

Investor

Incorporating the 2004-2005
Summary Financial Statement

Fit for 5

The Summary Financial Statement does not contain sufficient information to allow as full an understanding of the results of the group and state of affairs of the company or of the group and of their policies and arrangements concerning directors' remuneration as would be provided by the full annual report and accounts. Shareholders who would like more detailed information may obtain, free of charge, a copy by writing to British Airways Shareholder Services at the address given on page 16 of this magazine.

YOUR COMPANY'S PERFORMANCE

Martin Broughton explains the airline's performance during the year



Group pre-tax profit for the year was £415 million, compared to £230 million in the previous year. Profit attributable to shareholders was £251 million, up from £130 million. The operating profit, at £540 million, was an improvement of £135 million. No interim dividend was paid and the Board has decided not to recommend a final dividend.

Introduction

As you know, Lord Marshall retired as Chairman on completion of last year's annual general meeting at which, on behalf of the Board, I expressed our deep appreciation for his outstanding contribution to your company over 21 years.

On taking over as Chairman of your company my priorities were clear. They included, improving our operating margin, debt reduction, refreshing the Board in light of corporate governance guidelines and finding a successor to Rod Eddington, Chief Executive.

I am pleased to report progress in all areas and a financial result that represents a significant improvement in your company's fortunes, despite the continuing burden of high fuel costs.

The journey to sustained profitability, however, is never ending and can only be achieved through well-defined business plan initiatives, superb customer service and the commitment of our people to deliver both.

I joined the Board of British Airways five years ago when it wasn't among the top 20 airlines for operating profits. So it gives me some satisfaction to see your company back amongst the leaders.

That said, this is an industry that is underperforming, and, if latest IATA

predictions are borne out, the aviation industry will lose a further US\$5.5 billion in 2005. This would represent the fifth successive year of losses for the global aviation industry.

This is no time then, to be complacent. With our fuel costs now expected to be about £400 million more in the coming year, we must continue to reduce controllable costs and deliver on our business strategies.

The Chief Executive will report on progress in this area in his statement, but it is encouraging to note that your company exceeded the £450 million reduction in costs promised in the 2003/05 Business Plan by some £7 million.

Encouraging too, that our operating margin improved 1.5 points to 6.9 per cent, although, there is still some way to go before we reach our goal of ten per cent. Record seat factors are proof of our popularity and ability to attract customers. However, yields are down reflecting the challenging competitive environment we are operating in.

Profitability has improved across the network and in shorthaul the loss has narrowed from over £300 million five years ago to £26 million which includes a write-off of £16 million this year for British Airways CitiExpress BAe 146s.

Net debt has fallen to below £3 billion and is at its lowest level since March 1993 and gearing at its lowest since privatisation in 1987. Our cash position remains strong.

Cargo revenue also improved year on year with volumes up 11.1 per cent but yields were down 6.3 per cent. The overall load factor was up 2.1 points at 69.7 per cent.

This is the last time the Report and Accounts will be prepared under UK GAAP accounting standards. From April 1, 2005 your company will report its financial results under IFRS (International Financial Reporting Standards) which is now mandatory for all UK listed companies. The 2004/05 accounts will be restated under IFRS in July, 2005.

The Group FRS17 pension deficit has deteriorated further and is now £1.4 billion, largely due to falling long-term interest rates and despite company contributions of some £250 million a year. Under IFRS the deficit will appear on the balance sheet next year and will have a significant adverse impact on reserves, in particular distributable reserves.

Disposals and Investments

During the year we completed the sale of our 18.25 per cent shareholding in Qantas for A\$1.1 billion (£427 million) and used the

proceeds to repay some of our debt. Although the reported loss on disposal was £11 million, Qantas proved to have been an excellent investment. Over the period of ownership, our share of their profits amounted to A\$896 million. Despite the sale, our relationship remains strong and we have secured regulatory clearance for a further five-years for the business we jointly operate on the 'kangaroo' routes.

We also ended our commercial agreement with Swiss International Airlines on an amicable basis but retained the slots exchanged as part of the 2003 deal. The codesharing agreement was subsequently terminated following the announcement of Lufthansa's acquisition of Swiss.

British Airways continued to extend its codeshare programme with American Airlines and the two airlines now carry joint codes on approximately 200 flights.

Industry Development

Little progress was made during the year on a transatlantic air treaty between the EU and the US to replace the restrictive bilateral international agreements negotiated by each member state.

This is a dysfunctional industry bound by outdated regulations which prevent the natural process of cross border merger and acquisition common in every other business sector.

We stand by our recommendation to the UK Government to reject the offer that was on the table in 2004. This would have given the Americans full access to the EU market but allowed them to retain the high walls around their market created by foreign ownership limits, cabotage and the 'Fly America' policy.

Recently, however, it has been encouraging to see that United Airlines and FedEx have called for a change to the rules on foreign ownership. Fresh talks are pending which we hope will secure a more balanced deal and create a clear road map towards merging the EU and US markets and thus a liberalised global aviation market.

We believe in a truly barrier-free transatlantic market that can set the standard for 'open skies' negotiations with other countries.

Closer to home, we continue to lobby with other major European carriers against state aid of any kind. At the time of going to print a decision on the rescue plan for Alitalia, which has received a total of nearly €3 billion in aid of one kind or another, was pending.

The omens are not good in light of the commission's recent approval of a six-month government-backed loan guarantee of

YOUR COMPANY'S PERFORMANCE

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CYP30 million Cyprus pounds (US\$ 66.2 million) to Cyprus Airways to enable it to come up with a restructuring plan.

Markets, not governments, should decide which airlines should survive and we call on Commissioner Jacques Barrot to maintain the rigorous policies of successive Transport Commissioners.

We welcomed The White Paper on 'The Future of Air Transport' in 2003 in which the Government recommended the building of a third runway at Heathrow, and consideration of better use of the existing runways at Heathrow by 'mixed mode operations', subject to environmental concerns.

Mixed mode would enable airlines to use each runway for both take off and landing – commonplace in the rest of the UK and around the world. Over the longer-term, mixed mode would add to runway capacity at the airport, but in the short-term it could reduce congestion when there are weather or other delays which add to the airline costs and frustrate our customers.

During the past year, British Airways has been providing technical support for studies of noise, air quality and surface access at the airport. There has been steady progress and the studies are due to reach their conclusions next year.

BAA plc has produced an interim master plan for Heathrow showing a provisional boundary for the airport with a new runway. Next year there will be public consultations on mixed mode operations and on the terminal infrastructure that would be built with a third runway at Heathrow.

