operating leases as at March 31, fall due as follows:

£ million	Group		Company	
	2008	2007	2008	2007
Within one year	77	81	62	65
Between one and five years	169	141	143	103
Over five years	17	27	17	27
	263	249	222	195

b Property and equipment

The aggregate payments, for which there are commitments under operating leases as at March 31, fall due as follows:

£ million	Group		Company	
	2008	2007	2008	2007
Within one year	86	88	82	83
Between one and five years	244	181	229	165
Over five years, ranging up to the year 2145	1,612	1,483	1,603	1,471
	1,942	1,752	1,914	1,719

The Group and Company sub-leases surplus rental properties and aircraft assets held under non-cancellable leases to third parties and subsidiary companies. These leases have remaining terms of one to eight years and the assets are surplus to the Group's requirements.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

£ million	Group		Company	
	2008	2007	2008	2007
Fleet				
Within one year	6	6	1	2
Between one and five years	13	16	2	
	19	22	3	2
Property and equipment				
Within one year	5	2	5	1
Between one and five years	19	4	19	4
Over five years	1	1	1	1
	25	7	25	6

Notes to the accounts continued

29 Provisions for liabilities and charges

							Group
£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Severance	Litigation	Other	Total
At April 1, 2007:							
Current		1	16	38	355		410
Non-current	27	26	91			9	153
	27	27	107	38	355	9	563
Arising during the year	8	2	23	6	8	1	48
Utilised		(7)	(11)	(32)	(153)		(203)
Release of unused amounts	(13)	(11)	(9)	(5)			(38)
Unwinding of discount			2		8		10
At March 31, 2008	22	11	112	7	218	10	380
Analysis:							
Current			29	7	134		170
Non-current	22	11	83		84	10	210
	22	11	112	7	218	10	380
							Company
£ million			Restoration and handback provisions	Severance	Litigation	Other	Total
At April 1, 2007:							
Current			16	34	355		405
Non-current		18	87			9	114
		18	103	34	355	9	519
Arising during the year		2	23	6	8	1	40
Utilised		(6)	(11)	(30)	(153)		(200)
Release of unused amounts		(3)	(8)	(5)			(16)
Unwinding of discount			2		8		10
At March 31, 2008		11	109	5	218	10	353
Analysis:							
Current			29	5	134		168
Non-current		11	80		84	10	185
		11	109	5	218	10	353

Insurance provisions relate to provisions held by the Group's captive insurer, Speedbird Insurance Company Limited, for incurred but not reported losses. Such provisions are held until such time as further claims are considered unlikely under the respective insurance policies.

The onerous lease provision relates partly to the sub-lease of five Jetstream 41 aircraft to Eastern Airways and six Avro RJ100 aircraft to Swiss International Air Lines. 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.

The severance provision at March 31, 2008 relates to committed voluntary severance costs expected to be paid during the next financial year.

The Company has settled \$300 million (£149 million) in respect of all investigations into its cargo and passenger business in the US with the Department of Justice. It has agreed a settlement of £121.5 million with the Office of Fair Trading in respect of longhaul passenger fuel surcharges. These amounts are included within the litigation analysis above. There are ongoing investigations into the Company's cargo surcharges by the European Commission and other jurisdictions. These investigations are likely to continue for some time. The Company is also subject to related class action claims. The final amount required to pay the remaining claims and fines is subject to uncertainty. A detailed breakdown of the remaining provision is not presented as it may seriously prejudice the position of the Company in these regulatory investigations and potential litigation.

Other provisions include staff leaving indemnities relating to amounts due to staff under various overseas contractual arrangements.

30 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group enters into derivative transactions in order to manage certain market risks. All such transactions are carried out within guidelines approved by the Board.

Group treasury carries out financial risk management under governance approved by the Board. Group treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price 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.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equity:

Increase/ decrease in fuel price per cent	Effect on profit before tax £ million	Group			Increase/ decrease in fuel price per cent	Effect on profit before tax £ million	Company		
		2008	Effect on equity £ million	Effect on profit before tax £ million			2007	Effect on equity £ million	Effect on profit before tax £ million
10	14	166	6	70	10	14	166	6	70
(10)	(11)	(163)	(11)	(59)	(10)	(11)	(163)	(11)	(59)

b Foreign currency risk

The Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than sterling. The currencies in which these transactions are primarily denominated are euro, US dollar and Japanese yen. The Group generates a surplus in most currencies in which it does business. The US dollar can be an exception as capital expenditure, debt repayments and fuel payments denominated in US dollars can create a deficit.

The Group can experience adverse or beneficial effects arising from foreign exchange rate movements. The Group seeks to reduce foreign exchange exposures 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 and US dollars.