The airline continues work towards reducing its environmental impact, focusing on noise and emissions. This is particularly important if we are to secure future expansion at Heathrow. At the global level, we continue to support emissions trading as a feasible and cost-effective mechanism to limit the impact of aviation carbon emissions on climate change. We have now completed our third year as a member of the UK Emissions Trading Scheme, and are supporting the UK Government in their objective of including aviation in the EU Emissions Trading Scheme, from 2008 or as soon as possible afterwards.

Alliances

oneworld was the only alliance to achieve a collective profit in 2004. It's member airlines serve a network of some 600 airports worldwide in 135 countries. The alliance delivers valuable incremental revenue and passenger flow to British Airways. In April

2005, **oneworld** was the first of the global alliances to offer e-tickets throughout its network.

We began benefit sharing with Iberia on the two main trunk routes between Heathrow and Madrid and Barcelona and as a result schedules between us are better co-ordinated and offer the customer almost hourly flights throughout the day.

Future developments

Terminal 5 is quickly becoming a reality and building is now more than 50 per cent complete. When it opens in Spring 2008, it will usher in a new era for your company which for the first time in its history, will have a single terminal offering a unique customer experience and unrivalled access by road, rail and air.

It is more than just a new facility, it is a catalyst for change that will transform travel for millions of our customers. We must be prepared for it and at the heart of our Business Plan for the next two years is a programme called 'Fit for 5' which will drive the necessary operational efficiencies to that end.

It is supported by planned investment in training for our people and in new products to ensure we maintain our reputation for providing industry benchmarks in customer service and comfort.

Board changes

I would like to pay tribute to your Chief Executive, Rod Eddington, who steps down later this year to return to his native Australia. He has steered British Airways through a period of unprecedented crisis during the last five years, and, with his management team, restored the company to profitability. I have been extremely grateful to have somebody of his calibre leading the company and pleased that he is taking up a new role advising the UK Government on another related issue – transport infrastructure.

Willie Walsh, the youthful, respected, reforming, ex-Aer Lingus Chief Executive, succeeds him and joined your company in May as Chief Executive Designate, to work alongside Rod until he leaves in September. He brings with him a reputation for strong leadership in difficult times – qualities that we will need to face the challenges ahead. I am confident he will build on the fundamental strategies in place that have delivered our current success.

We further strengthened the Board with the appointment of Denise Kingsmill as a non-executive director. Her extensive experience

and knowledge in competition and legal issues will be invaluable. In recognition of the combined code provision on independence, Baroness O'Cathain stepped down as a non-executive director after serving more than ten years. Similarly, having served nine years on the Board, Robin Renwick and Ashok Ganguly will not seek re-election at the annual general meeting. In addition, again in recognition of the combined code provision on independence, Mike Jeffery as a former executive of the company will stand down and not seek re-election. I would like to thank all of them for their support and wise counsel over the years.

After 42 years of outstanding service with British Airways, Mike Street OBE, Director of Customer Service and Operations, is to retire from the airline in September. He was appointed to the British Airways Board in December 2000 and was awarded the OBE in May 2004 for services to the aviation industry. I would like to pay tribute to him for his unswerving loyalty and dedication to customer service.

Your Board is pleased to recommend Ken Smart, Liz Symons and Martin George for election by shareholders at the annual general meeting. I am confident that each of them will strengthen the Board in their own way.

Outlook

Market conditions remain broadly unchanged. For the year to March 2006, total revenue is expected to improve by 4-5 per cent. Capacity and volumes are expected to increase by about 3 per cent with total yield flat.

Fuel costs, net of hedging, are now expected to be about £400 million more than last year.

As announced in our latest Business Plan, our focus is on preparing for the move to Terminal 5 in 2008, investing in products for our customers and continuing to drive simplification to deliver a competitive cost base.



Martin Broughton
Chairman

CHIEF EXECUTIVE'S VIEW



It has become the norm for me to report on the impact of one crisis after another in my statement to shareholders.

The devastation wreaked by the tsunami in South East Asia at Christmas was a brutal reminder of the power of nature.

We were pleased to be able to give aid through UNICEF and fly in aid to the stricken area.

It has been a tough year nonetheless for the industry, one dominated by the high price of fuel against the backdrop of a continued competitive environment. There is too much capacity in the market and airlines propped up by their governments continue to undercut prices aggressively.

Despite this we have delivered good results for the year, driven by continued cost control and strong demand for our products. Seat factors are at record levels but yields continue under pressure. It is encouraging to note the small increase in revenue recorded this year.

We have delivered the £450 million savings targeted in the 2003/05 Business Plan. A plan which included reducing our £3 billion external spend by ten per cent and harnessing technology to simplify travel processes for customers. The £300 million employee cost-savings identified in the 2004/06 Business Plan will be delivered by 2007. Our Business Plan for 2005/07 focuses on ensuring we are fit to move to Terminal 5, targeting planned investment in products and the training for our people and ensuring the delivery of a competitive cost

base. I will outline more detail on the implications of Terminal 5 later in this statement.

We are a step closer to achieving our goal of a ten per cent operating margin. At 6.9 per cent for the full year we are 1.5 points higher than last year. This has triggered the employee reward incentive programme which is a well deserved thank you to our staff for their hard work and commitment. However, there is still some way to go on this journey if we are to achieve the ten per cent margin that will deliver sustained profitability. Our focus on costs is undiminished.

As I mentioned earlier, the cost of fuel continued to rise and we had to apply four fuel surcharges during the year. There is no sign of fuel prices falling.

Security

Security has always been paramount, more so since the tragic events of 9/11. Since then, new security and immigration regulations have been introduced, which range from fitting new cockpit doors to providing authorities with passport information in advance of arrival. Further demands are in the pipeline and later this year we are required by the US authorities to include on the flight departure manifest the addresses at which visitors to America intend staying and their countries of residence.

Whilst these extra requirements are onerous, we are well prepared to meet these obligations in a manner which minimises any disruption to our customers. We are programming ba.com so that the required manifest data can be captured before passengers arrive at the airport, thereby shortening any queues at airport check-in. The recent change in government policy on metal cutlery on flights will be welcomed by our customers.

Employee relations

Our industrial relations 'change programme' is making progress. It is designed to improve communications and foster an atmosphere in which effective industrial relations can flourish, with managers and trade union representatives working more closely together.

We have reached agreement with all

employee groups for the first time on an inflation only three-year pay deal. This means we can remain focused on delivering our objectives without the distraction of annual pay talks.

One of the key issues under discussion with our trade union representatives is absenteeism, which was running at an average of 17 days a year for each employee. That is twice the national average and is unacceptable. Following the introduction of a new corporate absence policy which we agreed with our trade unions, we are seeing some improvements, and this must continue.

We have also begun working with our staff and trade unions on getting our operation ready for the move to Terminal 5.

Terminal 5

Terminal 5 is the most significant event in the airline's recent history. For British Airways it means a single terminal operation at our main hub, London Heathrow, with one team under one roof for the first time.

For our customers, travel will be faster, smoother, and simpler, thanks to the single terminal operation which will facilitate transfers and reduce connection times. The main terminal has been designed to minimise distances for passengers.

The two-year ceBA programme, that uses technology to make travel easy for customers, continues apace. Self-service check-in has reached an all time high, with nearly 600,000 passengers a month using our kiosks. They can also be used by families and groups of up to six. Online printed boarding passes are now accepted at 41 airports across the network and more than 40,000 customers a month choose to print their boarding passes from their home or office.

The "manage my booking" facility which allows customers to select a seat, choose a special meal, add their Executive Club details to their booking and e-mail their itinerary to friends, has won a Business Innovation Award. Usage of e-tickets has grown from 41 per cent to 76 per cent and 83 per cent of all Executive Club transactions are online.

In the air we have enhanced our Club World service by improving our award winning flat

CHIEF EXECUTIVE'S VIEW

bed. To ensure our leading edge in product design and innovation, we have begun planning the next generation flat bed.

The new pre-flight dining option for longhaul business passengers at JFK airport in New York has proved popular and has been extended to Newark, Boston, Chicago, Toronto and Philadelphia, and Washington is currently under construction. We have improved the experience for families and children with the relaunch of the Skyflyers' product on flights over three hours. Families can now request seats and kids' meals whilst booking tickets online.

Network developments

The UK and India agreed a substantial increase in the number of direct services between the two countries. As a result, British Airways plans to operate a double daily service from London Heathrow to Mumbai, five a week to Bangalore and six a week to Chennai from October 2005. Next winter (2006), we plan to operate a double daily service to Delhi, and daily services to Bangalore and Chennai from London Heathrow.

We launch services to Shanghai from London Heathrow in June, with five services a week to Shanghai Pudong airport, operated by Boeing 777 aircraft.

Our summer schedule this year includes 13 new European services, lifting the total of daily British Airways flights between Britain and the Continent to an average of 631, well in excess of any other operator. An average of 372 daily flights are scheduled within the UK and across the Irish Sea, covering 60 routes.

In total, the airline and its franchise partners will fly to 206 destinations around the world and operate 1,182 flights each day.

Regrettably, we had to suspend flights between Heathrow and Jeddah and Riyadh in Saudi Arabia. It was not a decision taken lightly but the security situation had reduced commercial demand on these routes and increased our operating costs.

We have taken valuable lessons from the operational disruption that occurred last summer, which were caused by a series of operational issues. Since then we have taken steps to ensure we can deal with such exceptional circumstances.

Fleet

During the year, we took delivery of six Airbus A321 aircraft which operate on our European and domestic routes. The number of aircraft in service at year end was 290, down one on the previous year. Despite this, we flew 3.2 per cent more capacity (measured in Available Tonne Kilometres) through better utilisation of our fleet.

The new Airbus A380 aircraft was unveiled with much fanfare but, as I have said before, British Airways is in the fortunate position of having a relatively young fleet and we have no need to rush into new aircraft orders. When the time is right for us to invest, we will do so.

Social and environmental

British Airways has always been at the forefront of social and environmental progress and we pride ourselves on our proactive approach in halving aircraft noise levels, reducing carbon dioxide (15 per cent) and nitrogen dioxide (13 per cent) emissions over the past five years, and improving fuel efficiency by 25 per cent since 1990.

At the Aviation and Environment summit in Geneva in March 2005, I urged the global aviation industry to think about new ways of working together to reduce the impact of climate change caused by our industry, or risk facing additional taxation.

British Airways is currently the only airline trading emissions in the voluntary British Government scheme and supports the inclusion of aviation into the EU's emissions trading scheme from 2008.

Social and environmental leadership remains crucial to the performance of our business and its future success. All of these initiatives not only reduce our costs, but also help us achieve sustainable profitability.

Awards

Good customer service remains our *raison d'être* on the ground and in the air. This is reflected in the number of awards we won last year - more than 50. While I am on the subject of awards, we are delighted to be the Official Airline of the England Rugby Team for the next four years and wish them well for the World Cup in 2007. We are sponsoring the British and Irish Lions tour and London's bid to host the Olympics in 2012. Prime Minister Tony Blair launched

our 'flying petition' in support of the bid by being the first of thousands to sign his name on a dedicated British Airways Boeing 747 which will fly the bid to Singapore for the decision on the host country.

Finally

This is my last statement to shareholders. It has been a privilege to lead British Airways for the last five years as part of a committed and dedicated workforce. We have survived the toughest period in aviation history, from the dark days post 9/11, the collapse of the stock market, the war with Iraq, SARS and continued terrorist threats. We have come through and emerged a leaner, fitter business with a strong balance sheet. We have done it by remaining focused on our goals. We must continue to push forward; we cannot afford to relax.

Finally, I would like to thank our people for their support. We have made tremendous progress as a company and I have no doubt that this will continue under Willie Walsh's leadership. I shall look forward to watching the continued success of British Airways and wish you all the very best for the future.