The Group utilises its yen debt repayments as a hedge of future US dollar and yen revenues.

Forward foreign exchange contracts and currency options are used to cover near-term future revenues and operating payments in a variety of currencies.

Notes to the accounts continued

30 Financial risk management objectives and policies continued

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar, Japanese yen and euro exchange rates, with all other variables held constant, on profit before tax and equity.

	Strengthening/ (weakening) in US dollar rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in euro rate per cent	Effect on profit before tax £ million	Effect on equity £ million
Group									
2008	10	(4)	(42)	10	(7)	(57)	10	(2)	(26)
	(10)	3	32	(10)	5	47	(10)	2	22
<i>2007</i>	<i>10</i>	<i>(8)</i>	<i>(49)</i>	<i>10</i>	<i>(8)</i>	<i>(49)</i>	<i>10</i>		<i>(11)</i>
	<i>(10)</i>	<i>7</i>	<i>36</i>	<i>(10)</i>	<i>6</i>	<i>40</i>	<i>(10)</i>		<i>10</i>
Company									
2008	10	(6)	(42)	10	(7)	(57)	10	(2)	(26)
	(10)	5	32	(10)	5	47	(10)	2	22
<i>2007</i>	<i>10</i>	<i>(10)</i>	<i>(49)</i>	<i>10</i>	<i>(8)</i>	<i>(48)</i>	<i>10</i>		<i>(11)</i>
	<i>(10)</i>	<i>8</i>	<i>36</i>	<i>(10)</i>	<i>6</i>	<i>40</i>	<i>(10)</i>		<i>10</i>

c Interest rate risk

The Group is exposed to changes in interest rates on floating debt and cash deposits.

The following table illustrates the sensitivity of financial instruments on profit before tax for the year to a reasonably possible change in interest rates, with effect from the beginning of the year. There was no impact on shareholders' equity. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on financial instruments held at each balance sheet date. All other variables were held constant.

March 31, 2008

£ million	Effect on profit before tax	
	100 basis points increase	100 basis points decrease
Group		
Variable rate instruments	3	(3)
Company		
Variable rate instruments	(3)	3

March 31, 2007

£ million	Effect on profit before tax	
	100 basis points increase	100 basis points decrease
Group		
Variable rate instruments	4	(4)
Interest rate swap	1	(1)
Company		
Variable rate instruments	4	(4)
Interest rate swap	1	(1)

d Credit risk

The Group is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable. However, the Group has policies and procedures in place to ensure credit risk is limited by placing credit limits on each counterparty. The Group continuously monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 31.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 36.

30 Financial risk management objectives and policies continued

e Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

£ million						Group
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2008
Cash and cash equivalents	683					683
Other current interest-bearing deposits	861	360				1,221
Trade receivables	586					586
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(169)	(220)	(523)	(695)	(1,268)	(2,875)
Fixed rate borrowings	(98)	(21)	(51)	(150)	(468)	(788)
Floating rate borrowings	(20)	(37)	(56)	(143)	(211)	(467)
Trade and other payables	(1,163)					(1,163)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	(15)	(4)	(1)			(20)
Fuel derivatives	(20)	(18)	(18)	(12)		(68)
Forward currency contracts	5	3				8
Fuel derivatives	170	100	68	12		350
	820	163	(581)	(989)	(1,948)	(2,535)

£ million						Group
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2007
Cash and cash equivalents	713					713
Other current interest-bearing deposits	1,016	707				1,723
Trade receivables	654					654
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(252)	(188)	(373)	(925)	(1,306)	(3,044)
Fixed rate borrowings	(37)	(42)	(119)	(155)	(513)	(866)
Floating rate borrowings	(22)	(34)	(59)	(159)	(261)	(535)
Trade and other payables	(1,230)					(1,230)
Derivative financial instruments:						
Forward currency contracts	(2)	(1)				(3)
Fuel derivatives	(1)	(14)	(6)			(21)
Interest rate swaps		2				2
Forward currency contracts	1					1
Fuel derivatives	19	56	8			83
	859	486	(549)	(1,239)	(2,080)	(2,523)

Notes to the accounts continued

30 Financial risk management objectives and policies continued

£ million						Company
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2008
Cash and cash equivalents	433					433
Other current interest-bearing deposits	414					414
Trade receivables	574					574
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(182)	(225)	(543)	(760)	(1,431)	(3,141)
Fixed rate borrowings	(92)	(24)	(47)	(138)	(986)	(1,287)
Floating rate borrowings	(18)	(33)	(51)	(126)	(172)	(400)
Trade and other payables	(2,679)					(2,679)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	(15)	(4)	(1)			(20)
Fuel derivatives	(20)	(18)	(18)	(12)		(68)
Forward currency contracts	5	3				8
Fuel derivatives	170	100	68	12		350
	(1,410)	(201)	(592)	(1,025)	(2,590)	(5,818)