Rod Eddington
Chief Executive

SUMMARY FINANCIAL STATEMENT

For the year ended March 31, 2005

Summary group profit and loss account

Audited – for the year ended March 31, 2005

£ million	2005	2004	Better/ (Worse)
Most of our revenue was earned from our main business, airline operations.			
<i>Income from passengers flying on our services, plus excess baggage, was</i>	6,500	6,490	0.2%
<i>Freight and mail carried on scheduled services brought in another</i>	482	463	4.1%
Added together, that gave us a total traffic revenue of	6,982	6,953	0.4%
<i>Income from other airline-related activities and fuel surcharges earned</i>	831	607	36.9%
This gave us a total Group TURNOVER of	7,813	7,560	3.3%
Our expenses comprised:			
<i>Pay, pension contributions and other employee costs</i>	2,273	2,180	(4.3)%
<i>Depreciation and amortisation of fixed assets</i>	687	679	(1.2)%
<i>Charges for hiring the aircraft we fly on operating leases</i>	106	135	21.5%
<i>Fuel and oil costs (net of hedging)</i>	1,128	922	(22.3)%
<i>Engineering and other aircraft costs</i>	502	511	1.8%
<i>Airport landing fees and air traffic control charges</i>	556	549	(1.3)%
<i>Handling charges, catering and other operational costs</i>	930	934	0.4%
<i>Selling costs</i>	488	554	11.9%
<i>Accommodation, ground equipment costs and currency differences</i>	603	691	12.7%
In total, therefore, our overall Group operating costs were	7,273	7,155	(1.6)%
Deducting this from our Group turnover left a Group OPERATING PROFIT of	540	405	33.3%
<i>We took into account our share of the operating profit of our associated undertakings, a sum of</i>	41	58	(29.3)%
<i>Other income and charges amounted to</i>	3		nm
<i>The net loss on disposal of fixed assets and investments during the year was</i>	(26)	(46)	43.5%
<i>Net interest payable amounted to</i>	(143)	(187)	23.5%
This produced a Group PROFIT BEFORE TAX of	415	230	80.4%
<i>Then we adjusted for tax totalling</i>	(149)	(85)	(75.3)%
This produced a Group PROFIT AFTER TAX of	266	145	83.4%
<i>Part of our profits are owed to a minority shareholder in one of our subsidiaries</i>	(1)	(1)	
<i>In the year, 6.75% interest was paid to holders of 300 million Euro Preferred Securities</i>	(14)	(14)	
This left a Group net income attributable to shareholders and retained in the business of	251	130	93.1%

EARNINGS PER SHARE

The standard measure of a company's profitability is calculated by dividing profit attributable to shareholders by the average number of shares in issue during the period.

On this basis, our earnings per share were:

– basic	23.4p	12.1p	93.4%
– diluted	23.0p	12.1p	90.1%

nm = not meaningful

SUMMARY FINANCIAL STATEMENT

For the year ended March 31, 2005

Summary group balance sheet

Audited – as at March 31, 2005

£ million	2005	Restated 2004
The Group's intangible assets comprised:		
<i>Goodwill</i>	88	93
<i>Landing rights</i>	102	75
The Group's tangible assets comprised:		
<i>Our fleet</i>	6,748	7,104
<i>Property</i>	959	1,042
<i>Computers, ground and other equipment</i>	445	491
Together, these represented our intangible and tangible assets of	8,342	8,805
In addition, we had invested in other businesses	150	531
So our intangible assets, tangible assets and investments together equalled	8,492	9,336
Our current assets, mainly money we are owed, our "cash in hand" and stock, represented	2,844	2,765
Most passengers book, and pay for, tickets in advance. This money, and amounts owing to creditors that are payable within one year, totalled	(2,868)	(2,996)
The nominal value of our Convertible Capital Bonds 2005, at £1 each	(112)	
Deducting this gave our net current liabilities	(136)	(231)
Adding this to the sum of our intangible assets, tangible assets and investments left us with total assets less current liabilities of	8,356	9,105
In addition, we owed to creditors amounts due after more than a year including:		
<i>Long-term borrowings and other creditors of</i>	(4,346)	(5,374)
<i>The nominal value of our Convertible Capital Bonds 2005, at £1 each</i>		(112)
<i>We have provided for deferred tax</i>	(1,243)	(1,137)
<i>We have also made provision for other liabilities and charges</i>	(83)	(85)
Thus, our assets less liabilities represented	2,684	2,397
The money invested in the British Airways Group comprised:		
<i>Our called-up share capital, some 1,082.8 million 25p shares</i>	271	271
<i>Our reserves</i>	2,194	1,916
	2,465	2,187
<i>Amount due to a minority shareholder in one of our subsidiaries</i>	12	10
<i>Issue of 300 million Euro Preferred Securities, which entitle holders to a return of 6.75%</i>	207	200
	2,684	2,397

The summary financial statement on pages 6 and 7 was approved by the Directors on May 12, 2005.

Rod Eddington *Chief Executive Officer* John Rishton *Chief Financial Officer*

This summary financial statement does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the company or of the Group. For further information, the full annual financial statements, the unqualified auditors' report on those financial statements and the Directors' Report should be consulted.

Independent auditors' statement to the members of British Airways Plc

We have examined the summary financial statement for the year ended March 31, 2005, which comprises the Summary Group Profit & Loss Account and Summary Group Balance Sheet.

This report is made solely to the company's members, as a body, in accordance with Section 251 of the Companies Act 1985. To the fullest extent required by the law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Investor in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Investor with the full annual accounts and directors' report, and

directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Investor and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

The maintenance and integrity of the British Airways Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of Opinion

We conducted our examination in accordance with bulletin 1999/6 'The Auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts and directors' report of British Airways Plc for the year ended March 31, 2005, and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

Ernst & Young LLP,
Registered Auditor, London,
May 12, 2005.

SUMMARY REMUNERATION REPORT

This section summarises the Directors' Remuneration Report which complies with the Companies Act and the Listing Rules of the Financial Services Authority and can be found on page 19 to 26 of the Annual Report and Accounts. You can access the full text through the website www.bashares.com.

COMMITTEE AND ADVISERS

The company's Remuneration Committee determines on behalf of the Board the overall remuneration packages for the executive directors, the members of the Leadership Team, 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. Throughout the financial year 2004/05, the company's Remuneration Committee was chaired by Dr Martin Read and its other members were Martin Broughton (until July 20, 2004), Lord Renwick and from July 20, 2004, Maarten van den Bergh.

EXECUTIVE DIRECTORS

Policy

The company's remuneration policy was first approved by shareholders at the annual general meeting in 2001, and remains unchanged both in relation to the year under review and the financial year 2005/06 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 British Airways.

Following a detailed review of the company's incentive arrangements, a number of changes are proposed which will take effect for the year 2005/2006. The policy in relation to base salaries continues to target base salaries at the market median. The proposed strategy for incentive pay is intended to make

the package more market competitive for executive directors, but retains as its aim the achievement of a market median value, subject to achievement of stretching targets. Generally, variable pay will be altered to increase the emphasis on the achievement of short-term bonus at the expense of longer-term incentives. This is believed to represent a more effective approach due to the volatility associated with the airline industry, and is expected to provide a clearer link between performance and reward, although there will remain a good balance between the achievement of short and longer-term goals linked to the creation of shareholder value. Shareholder approval is being sought at the annual general meeting for a new Performance Share Plan to replace the existing Long Term Incentive Plan. Alongside this, a shareholding guideline will be adopted, under which executives 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.

Remuneration package

The remuneration package for executive directors, will consist of a basic salary, benefits in kind (private health care, a car and fuel or cash equivalent and non-contractual travel concessions), pension, an annual bonus scheme (including deferred element) and participation in the Performance Share Plan. The proportion of performance related variable remuneration, through the bonus scheme and awards under the Performance Share Plan, is approximately 50-55 per cent of total target remuneration (excluding pension arrangements).

The annual bonus scheme is designed to reward achievement of financial targets established by the Remuneration Committee linked to the Business Plan approved by the Board. For the year 2004/05, details of the awards earned are given in the table on page 10. In addition, a final grant of options will be made in June 2005

under the Share Option Plan 1999 the performance condition for which will require an average increase in earnings per share of four per cent per annum more than RPI over a single three-year period. There will be no retesting under this award. For the year 2005/06, the amount of annual bonus available for distribution to senior executives will be determined by performance against three performance measures and will be subject to a maximum limit of 100 per cent of salary. No bonus will be payable unless the minimum operating margin target threshold is achieved. 50 per cent of any bonus earned will be invested in shares and deferred for three years, subject to continued employment.

Long term incentive arrangements

The Long Term Incentive Plan, which has operated since 1996, will cease to be operated with immediate effect. In its place, the company proposes to introduce a Performance Share Plan, which is being submitted to shareholders for approval at the annual general meeting. Details of the Performance Share Plan are included in the Notice of annual general meeting. For awards in 2005, performance conditions applying to 50 per cent of the award will be subject to the company's total shareholder return (TSR) being at or above the median compared to a group of 20 international airlines and the remaining 50 per cent of the award will be subject to achieving a satisfactory average operating margin over the three-year period.

Service contracts

Each of the three executive directors who served during the year under review has a rolling contract with a one-year notice period. The service contract for Willie Walsh provides for an initial notice period of two years reducing month by month to a period of one year. There are no express provisions for compensation payable upon early termination of an executive director's contract as at the date of termination other than normal payments due during the notice period. In the event of early

SUMMARY REMUNERATION REPORT

termination, the company's policy is to act fairly in all circumstances and the duty to mitigate would be taken into account. None of the contracts provides for compensation to be paid in the event of a change of control of the company.

Pension schemes

The pension entitlements of the executive directors are shown on page 11. Annual bonuses and awards under the long term incentive plans are not part of the executive directors' pensionable pay.

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 but reflecting his time

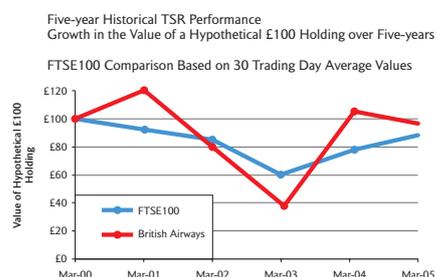
commitment to the Group. In relation to non-executive directors, the company's policy is that their remuneration should be sufficient to attract and retain world-class non-executive directors. The Chairman and the non-executive directors do not receive performance related pay.

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors are determined by the executive directors on the recommendation of the Chairman. The base fees for non-executive directors were increased in September 2004 to £35,000 per annum with committee chairmen, other than the chairman of the Safety Review Committee (see note 6 on page 10), and the senior independent director receiving an additional £7,500 per annum.

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 FTSE100.

The FTSE100 was selected because it is a broad equity index of which the company is a constituent.



SUMMARY REMUNERATION REPORT

Directors' remuneration

The remuneration of the directors was:

	Basic salary and fees	Taxable benefits ¹	Performance related bonuses ²	Total 2005	Total 2004
	£'000	£'000	£'000	£'000	£'000
Executive Directors					
Rod Eddington ³	592	25	300	917	584
Mike Street	345	22	86	453	346
John Rishton	340	16	110	466	320
Non-executive Directors					
Lord Marshall ⁴	76	8		84	263
Martin Broughton ⁵	208	21		229	37
Maarten van den Bergh	38			38	30
Dr Ashok Ganguly	35			35	34
Captain Michael Jeffery ⁶	48	15		63	61
Denise Kingsmill ⁷	15	1		16	
Baroness O'Cathain ⁸	24			24	35
Dr Martin Read	37			37	30
Alison Reed	37			37	10
Lord Renwick	33	1		34	32
Aggregate emoluments	1,828	109	496	2,433	1,782

¹ Taxable benefits for executive directors and the Chairman include a company car or cash equivalent, fuel, private health insurance and personal travel. Subject to note 6 below, the only taxable benefits for non-executives are the non-contractual travel concessions.

² In relation to the year under review, the bonus entitlement was capped at 50 per cent of salary, payable only if stretching targets were achieved. The bonus targets for the executive directors and senior management focused on the delivery of an acceptable operating margin which is the company's key internal financial measure. For the year 2004/05, the operating margin target range, determined by the Remuneration Committee, was set at 6 per cent to 10 per cent. The bonus available for distribution was determined by reference to the achievement of this target range. For the year under review the operating margin achieved was 6.9 per cent. The Remuneration Committee therefore determined that a bonus should be triggered for the three executive directors.

³ In relation to Rod Eddington, the Committee determined that the exceptional performance over his period of service when taken together with the excellent results achieved in difficult conditions during the year under review, justified the maximum bonus award under the scheme.

⁴ Retired from the Board on July 20, 2004.

⁵ The fees in respect of Martin Broughton's services as a non-executive director of British Airways Plc for the period April 1 – June 30, 2004 were paid to his employer and amounted to £8,100 (2004: £37,000).

⁶ The Chairman of the Safety Review Committee currently receives £15,000 per annum in addition to the base fee and is provided with a company car and fuel.

⁷ Figures shown from date of appointment.

⁸ Retired from the Board on December 31, 2004.

SUMMARY REMUNERATION REPORT

The pension entitlements of the executive directors were:

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

	Accumulated accrued benefits March 31, 2005 £	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 £
Rod Eddington	96,883	24,074	21,817	281,264
Mike Street	239,886	19,789	12,966	195,220
John Rishton	76,540	13,374	11,416	87,734

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

	March 31, 2005 £	March 31, 2004 £	Director's contributions during the year £	Movement, less director's contributions £
Rod Eddington	1,353,657	948,761	31,060	373,836
Mike Street	3,839,314	3,285,696	17,786	535,832
John Rishton	688,725	531,620	17,515	139,590

Rod Eddington and John Rishton are members of both the New Airways Pension Scheme (NAPS) and an unfunded unapproved retirement scheme which, under the terms of their service contracts, will provide a total retirement benefit equivalent to 1/30th and 1/56th respectively of basic salary for each year of service. Mike Street is a member of NAPS, which will provide 1/56th of pensionable pay for each year of service.