£ million						Company
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2007
Cash and cash equivalents	662					662
Other current interest-bearing deposits	1,016	704				1,720
Trade receivables	635					635
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(265)	(193)	(392)	(988)	(1,500)	(3,338)
Fixed rate borrowings	(29)	(44)	(113)	(136)	(930)	(1,252)
Floating rate borrowings	(21)	(30)	(54)	(143)	(214)	(462)
Trade and other payables	(2,719)					(2,719)
Derivative financial instruments:						
Forward currency contracts	(2)	(1)				(3)
Fuel derivatives	(1)	(14)	(6)			(21)
Interest rate swaps		2				2
Forward currency contracts	1					1
Fuel derivatives	19	56	8			83
	(704)	480	(557)	(1,267)	(2,644)	(4,692)

f Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, net debt as a percentage of total capital. Net debt is defined as the total borrowings, finance leases and hire purchase liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts. See note 24 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests and net debt.

The gearing ratios at March 31, 2008 and 2007 were as follows:

£ million (except ratios)	2008	2007
Capital reserves	3,033	2,211
Add minority interests	200	200
Total equity	3,233	2,411
Net debt (a)	1,310	991
Total capital (b)	4,543	3,402
Gearing ratio (a)/(b)	28.8	29.1

The decrease in the gearing ratio during 2008 resulted primarily from increased equity due to higher operating profit. The impact of this on the gearing ratio was partially offset by the increased borrowings relating to the purchase of three Airbus 320s, and lower cash balances as a result of the £610 million cash injection into NAPS together with the \$300 million (£149 million) payment made to the US Department of Justice in respect of anti-competitive activity.

31 Financial instruments

a Fair values of financial assets and financial liabilities

The carrying amounts and fair values of the Group's financial assets and liabilities at March 31, 2008 are set out below:

£ million	Group		Company	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	683	683	433	433
Other liquid deposits maturing over three months	1,181	1,181	399	399
Available-for-sale financial assets	80	80	24	24
Forward currency contracts	8	8	8	8
Fuel derivatives	350	350	350	350
Financial liabilities				
Interest-bearing loans and borrowings:				
Finance lease and hire purchase obligations	2,297	2,324	2,497	2,526
Fixed rate borrowings	518	526	584	586
Floating rate borrowings	359	359	311	311
Cross currency swaps	2	2	2	2
Forward currency contracts	20	20	20	20
Fuel derivatives	68	68	68	68

The fair values of the Group's financial assets and liabilities at March 31, 2007 are set out below:

£ million	Group		Company	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	713	713	662	662
Other liquid deposits maturing over three months	1,642	1,642	1,639	1,639
Available-for-sale financial assets	107	107	41	41
Interest rate swap arrangements	2	2	2	2
Forward currency contracts	1	1	1	1
Fuel derivatives	83	83	83	83
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	21	21	21	21

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, 2008. For other investments the fair value is estimated by reference to a discounted cash flow that is 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, 2008.

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 £569 million (2007: £561 million) has therefore been included as the fair value above.

Euro-sterling notes and Euro-sterling bond 2016

- Quoted market value.

Notes to the accounts continued

31 Financial instruments continued

b Fair values of financial assets and financial liabilities

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 instruments.

Over The Counter (OTC) fuel derivatives

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

c Hedges

i Cash flow hedges

At March 31, 2008 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, gas oil 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:

March 31, 2008

£ million						Group
	0-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Debt repayments to hedge future revenue	(1)	(1)		(5)	(10)	(17)
Forward contracts to hedge future payments	10	1	1			12
Hedges of future fuel purchases	(148)	(94)	(45)	(2)		(289)
	(139)	(94)	(44)	(7)	(10)	(294)
Related deferred tax charge						83
Total amount included within equity						(211)

Notional value of financial instruments used as cash flow hedging instruments:

£ million		
	Group Notional amount	Company Notional amount
To hedge future currency revenues against US dollars	\$143m	\$143m
To hedge future currency revenues against sterling	£235m	£235m
To hedge future operating payments against US dollars	\$440m	\$440m
Hedges of future fuel purchases	\$4,143m	\$4,143m
Debt repayments to hedge future revenue – Japanese yen	¥100,798m	¥100,798m
– US dollars	\$1,307m	\$1,307m

March 31, 2007

£ million						Group
	0-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Debt repayments to hedge future revenue	4	1	5	39	44	93
Forward contracts to hedge future payments	(1)	(1)				(2)
Hedges of future fuel purchases	29	9	2			40
	32	9	7	39	44	131
Related deferred tax charge						(39)
Total amount included within equity						92

31 Financial instruments continued

Notional value of financial instruments used as cash flow hedging instruments:

<i>£ million</i>	<i>Group Notional amount</i>	<i>Company Notional amount</i>
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

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of £12 million (2006/07: £12 million loss).

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.

32 Share capital

	Group and Company			
	2008		2007	
<i>Ordinary shares of 25 pence each</i>	<i>Number of shares 000s</i>	<i>£ millions</i>	<i>Number of shares 000s</i>	<i>£ millions</i>
Authorised				
At April 1 and March 31	1,512,000	378	1,512,000	378
Allotted, called up and fully paid				
At April 1	1,151,575	288	1,130,882	283
Exercise of options under Employee Share Options Schemes	1,530	–	20,693	5
At March 31	1,153,105	288	1,151,575	288

33 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 65 to 73.

a 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 share 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 three-year vesting period. Upon vesting, options may be exercised at any time until 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).

b Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) 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.

Notes to the accounts continued

33 Share options continued

c 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 per cent of the shares (net of tax) which vest from the new schemes until they have built up a shareholding equivalent to 100 per cent of basic salary.

d 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 a percentage of their bonus in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

e Share option summary

	Group and Company								
	Deferred Share Plan		Performance Share Plan		LTIPs		Share Option Plan		
	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average exercise price £	Weighted average fair value £
Outstanding at April 1, 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 April 1, 2007	830		2,643		1,483		19,340	2.74	
Granted in the year			1,444	2.61					
Exercised during the year **/***					(157)		(1,530)	2.71	
Expired/cancelled	(43)		(191)		(44)		(896)	2.73	
Outstanding at April 1, 2008	787		3,896		1,282		16,914	2.75	
Options exercisable:									
At March 31, 2008	7	4.84			1,282		11,413	2.74	
At March 31, 2007					1,483		7,642	2.82	

Range of exercise prices at March 31, 2008 for Share Option Plan

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £	Number of shares 000s	Weighted average exercise price £
£1.57 – £2.61	2,784	4.82	1.67	2,784	1.67
£2.62 – £3.20	10,073	6.79	2.70	4,572	2.62
£3.21 – £3.94	4,057	2.40	3.61	4,057	3.61
	16,914	5.41	2.75	11,413	2.74

Range of exercise prices at March 31, 2007 for Share Option Plan

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £	Number of shares 000s	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

* Included within this balance are options over 5,235,228 (2007: 5,708,227) 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 £4.19 (2007: £5.04).

*** Part of the exercise of share options during the year met through shares previously held by British Airways Employee Benefits Trust (Jersey) Limited.

For the share options outstanding as at March 31, 2008, the weighted average remaining contractual life is five years (2007: six years). For options granted during the year the weighted average option life was three years (2007: three years).

33 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:

	2008	2007
Expected share price volatility (per cent)	24	28
Historical volatility (per cent)	24	28
Expected comparator group volatility (per cent)	19-96	19-116
Expected comparator correlation (per cent)	28	23
Expected life of options (years)	3	3
Weighted average share price	4.03	4.94

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 payments charge has been recorded in the income statement as follows:

£ million	2008	2007
Employee costs	3	10

34 Other reserves and minority interests

a Group

£ million	Retained earnings	Unrealised gains and losses	Currency translation	Total	Group Minority interests*
Balance at April 1, 2006	589	100	1	690	213
Profit for the period attributable to shareholders	290			290	
Exchange differences and other movements			(3)	(3)	
Share-based payments	10			10	
Tax effect of share-based payments	18			18	
Fair value of cash flow hedges transferred to passenger revenue		(3)		(3)	
Fair value of cash flow hedges transferred to fuel and oil costs		(61)		(61)	
Fair value of cash flow hedges transferred to currency differences		12		12	
Net change in fair value of cash flow hedges		48		48	
Share of other movements in reserves of associates	8			8	
Purchase of minority interests**					(13)
Net gains on available-for-sale financial assets		3		3	
Total income and expense for the period	326	(1)	(3)	322	(13)
Exercise of share options	(12)			(12)	
Balance at March 31, 2007	903	99	(2)	1,000	200
Profit for the period attributable to shareholders	680			680	
Exchange differences and other movements			24	24	
Share-based payments	3			3	
Tax effect of share-based payments	(7)			(7)	
Deferred tax – rate change adjustment	6			6	
Fair value of cash flow hedges transferred to passenger revenue		(5)		(5)	
Fair value of cash flow hedges transferred to fuel and oil costs		(136)		(136)	
Fair value of cash flow hedges transferred to currency differences		15		15	
Net change in fair value of cash flow hedges		245		245	
Share of other movements in reserves of associates	(2)			(2)	
Net losses on available-for-sale financial assets		(5)		(5)	
Total income and expense for the period	680	114	24	818	
Balance at March 31, 2008	1,583	213	22	1,818	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 held the Group's interest in Iberia. The consideration paid was £13 million.