* 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)".

Directors' share interests at March 31, 2005

	British Airways Ordinary Shares	British Airways Share Option Plan 1999*	British Airways Long Term Incentive Plan
Martin Broughton	24,090		
Rod Eddington		1,159,033	752,370
Mike Street	6,678	740,653	437,269
John Rishton	2,039	556,852	361,345
Maarten van den Bergh	2,000		
Dr Ashok Ganguly	104		
Capt Michael Jeffery	2,624		11,364
Denise Kingsmill			
Dr Martin Read	8,000		
Alison Reed	10,000		
Lord Renwick	32,014		

* Option price range 157p-419p

No director has any interests in any subsidiary undertaking of the company. There have been no changes to the shareholdings set out above between the financial year end and the date of the report.

No gains were made on the exercise of share options by any director neither did any award vest under the long term incentive plan for the year ended March 31, 2005 or in the year ended March 31, 2004.

For full details of the options held by directors to purchase ordinary shares of British Airways Plc granted under the British Airways Share Option Plan 1999, and details of the conditional awards of options over ordinary shares of British Airways Plc, granted to directors under the British Airways Long Term Incentive Plan 1996, please refer to the full text of the Annual Report and Accounts.

SUMMARY DIRECTORS' REPORT

Principal activities

The main activities of British Airways Plc and its subsidiary undertakings are the operation of international and domestic scheduled and charter 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 £251 million, against a profit on the same basis of £130 million in the previous year. No interim dividend was paid during the year. Consistent with the priorities agreed with major investors, in order to continue to strengthen the company's balance sheet, the Board has again decided not to recommend payment of a dividend.

Directors

The names and details of the directors can be found on page 13 of this edition of Investor. During the year to March 31, 2005 there were a number of changes to the membership of the Board. At the annual general meeting in July, 2004, Lord Marshall retired as Chairman and was succeeded by Martin Broughton. Baroness O'Cathain retired from the Board in December, 2004. Denise Kingsmill was appointed to the Board in November, 2004 and Willie Walsh was appointed in May, 2005, both will seek election by shareholders at the annual general meeting to be held on July 19, 2005. Other changes to the Board to take effect at the annual general meeting are detailed in the Notice of Meeting.

The current membership of Board Committees can be found on page 12 of the Annual Report and Accounts.

Health, Safety, Welfare and the Environment

The Group has detailed policies on Health, Safety, Welfare and the Environment and publishes information on these in the Social and Environmental Report. The 2005 report will be available online in July, 2005 at www.ba.com/responsibility. Compliance with Group policies on Health and Safety is monitored by the Board's Safety Review Committee.

Employees and Diversity

Pages 13 and 14 of the Report and Accounts gives details on relations with employees and our policies on diversity.

Charitable donations

British Airways is a member of both the London Benchmarking Group (LBG) and

Business in the Community's Percent Club. We use the benchmarking model to assess our contributions to the community. Business in the Community reported our total contribution for the year ended March, 31, 2005 as £6 million (2004: £4 million). British Airways' direct charitable donations (cash donations to charity) for the year to March 31, 2005 were £830,000 (2004: £396,398), of which £500,000 was donated to UNICEF for the tsunami relief work.

Political donations

Shareholders passed a resolution in 2002 to approve donations to EU political organisations and EU political expenditure (as such terms are defined in section 347A of the Companies Act, 1985 (as amended)) not exceeding £250,000 per annum for the next four years. The Board has repeatedly stressed that it does not make donations to political parties in the ordinary meaning of those words and that it has no intention of doing so. The amount expended in the period from April 1, 2004 to March 31, 2005 was £10,000, paid to the Labour Friends of India (2004: £nil).

Corporate governance

The company has complied throughout the year with the code of best practice set out in Section 1 of the Combined Code appended to the listing rules of the Financial Services Authority (the "Combined Code"). 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 www.bashares.com. During the financial year under review, the Board reduced in number from 12 to 11 members. Of the 11 members serving at the year end, three were executive directors and eight were non-executive directors. One of the non-executive directors, Captain Michael Jeffery, was formerly an executive of the company and is not therefore considered independent for Combined Code purposes. The other seven non-executive directors are drawn from a diversity of business and diplomatic backgrounds, bringing a broad range of views and experiences to Board deliberations. On July 20, 2004, Maarten van den Bergh replaced Martin Broughton as senior independent non-executive director on the Board. The Board has included five fully independent non-executive directors throughout the year.

The Board has four standing Board Committees which meet regularly under terms of reference set by the Board – the Audit Committee, the Safety Review Committee, the Nominations Committee and the Remuneration Committee. These are described in more detail on pages 16 and 17 in the Report and Accounts. Copies of their terms of reference are available on the company's website www.bashares.com by clicking on the heading Corporate Governance. Each of the Committees has authority to take external advice as required.

At the end of March, 2005, the Board carried out an internal performance evaluation exercise.

Internal control

The directors are responsible for the company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding:

- (a) the safeguarding of assets against unauthorised use or disposition, and
- (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The directors have reviewed the effectiveness of the company's internal control system considering the processes set out above and make this statement pursuant to the guidance for directors issued in September, 1999.

Going concern

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

Payment policy

British Airways is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. The number of days' purchases in creditors as at March 31, 2005 in respect of the company is calculated in accordance with the provisions of the Companies Act 1985 and was 55 days (2004: 49 days).

Outlook

The Chairman's statement concludes with an outlook statement on page 3.