Notes to the accounts continued

34 Other reserves and minority interests continued

b Company

£ million	Company		
	Retained earnings	Unrealised gains and losses	Total
Balance at April 1, 2006	557	96	653
Profit for the period attributable to shareholders	18		18
Share-based payments	10		10
Tax effect of share-based payments	18		18
Fair value of cash flow hedges transferred to passenger revenue		(3)	(3)
Fair value of cash flow hedges transferred to fuel and oil costs		(61)	(61)
Fair value of cash flow hedges transferred to currency differences		12	12
Net change in fair value of cash flow hedges		48	48
Total income and expense for the period	46	(4)	42
Exercise of share options	(12)		(12)
Balance at March 31, 2007	591	92	683
Profit for the period attributable to shareholders	540		540
Share-based payments	3		3
Tax effect of share-based payments	(7)		(7)
Deferred tax – rate change adjustment	6		6
Fair value of cash flow hedges transferred to passenger revenue		(5)	(5)
Fair value of cash flow hedges transferred to fuel and oil costs		(136)	(136)
Fair value of cash flow hedges transferred to currency differences		15	15
Net change in fair value of cash flow hedges		245	245
Deferred tax related to fair value movements			
Total income and expense for the period	542	119	661
Balance at March 31, 2008	1,133	211	1,344

The 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 that 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 Employee Benefits Trust (Jersey) Limited, a wholly-owned subsidiary, for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan. At March 31, 2008 the Group and Company held 2,087,147 shares for the Long Term Incentive Plan and other employee share schemes (2007: 1,994,079 shares). The purchase of shares was financed by the Company granting a loan to British Airways Employee Benefits Trust (Jersey) Limited.

35 Pension costs

The Company operates two funded principal defined benefit pension schemes in the UK, 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 UK may become members. The assets of the scheme 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 (RPI). 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 RPI increases in payment up to a maximum of 5 per cent in any one year.

35 Pension costs continued

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 and an additional £50 million was paid in March 2008. The Group also agreed to make annual contributions of approximately £280 million a year for the next 10 years, and issued guarantees of up to £100 million over the next two years, subject to financial performance. The Group also issued to APS, guarantees of up to £230 million over the next nine years.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US. The Company participates in a multi-employer defined benefit plan operated in the US 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 £1.9 million (2007: £1.8 million).

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2006 using assumptions and methodologies agreed between the Company and the Trustees of each scheme. At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £6,650 million and £5,832 million respectively. The value of the assets represented 100 per cent (APS) and 74 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations showed that employer contributions at an average rate of 34.6 per cent of pensionable pay for APS and 20.7 per cent of pensionable pay for NAPS were appropriate from April 1, 2007 (from April 1, 2006 to March 31, 2007 the contributions were expressed as a multiple of standard employees' contributions, 3.75 times for APS, 2.8 times for NAPS). For NAPS, the contribution rate to be paid by the employer from April 1, 2007 depends on the normal retirement age chosen by members.

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 UK and overseas for the year were £17 million (2007: £14 million). The Company's contributions to APS and NAPS in the next year as determined by the actuarial review completed in March 2006 and agreement with the Trustees, are expected to be approximately £305 million.

Employee benefit obligations comprise:

£ million	Group	
	2008	2007
Obligations arising under defined benefit pension plans and post-retirement benefits	204	1,021
Obligations arising under post-retirement medical benefit plans	116	109
Total obligations arising under post-retirement benefits	320	1,130
Other employee benefit obligations	10	12
	330	1,142

The assets and liabilities of the schemes at March 31 are:

Year ended March 31, 2008

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	4,488	147	4,635	1,033	20	1,053
Bonds	1,882	68	1,950	5,079	15	5,094
Others	978	6	984	556		556
Fair value of scheme assets	7,348	221	7,569	6,668	35	6,703
Present value of scheme liabilities	7,705	384	8,089	5,432	29	5,461
	(357)	(163)	(520)	1,236	6	1,242
APS irrecoverable surplus				1,159		1,159
Net pension (liability)/asset	(357)	(163)	(520)	77	6	83
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	(148)	(172)	(320)	77	8	85
Cumulative actuarial (losses)/gains not recognised	(209)	9	(200)		(2)	(2)
	(357)	(163)	(520)	77	6	83

Notes to the accounts continued

35 Pension costs continued

Year ended March 31, 2007

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	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

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.

The amounts recognised in the income statement for the year are analysed as follows:

Year ended March 31, 2008

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	170	7	177	20		20
Past service cost	1		1	1		1
Recognised in arriving at operating profit	171	7	178	21		21
Expected return on scheme assets	(495)	(18)	(513)	(341)	(2)	(343)
Immediate recognition of losses and the effect of the asset ceiling				55		55
Interest costs on scheme liabilities	425	23	448	318	1	319
Other finance cost	(70)	5	(65)	32	(1)	31

Year ended March 31, 2007

£ million	Employee benefit obligations			Employee benefit assets		
	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 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

35 Pension costs continued

The amount of unrecognised cumulative actuarial gains and losses is as follows:

£ million	Employee benefit obligations			Employee benefit assets	
	NAPS	Other schemes	Total	Other schemes	Total
Amount of unrecognised actuarial losses at April 1, 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 (losses)/gains	(113)	52	(61)	3	3
Settlement of BRAL scheme		(9)	(9)		
Charge arising due to changes to pension scheme	38		38		
Amortisation of actuarial losses in excess of the corridor		1	1		
Cumulative unrecognised actuarial losses at March 31, 2007	(593)	7	(586)		
Actual return on scheme assets	6	(8)	(2)	3	3
Less: Expected return on scheme assets	(495)	(18)	(513)	(2)	(2)
	(489)	(26)	(515)	1	1
Other actuarial gains/(losses)	873	28	901	(3)	(3)
Cumulative unrecognised actuarial losses at March 31, 2008	(209)	9	(200)	(2)	(2)

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.

Per cent per annum	At March 31, 2008			At March 31, 2007		
	NAPS	APS*	Other schemes	NAPS	APS	Other schemes
Inflation	3.5	3.5	3.0-5.0	3.0	3.0	3.0-4.0
Rate of increase in salaries	3.5	4.0	1.5-5.5	3.5	3.5	3.0-6.0
Rate of increase of pensions in payment	3.4	3.5	1.5-11.0	2.9	2.9	2.0-11.0
Discount rate	6.6	7.0	2.0-6.6	5.3	5.4	2.0-7.0
Expected rate of return on scheme assets	6.9	5.2	4.0-7.6	6.9	5.4	5.5-8.3

*Rate of increase in salaries is 4.0 per cent per annum for three years, 1.0 per cent in excess of RPI to March 2016 and 1.5 per cent in excess of RPI thereafter (2006/07: Rate of increase in salaries is 4.0 per cent to March 2016 and 4.5 per cent thereafter).

Rate of increase in healthcare costs are based on medical trend rates of 11 per cent grading down to 5 per cent over six years (2006/07: 11 per cent to 5 per cent over six years).

In the UK, mortality rates are calculated using the 00-series 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 for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by approximately £120 million in APS and £150 million in NAPS.

If the discount rate were to be decreased by 0.1 per cent without changing any other assumptions, the defined benefit obligations would increase by approximately £60 million in APS and £130 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	(2)	2
Effect on defined benefit obligation	(21)	17

Notes to the accounts continued

35 Pension costs continued

Changes in the present value of the defined benefit pension obligations are analysed as follows:

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 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 losses/(gains)	113	(52)	61	272	(3)	269
As at March 31, 2007	8,110	397	8,507	6,076	27	6,103
Current service cost	170	7	177	20		20
Past service cost	1		1	1		1
Interest cost	425	23	448	318	1	319
Benefits paid	(202)	(15)	(217)	(375)	(2)	(377)
Employee contributions	74		74	8		8
Actuarial (gains)/losses	(873)	(28)	(901)	(616)	3	(613)
As at March 31, 2008	7,705	384	8,089	5,432	29	5,461

*As a result of the sale of BA Connect, the Company issued to the BRAL scheme a guarantee of £50 million over the next two years.

The defined benefit obligation comprises £7 million (2007: £7 million) arising from unfunded plans and £8,082 million (2007: £8,500 million) from plans that are wholly or partly funded.

Changes in the fair value of plan assets are analysed as follows:

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 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 losses	(27)	(21)	(48)	(138)	(3)	(141)
As at March 31, 2007	6,553	238	6,791	6,491	34	6,525
Expected return on plan assets	495	18	513	341	2	343
Employer contributions	917	6	923	21		21
Contributions by employees	74		74	8		8
Benefits paid	(202)	(15)	(217)	(375)	(2)	(377)
Actuarial (losses)/gains	(489)	(26)	(515)	182	1	183
As at March 31, 2008	7,348	221	7,569	6,668	35	6,703

35 Pension costs continued

History of experience gains and losses:

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at March 31, 2008						
Fair value of scheme assets	7,348	221	7,569	6,668	35	6,703
Present value of defined benefit obligation	(7,705)	(384)	(8,089)	(5,432)	(29)	(5,461)
APS irrecoverable surplus				(1,159)		(1,159)
(Deficit)/surplus in the scheme	(357)	(163)	(520)	77	6	83
Experience adjustments arising on plan liabilities	(873)	(28)	(901)	(616)	3	(613)
Experience adjustments arising on plan assets	(489)	(26)	(515)	182	1	183
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.

Notes to the accounts continued

36 Contingent liabilities

There were contingent liabilities at March 31, 2008 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. 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, 2008 amounted to £173 million (2007: £168 million) and £448 million (2007: £397 million) respectively. For the Company these included guarantees given in respect of the fixed perpetual preferred securities issued by subsidiary undertakings.

The Group is involved in certain claims and litigation related to its operations. In the opinion of management, liabilities, if any, arising from these claims and litigation will not have a material adverse effect on the Group's consolidated financial position or results of operations. The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

37 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year under review with related parties.

£ million	Group		Company	
	2008	2007	2008	2007
Associates				
Sales to associates	43	45	43	45
Purchases from associates	54	105	54	105
Amounts owed by associates	4		4	
Amounts owed to associates		1		1
Subsidiaries				
Sales to subsidiaries			36	73
Purchases from subsidiaries			126	121
Amounts owed by subsidiaries			116	99
Amounts owed to subsidiaries			1,982	1,928

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 £3.6 million in relation to the costs of the Pension Protection Fund levy (2006/07: £5.3 million).

Associates

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

During the year, the Group increased its investment in Iberia from 9.95 per cent to 13.15 per cent. Areas of opportunity for cooperation 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 and interest free. Cash settlement is expected within the standard settlement terms specified by the IATA Clearing House.

As at March 31, 2008, the net trading balance owed by Iberia to the Group amounted to £3.1 million (2007: £0.4 million owed to Iberia).

b Comair Limited (Comair)

Prior to September 30, 2006, the Group's shareholding in Comair was 18.3 per cent and due to the Group's ability to exercise significant influence, the investment in Comair was accounted for using the equity method. On September 30, 2006, the Group's shareholding in Comair decreased to 10.92 per cent 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.

37 Related party transactions continued

c Other associates

The remaining net trading balances are due to transactions between the Group and Dunwoody Airline Services (Holdings) Ltd.

Subsidiaries

Transactions with subsidiaries are carried out on an arm's-length basis. Outstanding balances that relate to trading balances are placed on inter-company 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 inter-company loan agreements.

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the Company at March 31, 2008 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, 2008 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2007: £nil).

Compensation of key management personnel (including directors)

£ million	Group		Company	
	2008	2007	2008	2007
Short-term employee benefits	4	4	4	4
Share-based payments	2	3	2	3
	6	7	6	7

38 Foreign currency translation rates

£1 equals	At March 31		Annual average	
	2008	2007	2008	2007
US dollar	1.99	1.96	2.01	1.89
Japanese yen	197	231	231	220
Euro	1.26	1.47	1.43	1.47

Operating and financial statistics

For the five years ended March 31, 2008

Total Group operations

		2008	2007	2006*	2005	2004
Traffic and capacity						
Revenue passenger km (RPK)	million	113,016	112,851	109,713	107,892	103,092
Available seat km (ASK)	million	149,545	148,321	144,194	144,189	141,273
Passenger load factor	per cent	75.6	76.1	76.1	74.8	73.0
Cargo tonne km (CTK)	million	4,891	4,695	4,929	4,954	4,461
Total revenue tonne km (RTK)	million	16,256	16,112	15,909	15,731	14,771
Total available tonne km (ATK)	million	22,829	22,882	22,719	22,565	21,859
Overall load factor	per cent	71.2	70.4	70.0	69.7	67.6
Passengers carried	'000	33,161	33,068	32,432	35,717	36,103
Tonnes of cargo carried	'000	805	762	795	877	796
Frequent flyer RPKs as a percentage of total RPKs (note 2)	per cent	3.9	3.8	3.9	3.2	4.0
Revenue aircraft km	million	644	637	614	661	644
Revenue flights	'000	281	276	280	378	391
Break-even overall load factor	per cent	63.6	65.4	63.6	64.3	63.6
Financial						
Passenger revenue per RPK	pence	6.67	6.44	6.31	6.02	6.30
Passenger revenue per ASK	pence	5.04	4.90	4.80	4.51	4.59
Cargo revenue per CTK	pence	12.59	12.74	12.94	9.73	10.38
Average fuel price (US cents/US gallon)		245.26	209.60	188.22	136.44	94.49
Operations						
Average manpower equivalent (MPE)		42,403	42,683	43,814	47,472	49,072
RTKs per MPE		383.4	377.5	363.1	331.4	301.0
ATKs per MPE		538.4	536.1	518.5	475.3	445.4
Aircraft in service at year end		245	242	284	290	291
Aircraft utilisation (average hours per aircraft per day)		10.91	10.82	10.29	9.83	9.21
Unduplicated route km	'000	629	589	574	623	657
Punctuality – within 15 minutes	per cent	63	67	75	76	81
Regularity	per cent	98.2	98.5	98.8	98.8	98.8
		2008	2007	2006	2005	2004**
Financial**						
Interest cover (note 3)	times	14.8	16.7	6.0	3.8	
Dividend cover	times	n/a	n/a	n/a	n/a	
Operating margin (note 4)	per cent	10.0	7.1	8.5	7.2	
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	million	1,777	1,549	1,666	1,552	
Net debt/total capital ratio (note 5)	per cent	28.8	29.1	44.2	67.7	
Net debt/total capital ratio including operating leases	per cent	38.4	39.6	53.0	72.4	
Total traffic revenue per RTK	pence	50.18	48.79	47.53	44.4	
Total traffic revenue per ATK	pence	35.73	34.35	33.28	30.94	
Total operating expenditure per RTK (note 6)	pence	48.46	49.26	47.26	40.85	
Total operating expenditure per ATK (note 6)	pence	34.51	34.68	33.10	28.48	

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

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

n/a = not applicable

Notes

- Operating statistics do not include those of associate undertakings (Iberia and Comair) and franchisees (Loganair and Sun Air (Scandinavia)).
- The carriage of passengers on the Frequent Flyer Programme is evaluated on a ticket by ticket basis.
- 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:

(£ million (except ratios))	Year ended March 31	
	2008	2007
Profit before tax	883	611
Net interest payable (a)	(64)	(39)
Profit adjusted for interest payable (b)	947	650
Interest cover (b)/(a)	14.8	16.7

- 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.
- 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 24 to the financial statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests, and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. However, management believe these measures are useful to investors when analysing the extent to which the Group is funded by debt rather than by shareholders' funds. See note 30 to the financial statements for details of the calculation of the net debt/total capital (gearing) ratio.

- 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:

(£ million (except ratios))	Year ended March 31	
	2008	2007
Total expenditure on operations	7,878	7,936
RTKs	16,256	16,112
ATKs	22,829	22,882
Total expenditure on operations per RTK (pence)	48.46	49.26
Total expenditure on operations per ATK (pence)	34.51	34.68

Principal investments

at March 31, 2008

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
BA Cash Management LP	Investment Company	England
BA Cityflyer Ltd	Airline operations	England
BA European Ltd (trading as OpenSkies)	Airline operations	England
Britair Holdings Ltd	Holding Company	England
British Airways 777 Leasing Ltd	Aircraft financing	England
British Airways Avionic Engineering Ltd	Aircraft maintenance	England
British Airways Capital Ltd (89 per cent of founders' shares owned)	Airline finance	Jersey
British Airways Holdings Ltd	Airline finance	Jersey
British Airways Holidays Ltd	Package holidays	England
British Airways Interior Engineering Ltd	Aircraft maintenance	England
British Airways Leasing Ltd	Aircraft financing	England
British Airways Maintenance Cardiff Ltd	Aircraft maintenance	England
British Airways Regional Ltd	Air travel services	England
Speedbird Cash Management Ltd	Investment Company	Bermuda
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')*	13.15	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
Flybe Group Ltd*	15.0	Airline operations	England
Comair Ltd*	10.9	Airline operations	South Africa

*Not owned directly by British Airways Plc.

Shareholder information

General Information

Financial calendar

Financial year end	March 31, 2008
Annual general meeting	July 15, 2008

Announcement of 2008/09 results

Three month results to June 30, 2008	August 1, 2008
Six month results to September 30, 2008	November 7, 2008
Nine month results to December 31, 2008	February 6, 2009
Preliminary announcement	May 22, 2009
Reports and Accounts	June 2009

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

The Company 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 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.

The Company 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 BA CityFlyer Ltd.
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 revenue.
Net debt	Loans, finance leases and hire purchase arrangements, 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.

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