THE BOARD

As at May 12, 2005

**Chairman**

1 Martin Broughton (58)

Executive Directors2 Rod Eddington (55)
*Chief Executive*3 Willie Walsh (43)
*Chief Executive Designate*4 John Rishton (47)
*Chief Financial Officer*5 Mike Street (57)
*Director of Customer Service
and Operations***Non-Executive Directors**

6 Maarten van den Bergh (63)

7 Dr Ashok Ganguly (69)

8 Captain Michael Jeffery (60)

9 Denise Kingsmill (58)

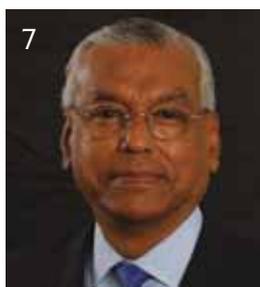
10 Dr Martin Read (55)

11 Alison Reed (48)

12 Lord Renwick of Clifton (67)

Company Secretary

Alan Buchanan (46)

**Leadership Team**Rod Eddington (55)
*Chief Executive*John Rishton (47)
*Chief Financial Officer*Mike Street OBE (57)
*Director of Customer Service
and Operations*Robert Boyle (40)
*Director of Commercial Planning*Paul Coby (49)
*Chief Information Officer*Lloyd Cromwell Griffiths (60)
*Director of Flight Operations*Martin George (43)
*Commercial Director*Alan McDonald (54)
*Director of Engineering*Roger Maynard (62)
*Director of Investments and Alliances*Neil Robertson (52)
*Director for People*Robert Webb QC (56)
General Counsel

DIRECTOR PROFILES

Denise Kingsmill CBE

New non-executive Board Member, Denise Kingsmill, has a particular reason for keeping a close eye on Terminal 5 – she chairs the Group Advisory Panel for Laing O'Rourke, the international construction group and main building contractor for Terminal 5.

"I've watched it grow from the first massive hole in the ground to where we are now with the roof on. It is the most exciting and exemplary project in the industry," she said.

"It represents a huge challenge for British Airways in changing the way it works and in the logistics of the move itself, because it is the biggest ever in the airline's history. We have to get it right for our people and our customers."

"It will be the key to our future success and gives us a real competitive edge," she added.

Since Denise became a Board Member in November last year she has spent time understanding the business. She brings with her a wealth of experience in employment and competition law and business.



"The role of the non-executive is to challenge and examine the robustness of management strategies. I bring experience gained across different sectors and a broad understanding of business issues".

After reading Economics and Anthropology at Cambridge University, she began her career in fashion and textiles and then went on to study law.

She qualified in 1978 and her first role as a solicitor was with a firm noted for its trade union and employment work.

She gave up practising law to become Deputy Chair of the Competition commission in 1997 where she headed many of the key monopoly and merger inquiries into equity underwriting, car pricing, raw milk, electricity supply, veterinary medicines and cruise liners.

She also headed the Government's task force into women's employment and pay in the UK. She chaired the Accounting For People Taskforce and has held non-executive directorships at the MFI Furniture Group, Norwich and Peterborough Building Society, Telewest Communications and Manpower. She is currently a non-executive director of the Home Office and is a trustee of the Cambridge University Business School as well as Pro-Chancellor of Brunel University.

In her spare time she enjoys fly fishing in Scotland and, when she returns there, her native New Zealand.

Denise was awarded a CBE for services to Employment Law and Competition in 2000.

Willie Walsh to lead 'world's best airline'

Former Aer Lingus boss, Willie Walsh, will succeed Rod Eddington as British Airways' Chief Executive.

Willie joined British Airways as Chief Executive Designate on May 3, and takes the top job at the end of September when Rod retires from the airline. British Airways' Chairman, Martin Broughton, paid tribute to Rod's five years at the controls, and praised Willie as the best person to succeed him. He said: "Willie has an outstanding reputation in the airline industry around the world for the way in which he transformed the fortunes of Aer Lingus from a high-cost, underperforming carrier into a successful and profitable entity. Many commentators have rightly said that Rod Eddington will be a hard act to follow, but I am completely confident that in Willie we have captured the very best person for the job."

He added: "Following the tragedies of 9/11 many commentators expected Aer Lingus to follow airlines such as Swissair and Sabena into oblivion, but Willie



salvaged the Irish carrier and saved thousands of jobs. He was determined that Aer Lingus had to provide what its customers demanded and that was a low price for an air ticket. At British Airways he will focus his efforts and energies on what our customer base demands -

quality service and value for money."

Willie said: "This is an outstanding opportunity to be at the helm of what many people see as the best airline in the world, and I'm very excited at the prospect of joining the team."

Rod, who plans to return to his native Australia for personal reasons, said: "I am delighted that Willie has joined British Airways and will replace me as Chief Executive, and I look forward to working with him during our handover."

Willie joined Aer Lingus as a 17-year-old cadet pilot in 1979 and worked through the ranks to become a captain in 1990. He was appointed as Chief Executive of Futura, Aer Lingus' charter airline in Spain in 1998, before returning to Dublin as Aer Lingus' chief operating officer in 2000, and becoming Chief Executive in the aftermath of September 11. He resigned from the airline in early 2005. He is a non-executive director of Fyffes plc.

Married with a nine-year-old daughter, Willie has an MSc in management and business administration from Trinity College, Dublin, which he undertook while flying for Aer Lingus.

BOOK YOUR BRITISH AIRWAYS HOLIDAYS ONLINE

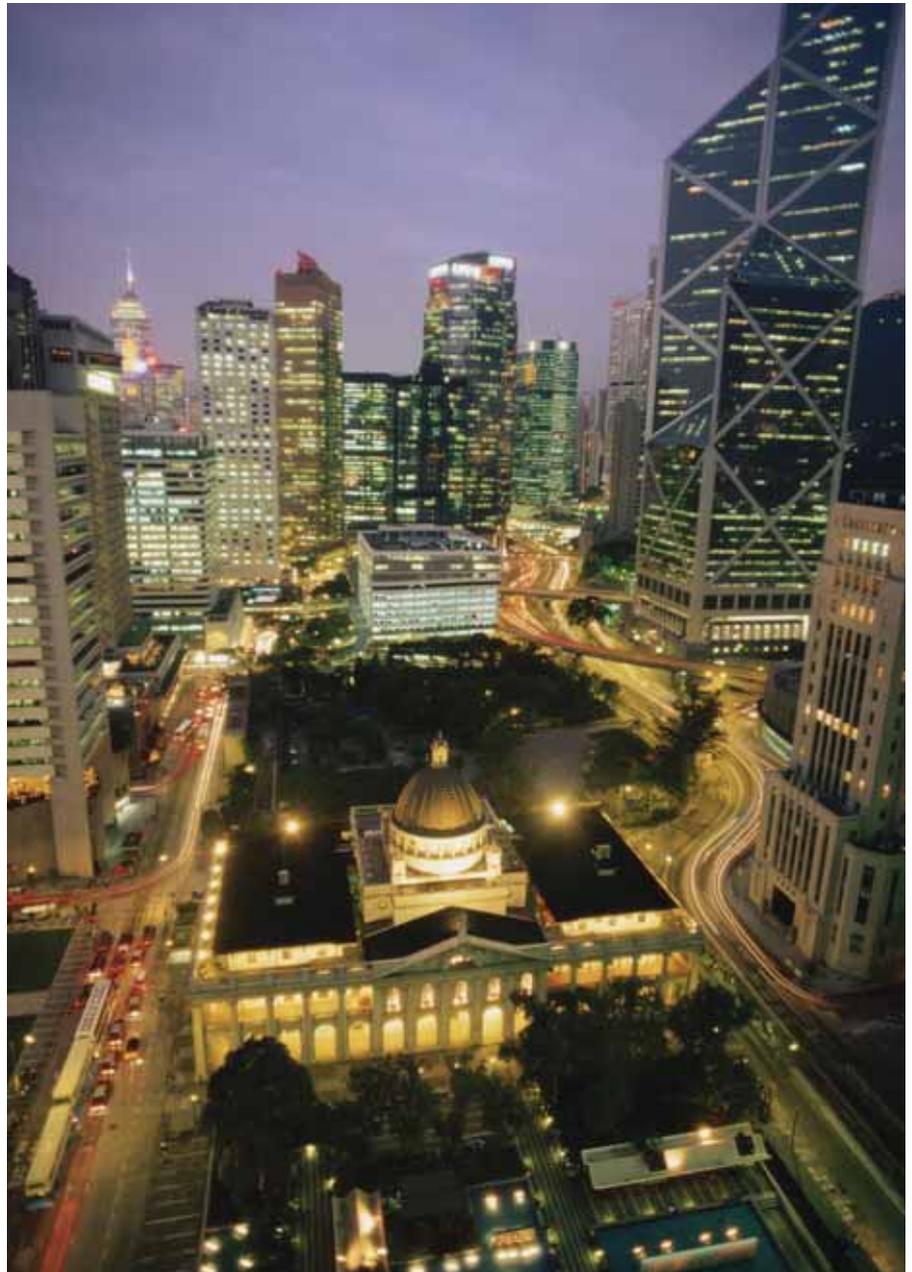
Save 10% on hotels with British Airways Holidays

With the growth in demand for city and short breaks, British Airways Holidays has increased its range of hotels to many destinations around the world and to celebrate we are offering all shareholders a 10% discount on all hotel bookings made online between 06 June - 31 July, for travel up to 31 March 2006.

Go further afield and take a shopping break to New York or Boston where you can take advantage of the strong pound versus the dollar, alternatively Hong Kong and Dubai are firm favourites. For those wishing to escape the British weather why not take a break and visit some of our top destinations: Capetown, Miami, Barbados, Mauritius or Orlando.

New for 2005, a collection of cities of contrast offering stunning architecture or surrounding landscapes, destinations such as Vilnius in Lithuania, Fez in Morocco, Shanghai in China and Split in Croatia, which boasts the most outstanding coastline on the Dalmatian coast, have all been added as the "must see" places.

Go to www.bashareholders.com to book online and save 10% on hotel bookings. This offer is only applicable to shareholders for bookings made between 06 June - 31 July for travel up to 31 March 2006. Terms and conditions apply.



Did you know?

All bookings purchased through a British Airways ticketing point or over the telephone incur a £15 booking fee. This charge will be applied at the time of booking and will be applied per person per ticket, including infants.

Even more reason to book online at www.bashareholders.com*

*to qualify for the shareholder discount you had to hold 200 or more shares on 8 November 2004.

KEY PERFORMANCE INDICATORS

Key performance indicators

	For the twelve months to March 31, 2005	Higher/ (lower)
Airline operations		
Passengers carried (000)	35,717	(1.1)%
Revenue passenger kilometres (RPKs) (m) <i>The number of passengers carried, multiplied by the distance they flew in kilometres</i>	107,892	4.7%
Available seat kilometres (ASKs) (m) <i>The number of seats available for sale, multiplied by the distance they flew in kilometres</i>	144,189	2.1%
Passenger load factor (%) <i>The percentage of seats available that were actually purchased</i>	74.8%	1.8pts
Revenue per RPK (p) <i>How much we received on average from each passenger for every kilometre flown</i>	6.02	(4.4)%
Tonnes of cargo carried (000)	877	10.2%
Aircraft in service (as at March 31, 2005)	290	(1)
Average manpower equivalent (MPE) <i>The number of employees adjusted for part-time workers and overtime</i>	46,065	(3.2)%
Productivity (in terms of available tonne kilometres per MPE) (000)	489.9	6.7%

UK Directory

Registered Office:
Waterside, PO Box 365
Harmondsworth UB7 0GB
Registered Number 1777777

Shareholder Information:
For queries in relation to your
shareholding or shareholder benefits:

Company Registrars
Computershare Investor Services PLC
PO Box 82, The Pavilions,
Bridgwater Road, Bristol BS99 7NH

Tel: 0870 702 0110

E-mail:
web.queries@computershare.co.uk

With your folio number you can
check your shareholding online at
www-uk.computershare.com/investor

British Airways Shareholder Services can be
contacted at:
company.secretary@britishairways.com

For your flight bookings using your
shareholder discount:

Shareholder Reservations Line:
0870 850 8505 or online at
www.bashareholders.com

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including flights, hotels, insurance and
car hire:
www.ba.com

All other enquiries:
0870 850 9 850
Opening hours
06:00-21:45 7 days per week.

For callers outside the UK, please dial:
+44 191 490 7901
Or in the US: 1 800 247 9297

For flight arrival and departure information:
0870 55 111 55
Opening hours
24 hours, 7 days per week.

British Airways Travel Shops:
0845 606 0747

Travel Clinics:
0845 600 2236

This document is the summary financial statement for the year ended March 31, 2005 of British Airways Plc, whose details are above. Certain statements included in this edition of Investor may be forward-looking and may involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the company's plans and objectives for future operations, including, without limitation, discussions of the company's business and financing plans, expected future revenues and expenditures and divestments. All forward-looking statements in this report are based upon information known to the company on the date of this report. The company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. It is not reasonably possible to itemise all of the many factors and specific events that could cause the company's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Fuller information on some of the factors which could result in a material difference is available in the company's Annual Report and Accounts for the year ended March 31, 2005, which is available on www.bashareholders.com.

British Airways Plc discloses on its website www.bashares.com significant ways in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards.