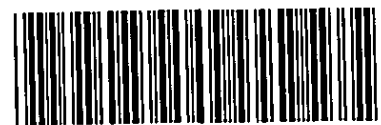


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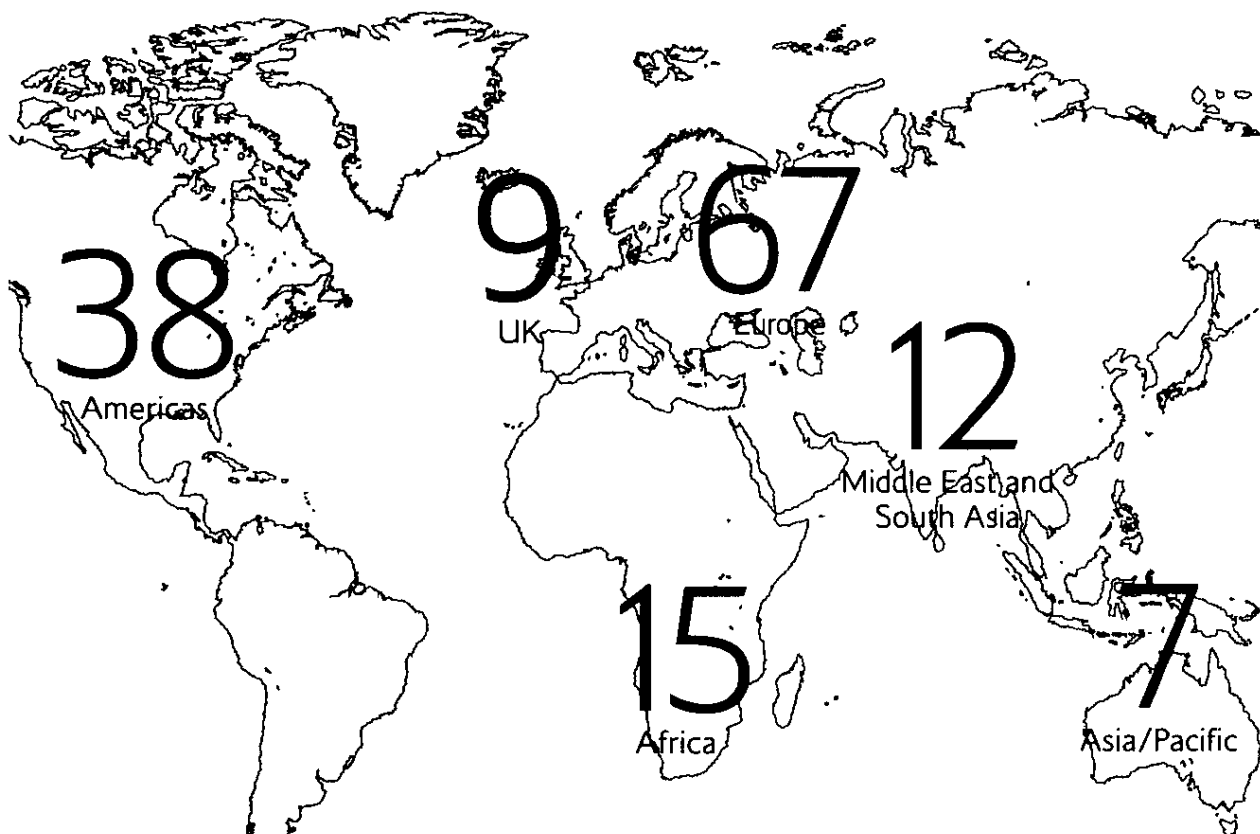
BRITISH AIRWAYS

2008/09 Annual Report and Accounts

Where we fly to as at May 21, 2009

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. Our mainline network is shown below.



Americas

Antigua
Atlanta
Baltimore
Barbados
Bermuda
Boston
Buenos Aires
Calgary
Chicago
Dallas
Denver
Grand Cayman
Grenada
Houston
Kingston
Los Angeles
Mexico City
Miami
Montreal
Nassau
New York (JFK)
New York (Newark)
Orlando

UK

Philadelphia
Phoenix
Port of Spain
Providenciales
Rio de Janeiro
San Francisco
Sao Paulo
Seattle
St Kitts
St Lucia
Tampa
Toronto
Trinidad & Tobago
Vancouver
Washington

Europe

Aberdeen
Edinburgh
Glasgow
Jersey
London (City)
London (Gatwick)
London (Heathrow)
Manchester
Newcastle
Alicante
Amsterdam
Antalya
Athens
Barcelona
Bari
Basle
Belgrade
Berlin
Bologna
Bordeaux
Brussels
Bucharest
Budapest
Cagliari
Catania
Copenhagen
Dubrovnik
Dusseldorf
Faro
Frankfurt
Geneva
Genoa

Gibraltar
Hamburg
Helsinki
Istanbul
Izmir
Kiev
Krakow
Larnaca
Lisbon
Luxembourg
Lyon
Madrid
Malaga
Malta
Marseille
Milan (Linate)
Milan (Malpensa)
Moscow
Munich
Naples
Nice
Oslo
Palma

Paphos
Paris
Pisa
Prague
Pristina
Rome
Salzburg
Sofia
St Petersburg
Stockholm
Stuttgart
Thessaloniki
Tirana
Toulouse
Turin
Varna
Venice
Verona
Vienna
Warsaw
Zurich

Africa

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

Middle East and South Asia

Abu Dhabi
Bahrain
Bangalore
Chennai
Doha
Dubai
Hyderabad
Kuwait
Mumbai
Muscat
New Delhi
Tel Aviv

Asia/Pacific

Bangkok
Beijing
Hong Kong
Shanghai
Singapore
Sydney
Tokyo

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Financial statements

The directors present their Report and Accounts for the year ended March 31, 2009, which includes the Business Review as per section 417 of the Companies Act 2006 and DTR 4.1.8 of the Disclosure and Transparency Rules of the UK Listing Authority, and the corporate governance statements. The financial statements are set out on pages 77 to 131.

Who we are

British Airways is the UK's largest international scheduled airline, flying to 148 destinations at convenient times, to the best located airports.

We are one of the world's leading scheduled premium international 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, together with our codeshare and franchise partners, we fly to more than 300 destinations worldwide. In 2008/09, we carried more than 33 million passengers.

Our airline network generates economic value by meeting the demand for business travel, by offering vital arteries for trade and investment, as well as providing leisure travel opportunities for individuals and families. In 2008/09, we earned nearly £9 billion in revenue, up 2.7 per cent on the previous year. Passenger traffic accounted for 87.1 per cent of this revenue, while 7.5 per cent came from cargo and 5.4 per cent from other activities. We carried 777,000 tonnes of cargo to destinations in Europe, the Americas and throughout the world. At the end of March 2009 we had 245 aircraft in service.

Our fleet

245 aircraft

Boeing 747s

55

Boeing 777s

42

Boeing 737s

22

Boeing 767s

21

Boeing 757s

15

Airbus A320s

35

Airbus A319s

33

Airbus A321s

11

Avro RJ100s

9

Avro RJ85s

2

Financial and operational highlights

Financially, this is a very difficult time for our business. Operationally however, we are achieving levels of excellence today never seen before in this airline.

Revenue

£8,992m

Group revenue for 2008/09 was £8,992 million, compared with £8,758 million (restated) in the previous year.

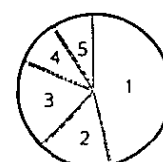
Loss before tax

£401m

Group loss before tax for 2008/09 was £401 million, compared with a profit before tax of £922 million (restated) in the previous year.

Group revenue by area of original sale

2008/09 £ million



- 1 UK 4,197
- 2 Continental Europe 1,420
- 3 The Americas 1,719
- 4 Africa, Middle East and Indian sub-continent 875
- 5 Far East and Australasia 781

Operating loss

£220m

Group operating loss for 2008/09 was £220 million, compared with a profit of £878 million (restated) in the previous year.

Basic loss per share

32.6p

Group loss per share for 2008/09 was 32.6 pence, compared with earnings per share of 61.9 pence (restated) in the previous year.

Ready to Go

53%

Network-wide Ready to Go performance of 53 per cent, compared with 34 per cent in the previous year.

Shortlanded baggage performance

19.2 bags

per 1,000 passengers at Heathrow

Shortlanded baggage at Heathrow in March 2009 was 19.2 bags per 1,000 passengers, 72.3 per cent better than March 2008.

Chairman's statement

We are in the grip of a devastating global economic downturn and the next year will be extremely difficult for us. In times of crisis, it is essential that we keep our sights fixed on the future. That is why we are continuing with our plans to firmly establish British Airways as a high-performing, market-focused, global premium airline.

We have made no secret of the fact that we believe in the next 10 or 20 years the industry will be dominated by a small number of global airline groups. We want to be leaders in that consolidation process.

Twelve months ago we reported record profits, achieving a 10 per cent operating profit margin for the first time in our history.

We knew then that the year ahead would be far more difficult, but the pace of economic slowdown has taken almost everybody by surprise. Barely a month has passed without us seeing a sharp revision downwards in economic forecasts and an equally quick decline in business activity and consumer confidence.

Financial results

In the first six months of the year we delivered a good performance given the incredibly difficult trading conditions, with an operating profit of £140 million on revenue, up 6.4 per cent.

For the full year, we have fallen into losses on the back of a sharp fall in premium traffic of 13.0 per cent in the second half year, last year's record oil prices and adverse currency movements. Total revenue grew by 2.7 per cent to £8,992 million and we recorded a pre-tax loss of £401 million for 2008/09, compared with a pre-tax profit last year of £922 million (restated).

Financially, this is a very difficult time for our business. Operationally however, we are achieving levels of excellence today never seen before in this airline, thanks in large part to Terminal 5.

We therefore continue to plan carefully for the future. We are balancing the need to take short-term action to see us through a very tough trading environment with our long-term goal: to create a high-performing, market-focused, global premium airline.

Dividends and executive remuneration

As conditions have deteriorated so much, we have decided it would be wrong to

recommend either a dividend to shareholders or a bonus to our senior executives.

We have looked at these two issues through the same lens. Our long-term aim is to provide our shareholders with a consistent and growing dividend stream and to pay meaningful executive and employee bonuses. But we cannot justify either at the moment.

Government action

During these challenging times, the need for clear-sighted leadership from policy makers – both nationally and internationally – is greater than ever.

The UK Government showed just such leadership in tackling the financial crisis last autumn. The collapse of the banking system was closer than any of us dared imagine.

Efforts to ease the credit squeeze on business and homeowners, to restore confidence and to stem rising unemployment will take time. We are hopeful that efforts by the G20 countries to coordinate action both on the banking crisis and on stimulating growth and trade will progressively bear fruit. Realistically, it will probably not be until the turn of the year that we begin to see signs of progress.

Notwithstanding these positive actions, the UK Government's recent decision to double Air Passenger Duty (APD) from 2010 will undoubtedly disadvantage the UK's competitive position within the airline industry.

Strategic partnerships

We have made no secret of the fact that we believe in the next 10 or 20 years the industry will be dominated by a small number of global airline groups. We want to be leaders in that consolidation process.

Loss before tax
for year

£401 m

Fuel costs

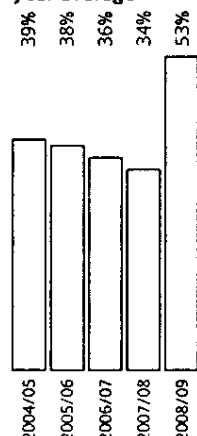
£2,969m

Ready to Go

up 19 points

Chairman's statement continued

**Ready to Go
Mainline network full
year average**



In August we applied for anti-trust immunity to operate a joint business across the Atlantic with fellow oneworld members, American Airlines and Iberia.

During the year we continued our merger discussions with Iberia, where we continue to hold a 13.15 per cent stake. I am glad to report the discussions have made good, although slightly slower than expected, progress.

Both airlines see the logic of a tie up. We are largely agreed on how to bring the two businesses together. Getting the governance right so that we can be sure of delivering the anticipated synergies is presenting the biggest hurdle to progress, but we remain hopeful this can be overcome for the benefit of our customers and shareholders.

During the year we also tentatively explored a merger with Qantas. Although ultimately that came to nothing, we learned a lot from our talks and the lessons will be invaluable to us in the years ahead as consolidation marches forward.

In February, the oneworld alliance – involving 10 partner airlines – celebrated its 10th anniversary. Whilst the alliance continues to be highly successful, it is now at a crucial point in its development.

In August we applied for anti-trust immunity to operate a joint business across the Atlantic with fellow oneworld members, American Airlines and Iberia. The EU and US competition authorities are currently deciding if we should be able to enjoy the same rights on these routes as are already enjoyed by our major competitors in their global alliances, Star and Skyteam.

Star and Skyteam dominate traffic between the EU and the US with 35 and 28 per cent market shares respectively.

The oneworld share is 21 per cent. So the decision really boils down to whether two or three alliances should compete to serve the transatlantic market.

This is our third attempt to win clearance. It is quite conceivable that our partners will look for different options if our application is refused again.

Open Skies

The first phase of the EU-US Open Skies liberalisation has opened up Heathrow to any EU or US airline that wishes to fly

from the airport to the US. Five new airlines acquired slots at Heathrow to start US flights in addition to the four incumbent airlines, changing the competitive environment at the airport. Thanks to the first phase of liberalisation we too have launched our OpenSkies subsidiary, operating premium services from Paris and Amsterdam to New York.

The next phase – Open Skies 2 – is just as important to ensure that the EU gets reciprocal access to US markets. We are disappointed that the US appears to be dragging its feet. EU carriers have the right to insist that the first phase of Open Skies is rescinded if satisfactory progress is not made by 2010.

We hope that is unnecessary. Protectionism is the last thing the global economy can afford right now.

UK regulation

At home, we continue to argue for a root and branch shake-up of the way the Civil Aviation Authority (CAA) regulates BAA airports. The Department for Transport is undertaking a consultation on this issue and the aim must be to create a system that works for all users of UK airports – passengers and airlines, alike. We need to see the necessary infrastructure and services developed in an efficient way using a system of charging that does not over-reward the airport operator.

Separately, BAA is being required by the Competition Commission to sell Gatwick and Stansted airports, as well as Edinburgh or Glasgow.

Our focus is ensuring that Heathrow has a real champion. We believe Ferrovial, BAA's parent, can fulfil that role. But while it controls all three of London's main airports there is always a concern that resources will be spread too thinly.

Runway 3

A third runway at Heathrow is essential to the airport's development and vital to London and the wider UK economy. A lack of capacity to effectively compete in the transfer market has already seen Heathrow

Last year we were asked to be the customer service champion of the London 2012 Olympic and Paralympic Games. We are very proud – as one of the eight UK sponsors and the official airline for the Games – to have this key role.

slip behind competitors such as Paris, Amsterdam and Frankfurt. So we are pleased the government is in favour of expansion and believes that strict environmental conditions can be met.

We are convinced that we can meet those conditions for a bigger Heathrow in terms of emissions and noise with the new Airbus A380 and Boeing 787 aircraft we have on order, through changes in operating procedures, and through pressing for wider changes in the industry.

This will remain a politically divisive issue up to and beyond the UK general election. However, the idea put forward by groups opposed to the expansion, that high speed rail is an alternative to a third runway, is a fallacy. We support the development of high speed rail links to the north of England, but they will not improve the UK's access to expanding markets in China, India and other rapidly developing economies. Only a third runway can do that.

Climate change

Action to tackle climate change must not be deferred because of the current economic crisis. Developed countries have a moral duty to lead on this just as they must lead on tackling the financial crisis. Ultimately it will be the world's poorest countries that will suffer most from failure.

Business must play its part fully, too. We certainly do not intend to let up on our efforts to control our own emissions. As Willie explains overleaf, we have set ourselves tough carbon reduction targets that are genuinely industry-leading.

Here, I think we can have some cause to be optimistic. President Obama has quickly reversed his predecessor's opposition to an international Cap and Trade scheme to control carbon. Once we have the EU and the US cooperating on a global system –

one that includes aviation – we can start to tackle climate change with real vigour.

I am also encouraged that commercially viable bio-kerosene may well be a reality within the next decade or so. Not so long ago that seemed a very distant dream indeed.

London 2012

Last year we were asked to be the customer service champion of the London 2012 Olympic and Paralympic Games. We are very proud – as one of the eight UK sponsors and the official airline for the Games – to have this key role. It matches our own efforts to focus on world-beating customer service and is proving to be very inspirational for everyone at British Airways.

I am convinced the Games will also provide a much needed and timely stimulus to the UK economy.

Customer trust

Finally, I want to thank all my colleagues for the incredible work they have done this year.

I also want to thank them for their efforts in restoring and rebuilding the trust our customers have in British Airways, so badly shaken in the early days of Terminal 5.

In the end, winning and maintaining the loyalty and support of our customers provides us with the best chance to create a sustainable business which will thrive once economic conditions improve.

After nine and three years respectively as non-executive directors, Dr Martin Read and Chumpol NaLamlieng have decided not to seek re-election to the Board at this year's annual general meeting. I would like to thank them for their dedicated service to the Company, and in particular for Martin's chairmanship of the Remuneration Committee.

Martin Broughton, Chairman

50%

Target net CO₂ reduction by 2050, relative to 2005

Chief Executive's review

The airline industry is enduring the toughest times in its history and we expect more pain before things improve. We are taking the right short-term action to survive the downturn. We will not let this crisis compromise our long-term goal – to create a world-leading global premium airline with a reputation for being the very best at meeting its customers' needs.

We must and will take tough action this year to ensure we come through. However, mixed with the challenges we see opportunities ahead.

Overview

Our business

Corporate governance

Financial statements

It is hard to exaggerate the severity of the current economic conditions.

During the year the credit crisis spread quickly from the US to the rest of the world provoking a global downturn that has left no single region and very few business sectors untouched.

Added to that, we saw the value of sterling plunge; a collapse in consumer confidence; the continuing suffocation of credit markets; record oil prices; and a rout among the businesses that are among our most important customers, most particularly financial services.

Airlines across the world are being battered by this storm. We have seen some 35 carriers go out of business or forced into rushed mergers.

Despite some fantastic progress in our business, our profits went into reverse falling to a pre-tax loss of £401 million.

Meanwhile, competition remains fierce, particularly at Heathrow and on important transatlantic routes. The need to deliver world-leading customer service and operational performance, to invest boldly and meet stringent environmental standards are, if anything, more acute than ever before.

But we went into this recession financially strong and we are absolutely convinced that we have the team, the talent, the short-term strategy and the long-term vision to overcome the current challenges and emerge as a better, leaner, more sustainable business.

We must and will take tough action this year to ensure we come through. However, mixed with the challenges we see opportunity ahead.

Service improvements

I am greatly encouraged by the operational progress we made during the year.

This time last year we were struggling to recover from the disastrous opening of Terminal 5 at Heathrow. I predicted then that, within a year, Terminal 5 would have proved itself to be a really magnificent facility. Sure enough it has.

During the year we saw satisfaction ratings across our network rise by eight percentage points to 72 per cent. Some 21 million passengers have passed through Terminal 5 in its first year. Satisfaction levels among them have risen steadily through the year to 76 per cent.

We continue to beat our targets on punctuality, achieving a 20 percentage point improvement over the year. At Terminal 5 some 82.5 per cent of flights departed within 15 minutes of their scheduled time and we also achieved 99.5 per cent regularity.

We have significantly reduced mislaid or misdirected bags during the year. By March we were running at fewer than 20 bags per 1,000 passengers at Heathrow, some 72 per cent better than a year earlier.

The successful transfer of 21 of our services to Terminal 3 at Heathrow in February and March, where premium check-in is consolidated with our oneworld partners, is also helping.

We have had a similar improvement in satisfaction with the new Club World cabin, now rolled out to all our Boeing 747s and over half of our Boeing 777 fleet. We expect our new two by two seat configuration in Club Europe to be equally well received.

"At Terminal 5 some 82.5 per cent of flights departed within 15 minutes of their scheduled time and we also achieved 99.5 per cent regularity."

Chief Executive's review continued

"So our work right now is all about getting the right balance between necessary short-term action to weather the storm, and sensible long-term planning and investment for the future."

Statistics like these are the lifeblood of a successful premium carrier focused on delivering great service, and they put us in exactly the right place to achieve our long-term goal.

Global premium airline

We have set our sights on being the world's leading global premium airline.

We have five key goals. They are to:

- Be the airline of choice for longhaul premium customers;
- Deliver an outstanding service for customers at every touch point;
- Grow our presence in key global cities;
- Build on our leading position in London; and
- Meet our customers' needs and improve margins through new revenue streams.

On pages 26 to 28 we describe the steps we plan to take to meet these objectives and we describe what this will mean for our people.

This focus on premium markets may look strange at a time when premium traffic, according to IATA's latest figures, has declined by around 19 per cent in the first three months of 2009, and when we have been forced to cut back our premium capacity by parking aircraft and reducing flying.

We check our vision against our short-term actions regularly and are convinced it remains valid. For a start, it marks a continuation of the work we have already done to improve our products and services. We remain convinced that this is the part of the market where we need to be powerfully represented when conditions improve – as they inevitably will.

We are backing the vision with sharper leadership. During the year we created a Management Board focusing on strategy and the operational and financial health of the business, and a Customer and Operations Executive whose job is to ensure we continue to make big strides in improving customer service.

Getting the right balance

So our work right now is all about getting the right balance between necessary short-term action to weather the storm, and sensible long-term planning and investment for the future.

For instance, we believe we can cut costs and boost efficiency while continuing to improve customer service significantly.

Over the last year we reduced our manpower equivalents (MPE) by some 1,750, including 478 managers who elected to take voluntary severance. There will be further headcount reductions this coming year and we have said that there will be no increases in basic pay rates.

We have had a similar improvement in satisfaction with the new Club World cabin, now rolled out to all our Boeing 747s and over half of our Boeing 777 fleet. We expect our new two by two seat configuration in Club Europe to be equally well received.

During the year we saw satisfaction ratings across our network rise by eight points to 72 per cent. Some 21 million passengers have passed through Terminal 5 in its first year. Satisfaction levels among them have risen steadily through the year to 76 per cent.

These vital short-term changes are also part of a radical three-year change programme – Compete 2012. This programme is an excellent example of the long-term measures we are taking to make sure we perform at our peak.

Despite an increase in underlying non-fuel costs of some 3.7 per cent in the first half of 2008/09, our response to the economic decline in the second half resulted in a full year increase of only 0.3 per cent.

As a result of sensible advanced planning, we already have in place significant financing for the new Airbus A380 and the Boeing 787 aircraft that will join our fleet and transform our operations from 2012. We will also continue to invest in our lounges, a new in-flight entertainment system, cabin upgrades across our longhaul fleet and premium service training.

We are continuing to innovate. Our decision to buy two Airbus A318s and launch a 32-seat all-premium service from London City to New York is groundbreaking. Our OpenSkies subsidiary, flying premium services to New York from Paris and Amsterdam, is another example of great innovation, and customer feedback has been excellent.

We are continuing to build our network with new and important destinations, such as Hyderabad added last year and resuming flights to Riyadh and Jeddah starting in this summer's schedule.

These investments are the sort of carefully considered initiatives we must make, even in these challenging times, to sustain our business.

Environmental responsibility

Some companies might be tempted to use the current recession as an excuse to

backtrack on their social and environmental commitments. That is not our approach. We remain absolutely committed to being a responsible airline.

We believe we are in a strong position to answer the critics who say a third runway at Heathrow will be an environmental disaster. So it is vital that we keep providing rationally argued proof.

That is one reason why we have gone further than the rest of our industry in setting targets for reducing our emissions. We have committed to cutting our carbon emissions from 110 to 83 grammes per passenger kilometre between 2005 and 2025. Our longer-term goal is to halve our net CO₂ emissions by 2050.

Outlook

We anticipate a very difficult operating environment through the rest of this year. We have responded quickly, announcing a 2 per cent reduction in our schedule over the summer. This coming winter we expect to reduce shorthaul services at Gatwick by 10 per cent and we will reduce our fleet there from 32 to 24 aircraft. Our capacity at London City will also be further cut.

The next few months will be uncomfortable for everyone within our business. We need to make lasting changes in the way we work and serve our customers. If we do, we will be ready for recovery when it comes.

Our people within the business understand this. The remarkable improvement in our performance that they have achieved already is proof of that. I know I can count on our colleagues to support our efforts to see out the recession and firmly establish British Airways as the world's leading global premium airline.

Willie Walsh, Chief Executive

Our OpenSkies subsidiary – flying a premium service to New York from Paris and Amsterdam – is another example of great innovation and customer feedback has been excellent.

Chief Financial Officer's report

Last year we said that record profitability had put us in a good position to weather economic slowdown. That has been invaluable as we face the sharpest downturn in our Company's history.

In response to lower passenger volumes we reduced the amount of flying during the year, cutting the total amount of capacity (measured by available seat kilometres) by 0.7 per cent.

What a difference a year makes. When we reported record profitability 12 months ago, we said our financial strength had significantly improved over recent years and that we were in a good position to deal with the extremely difficult climate gripping the industry caused by economic slowdown and record fuel prices.

The economic recession that has followed has been severe, far more so than most had predicted. It has hit demand for air travel significantly, particularly premium business. That, coupled with record fuel prices in the early part of the year, has meant that we posted an operating loss of £220 million for the year, down £1,098 million and a pre-tax loss of £401 million, down £1,323 million from the previous year.

Revenue

Revenue for the year was £8,992 million, up 2.7 per cent over the previous year supported significantly by currency gains. As demand in the UK weakened during the year, and with it the strength of sterling, we compensated by encouraging sales overseas where exchange effects benefited our revenue.

Overall, our passenger revenue was £7,836 million, up 3.1 per cent over the previous year, despite the increasing weakness in our premium cabins. The amount of premium traffic (measured in revenue passenger kilometres flown) first started to see some weakness in August 2008 and steadily declined, in response to economic slowdown, until the end of the year.

Significant pricing actions were required to stimulate non-premium traffic volumes, which were broadly unchanged year on year.

In terms of overall passenger traffic, total passenger numbers fell by 4.3 per cent and total traffic (measured in revenue passenger kilometres flown) was down 3.4 per cent.

In response to lower passenger volumes we reduced the amount of flying during the year, cutting the total amount of capacity (measured by available seat kilometres) by 0.7 per cent.

As a result of the reduced demand, the seat load factor – the percentage of seats actually filled – fell by 2.1 points to 77.0 per cent.

After a strong start to the year, our cargo revenue in the second half felt the impact of both lower levels of fuel surcharges, as the oil price fell, and lower demand, as the economic slowdown took hold.

Our cargo volumes, measured in cargo tonne kilometres (CTKs), were down 5.2 per cent from the previous year on capacity, measured in available tonne kilometres (ATKs), down 2.5 per cent. Premium product volumes declined by 2.1 per cent, less than the decline in general freight. Our cargo yield (revenue per cargo tonne kilometre) increased by 15.4 per cent, driven by higher levels of fuel surcharge compared to last year, together with exchange effects.

Similar to the passenger business, our cargo revenue benefited from exchange during the year. Overall revenue for the year was £673 million, up 9.4 per cent on the prior year. Excluding the impact of exchange, it was up only 1.3 per cent.

Overall, the load factor for the year was 72.0 per cent, down 1.4 points on last year.

Cargo revenue

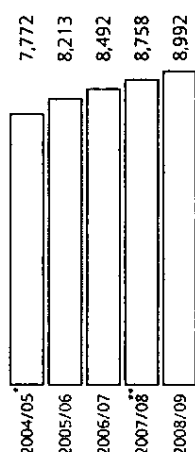
£673m

Overall revenue for the year was £673 million, up 9.4 per cent on the prior year.

"Significant pricing actions were required to stimulate non-premium traffic volumes, which were broadly unchanged year on year."

Chief Financial Officer's report continued

Total revenue
£ million



*Restated for the adoption of IFRS.
** Restated for the adoption of IFRIC 13 and 14.

"We incurred costs of £78 million, mainly redundancy, associated with restructuring the business to make it more competitive for the future."

£ million	2008/09	2007/08*	Better/ (worse)
Employee costs (excluding restructuring)	2,193	2,165	(1.3)%
Restructuring	78	1	nm
Depreciation, amortisation and impairment	694	692	(0.3)%
Aircraft operating lease costs	73	68	(7.4)%
Fuel and oil costs	2,969	2,055	(44.5)%
Engineering and other aircraft costs	510	451	(13.1)%
Landing fees and en route charges	603	528	(14.2)%
Handling charges, catering and other operating costs	1,021	977	(4.5)%
Selling costs	369	361	(2.2)%
Currency differences	117	6	nm
Accommodation, ground equipment and IT costs	585	576	(1.6)%
Total Group expenditure on operations	9,212	7,880	(16.9)%
Total Group expenditure excluding exchange	8,471	7,880	(7.5)%
Total Group expenditure excluding fuel and exchange	5,843	5,825	(0.3)%

*Restated for the adoption of IFRIC 13 and 14.

Operating expenditure

Our cost performance excluding fuel costs, was strong, particularly in the context of three major headwinds – the transitional costs associated with our move to Terminal 5; a sharp increase in the charges we now pay BAA as a result of the recent regulatory review (at Heathrow these costs rose by 23 per cent) and adverse exchange impacts.

We also incurred costs of £78 million, mainly redundancy, associated with restructuring the business to make it more competitive for the future.

Our expenditure on operations increased by 16.9 per cent compared to the previous year, with unit costs (total expenditure on operations per ATK) increasing by 19.9 per cent. Excluding the impact of exchange and fuel, our underlying unit costs increased by only 2.9 per cent. This was a major achievement, given the significant additional resources we deployed across the operation for our move to Terminal 5 in the first six months of the year, and the additional restructuring costs mentioned above.

Employee costs, excluding £78 million of restructuring related severance costs, rose by 1.3 per cent. The average number of employees in the Group, measured in MPE, fell by 0.7 per cent to 42,094. However, productivity (measured in ATKs per MPE) weakened by 1.9 per cent due to the additional manpower that was retained in the first half of the year to handle our move to Terminal 5.

Depreciation, amortisation and impairment costs include an impairment of £5 million on the goodwill which arose on the acquisition of L'Avion.

The number of aircraft we have on operating leases reduced by 17 during the year. However, the impact of weak sterling meant our operating lease costs increased by 7.4 per cent.

The year saw unprecedented volatility in oil prices, climbing at one point to \$146 a barrel and falling to as low as \$37 a barrel. This, together with the weakness of sterling, pushed our fuel spend up by £914 million to £2,969 million.

Our engineering and other aircraft costs, at £510 million, increased by 13.1 per cent compared with last year. These costs were significantly impacted by weak sterling as a high proportion of our engineering costs are incurred in US dollars. Other increases relate to increased volumes from CityFlyer and OpenSkies, offset by a reduction in *engine maintenance operating lease* provisions and other cost saving initiatives.

Landing fees and en route charges cost us £603 million, up 14.2 per cent. This was mainly due to the fact that we had to pay much higher charges to BAA for using Heathrow and Gatwick.

Handling charges, catering and other *operating costs* increased by 4.5 per cent compared with last year. Reduced passenger numbers and lower booking volumes drove significant savings, as did lower baggage compensation costs following our move to Terminal 5. However, these savings were masked by weak sterling and the introduction of OpenSkies, new routes operated by CityFlyer and catering price increases.

Our selling costs increased by 2.2 per cent primarily due to the impact of adverse exchange, partially offset by lower marketing activity and lower selling and commission costs.

With over 40 per cent of our expenditure on operations in US dollar and euro, currency differences arising on working capital retranslations and the settlement

of transactions in the year resulted in a significant charge to our income statement of £117 million (2008: £6 million).

Our £585 million spend on accommodation, ground equipment and IT was 1.6 per cent higher than last year. IT development savings were offset with adverse exchange impacts and other cost increases relating to Terminal 5, primarily rent and rates.

Financial derivatives

Net unrealised losses on fuel derivatives were £18 million (compared with a £12 million gain in 2008), primarily 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 this year were £182 million compared with £175 million in the prior year. Our interest expense decreased by £7 million from last year.

Our finance income for the year was £95 million, down £16 million on the previous year due to both lower average interest rates and cash balances.

Landing fees and en route charges

up 14.2%

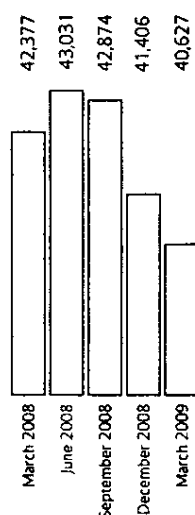
Fuel and oil costs

up 44.5%

After a strong start to the year, our cargo revenue in the second half felt the impact of both lower fuel surcharges, as the oil price fell, and lower demand, as the economic slowdown took hold.

Chief Financial Officer's report continued

Group manpower
Period end MPE:



Pension financing expense and retranslation expenses

Pension financing expense was £17 million compared to income of £70 million (restated) in the prior year. This was mainly due to the fact that we saw a £129 million increase in interest costs offset by £17 million amortisation of the actuarial gain associated with the Airways Pension Scheme that sits outside the corridor.

The retranslation of currency borrowings generated a charge of £59 million, compared with a charge of £11 million the previous year, due to the significant weakening of sterling.

Profit on sale of property, plant and equipment and investments

Profit on the sale of property, plant and equipment and investments for the year was £8 million (2008: £14 million).

Share of post-tax profits in associates

Our holding in Iberia at 13.15 per cent remained unchanged throughout the year. The decrease in our share of post-tax profits in associates – down from £26 million in the prior year to £4 million in 2008/09 – reflects the impact the economic climate has had on Iberia's results.

Taxation

The analysis and explanation of tax on the result for the year is set out in note 12 to the financial statements.

Our total tax credit for the year was £43 million (2008: charge of £194 million, restated). The tax credit was reduced by a one-off deferred tax charge of £79 million arising from the phased abolition of industrial buildings allowance which was

substantively enacted during the year, and there were adjustments relating to prior years totalling a credit of £10 million (2008: £4 million charge). Excluding these one-off items the effective tax rate for the Group would have been 28 per cent.

Our deferred tax balance at March 31, 2009, was £652 million (2008: £1,075 million, restated). The year on year reduction was primarily related to the retranslation of foreign debt and the marked-to-market movement on fuel and currency hedges.

The Group also contributes tax revenues through payment of transaction and payroll related taxes. The total amount of such taxes paid during the year was £632 million (2008: £659 million).

Earnings per share

A basic loss per share of 32.6 pence (2008: earnings of 61.9 pence, restated) is attributable to shareholders.

Other reserves

Other reserves at March 31, 2009, were £430 million. The retranslation of foreign debt and the marked-to-market movement on fuel and currency hedges have reduced reserves by £988 million from last year. This reflects the weakness of sterling and lower fuel prices at March 31, 2009.

Dividend

The Board has decided not to recommend the payment of a dividend.

Capital expenditure

Total capital expenditure in the year amounted to £712 million, down £22 million on last year. This was primarily due to reduced spend on property relating

£ million	2008/09	2007/08
Fleet – aircraft, spares, modifications and refurbishments (net of refund of progress payments)	584	428
Property and equipment	67	209
Landing rights and other intangible assets	61	40
Investments		57
	712	734

to Terminal 5 and no further investments in associates, partially offset by £122 million for the reclassification of 10 Airbus A319 aircraft from operating leases to finance leases.

Capital commitments

Capital commitments authorised and contracted for but not provided for in the accounts amount to £4,805 million for the Group (2008: £3,306 million) and £4,617 million for the Company (2008: £3,301 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

The outstanding commitments include £4,793 million for the acquisition of five Boeing 777s scheduled for delivery (from 2009 to 2012), 24 Boeing 787s (from 2012 to 2016), two Airbus A318s (2009), 10 Airbus A320s (from 2009 to 2012), 12 Airbus A380s (from 2012 to 2014) and 11 Embraer E-Jets (from 2009 to 2010).

Working capital

At March 31, 2009, our total current assets and receivables were £2,346 million, compared to £3,111 million (restated) at March 31, 2008. The reduction primarily reflects adverse movements on fuel derivatives and lower trade receivables as a result of reduced credit card processing and a general decline in the economic environment.

Our total current liabilities at March 31, 2009, were £4,142 million, up £650 million from March 31, 2008.

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

Cash flow

Our cash, cash equivalents and other current interest-bearing deposits at March 31, 2009, were £1,381 million. This was a reduction of £483 million compared with the preceding year. The reduction was mainly due to the operating loss sustained by the significant downturn in the economy, resulting in cash flow from operating activities being insufficient to cover cash used in investing and financing activities.

Note 25 to the financial statements provides a detailed analysis and explanation of our cash flow position.

Liquidity

In addition to our cash, cash equivalents and other current interest-bearing deposits, we had undrawn long-term committed aircraft financing facilities totalling \$3,248 million, further committed general facilities of \$269 million and ¥68 billion, undrawn uncommitted overdraft lines totalling £20 million and £4 million, and undrawn, uncommitted money market lines of £25 million.

Net debt/total capital ratio

Net debt at March 31, 2009, amounted to £2,382 million, an increase of £1,072 million compared with March 31, 2008. This is net of cash, cash equivalents and other current interest-bearing deposits totalling £1,381 million. The year on year increase in net debt included £554 million due to the retranslation of foreign debt.

As a result of this increase in net debt, our net debt/total capital ratio at March 31, 2009, was 56.3 per cent, 27.6 points higher than the previous year. Including operating leases, our net debt/total capital ratio was 63.7 per cent, an increase of 25.4 points on last year.

Financial risk management

We are exposed to a variety of financial risks, including market risk, credit risk, capital 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 31 to the financial statements.

Going concern

Our business activities, performance, strategy and risks are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in this section, and further information is provided in notes 25 to 32 of the financial statements.

After making enquiries, our directors have a reasonable expectation that our 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.

Keith Williams, Chief Financial Officer

Capital expenditure of

£712m

down £22m on last year.

Our business

The global airline industry is fiercely competitive, heavily regulated and highly exposed to changes in customer behaviour and consumer confidence. The current economic environment presents a new challenge. We must concentrate our efforts to seize long-term opportunities for growth.

The markets we operate in

Market overview

The pace of economic slowdown during the year was faster than most had predicted. What had first been expected to be a downturn in key developed economies turned into a global recession in the autumn of 2008. With record oil and commodity prices, sterling collapse and an unprecedented financial crisis all striking at once, even those emerging economies that had been expected to go untouched by recession saw sharp declines in growth.

In the UK, growth began slowing in the first half of the year, whilst the US economy went into recession in the last quarter. In both economies, consumer and business confidence plummeted due to rising unemployment, uncertainty in the capital markets, a continuing squeeze on credit, the erosion of household budgets and falling house prices. Growth also slowed dramatically in many Asian economies.

Government attempts – nationally and internationally – to halt the financial crisis through bank bailouts and credit guarantees staved off what might have been an even more serious collapse. Subsequent efforts to stimulate economic activity are expected by most economists to take longer to take effect.

It is hoped that these steps will kick-start the US and UK economies which will provide some economic growth in 2010. This should, in turn, provide some basis for a recovery in our own business.

Impact on the industry

The airline industry acts as an economic barometer. Like our competitors, we feel the full force of falling confidence quickly and, on this occasion, dramatically.

During the first half of the year, oil prices hit a record high of \$146 a barrel, forcing up the fuel costs of all carriers to unprecedented levels and putting margins under enormous pressure. Although fuel prices subsequently fell to about a third of that level, the onset of recession had

already begun in earnest, forcing many airlines into financial loss.

Even at these lower levels, fuel remains a much bigger proportion of airline costs compared to a few years ago, and the prospect of renewed volatility in prices remains a long-term concern.

The most significant impact of the downturn has been on premium passengers, with businesses looking to cut back sharply on travel to save money. IATA's latest figures show that global premium traffic fell in 2008 by 2.8 per cent. The rate of decline is increasing, and IATA has indicated that the year to date decline for the first three months of 2009 was around 19 per cent. The rate of decline varied across the world, with trans-Pacific traffic and routes within Asia most severely hit.

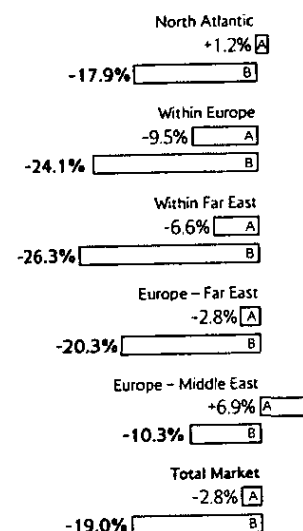
The impact on business travel is likely to continue for some time. A recent survey suggested that 47 per cent of businesses will take fewer trips in the year ahead.

Individual customers are also looking to make savings on travel, increasingly seen as an item of discretionary spend. Consumer confidence the world over has tumbled. Though many customers continue to see a first holiday as an essential rather than a luxury, most are cutting back on second and third holidays and short breaks.

For both business travellers and individuals, airline brands that are trusted to be robust and reliable are more sought after in tough economic times. Customers seek assurance that their journeys will go smoothly. If they travel less, each trip they do make is all the more important.

The downturn is also making customers much more price sensitive. They are looking for value for money, demanding excellent levels of service and high-quality standards at lower costs. Less loyal to brands than in the past, they are now willing to try out new ones which offer real value. This presents agile operators with an opportunity to attract new customers, but

Global premium demand in key markets



(A) 12 months to December 31, 2008
(B) 3 months averaged to March 31, 2009

Source: IATA

"The airline industry acts as an economic barometer. Like our competitors, we feel the full force of falling confidence quickly and, on this occasion, dramatically."

The markets we operate in continued

"Some 35 passenger and cargo carriers have either gone out of business or been absorbed into other airlines."

makes it vital that they keep offering value for money, reliability and superior service.

Customers are also making more informed choices. They have become more self-reliant, thanks to the proliferation of new information channels such as the internet and mobile phones. They are using price comparison sites and seeking out personal recommendations on service and quality before booking their trips. We expect this trend to increase during the downturn.

Metrotwin, our new online community, is an example of how we are responding to this social media trend. The new website 'twins' London and New York and publishes recommendations of the best places to visit in both cities. Metrotwin is successfully attracting a young, affluent and influential audience.

Corporate responsibility

While recession is the overriding concern for most customers, the environment and corporate responsibility remain very important issues to them. It is clear from research that those companies with a clear and open commitment to behave responsibly and to manage their environmental impact have a far greater chance of building a trusted relationship with their customers.

Metrotwin, our new online community, is an example of how we are responding to social media trends. The new website 'twins' London and New York and publishes recommendations of the best places to visit in both cities. Metrotwin is successfully attracting a young, affluent and influential audience.

Taxation

Governments are increasingly looking at aviation for additional tax revenues under the auspices of making airlines pay for environmental costs. By March 2011, APD in the UK will have increased by up to 210 per cent from current levels and the EU will be looking to introduce a system of payment for carbon emissions.

Competition

In response to the worsening economic conditions, the airline industry is in the process of change in a number of areas.

Consolidation

Weaker customer demand coupled with record fuel prices, has sped up consolidation in the airline industry. Some 35 passenger and cargo carriers have either gone out of business or been absorbed into other airlines. In Europe, five independent airlines have been, or are in the process of being, taken over by competitors.

In an effort to protect their airline industry from the effects of the financial crisis and global recession, some governments have resorted to bailout programmes. This has been particularly true in a number of major emerging markets, most notably China, India and Russia.

For both business travellers and individuals, airline brands that are trusted to be robust and reliable are more sought after in tough economic times. Customers seek assurance that their journeys will go smoothly. If they travel less, each trip they do make is all the more important.

Increased competition

Most of the markets in which we operate are highly competitive. Levels of competition vary, route by route. On a few international routes competition is restricted to national airlines and fares are regulated. At the other extreme there is a free market for internal flights within Europe allowing any European airline to operate any route and set its own fares.

Shorthaul market

On shorthaul routes, we face competition in the air and on the ground. Train operators in the UK are taking a bigger share of the air/rail travel markets, now that infrastructure improvements have cut journey times on key lines such as the West Coast mainline. Eurostar overcame disruption caused by the tunnel fire and carried 10 per cent more passengers in 2008, at a time when demand for flights from London to Brussels and to Paris fell by 20 and 13 per cent, respectively.

Budget airlines are continuing to grow, but have switched their priorities to growth at continental airports. There has been little organic growth in their London operations. At the same time, full service airlines have reduced their presence in London, cutting seat capacity by 5 per cent in 2008, although little of this reduction has been focused on the airports from which we operate.

Longhaul market

Deregulation has had a significant impact on our longhaul business. The first phase of the EU-US Open Skies agreement has altered the competitive landscape on transatlantic routes. While seat capacity in the summer of 2008 rose by just 3 per cent, the new regime has provoked a sharp transfer of capacity from Gatwick (down 39 per cent) to Heathrow (up 19 per cent).

Four new US airlines have now won slots at Heathrow. There have also been new entrants from Africa and India. Air France temporarily established a US service from Heathrow, at a time when our own OpenSkies subsidiary launched direct services to the US from Paris and Amsterdam.

Three airlines have introduced the new Airbus A380 at Heathrow in 2008, with a total of 24 departures a week. The aircraft offers them the chance to enhance their products.

However, the economic downturn wreaked havoc in two emerging sectors in our industry in 2008. We saw the collapse of three premium-only operators – Maxjet, Eos and Silverjet. Low cost longhaul operators, such as Oasis Hong Kong and Zoom, also went out of business, although other operators have emerged to serve this market, in which a number of charter airlines continue to operate.

Three airlines have introduced the new Airbus A380 at Heathrow in 2008, with a total of 24 departures a week. The aircraft offers them the chance to enhance their products.

The markets we operate in continued

BAA is being forced by the Competition Commission to dispose of Gatwick, Stansted and either Glasgow or Edinburgh airports. Such a move could be beneficial to Heathrow, ensuring that it has the right resources and focused management.

"The UK Government announced during the year that it was in favour of developing a third, short runway at Heathrow."

Regulatory controls

Almost every aspect of running an airline is governed or influenced by a web of tight regulatory controls. These cover everything from the routes we fly, to the business partners we cooperate with, the airport slots we use, the fares we set and the infrastructure costs we pay. Strict rules also govern safety and security and the management of our environmental impact.

There were a number of important regulatory developments during the year which will have a major impact on the industry in general and on our own long-term strategy.

Liberalisation

In April 2009 we completed our third application to EU and US competition authorities to operate a joint business on north Atlantic routes with our oneworld alliance partners, American Airlines and Iberia.

We are seeking the same anti-trust immunity to run this business as is already enjoyed by our major competitors. Their respective alliances, Star and Skyteam, are already allowed to coordinate schedules and offer customers a range of benefits

and valuable services. Other recent regulatory changes have made these routes, and Heathrow in particular, far more competitive than in the past and we have argued that the move would bring real benefits and choice to customers. We expect a decision in the autumn of this year.

The second phase of Open Skies is at a critical stage too. This would give European carriers reciprocal rights of access to US airports of the sort that US carriers now enjoy in Europe. The latest negotiations are moving slower than we had hoped. The EU retains the right to revoke phase one if satisfactory progress is not made. European airlines are generally keen to avoid this however, believing that further liberalisation will provide a long-term boost for the industry and extend choice for customers.

UK airports

The UK Department of Transport is reviewing the way the CAA regulates airport charges. There is strong pressure for a review of the way BAA is regulated and for the introduction of cost-effective charges that ensure airports are managed efficiently.

BAA is also being forced by the Competition Commission to dispose of Gatwick, Stansted and either Glasgow or Edinburgh airports. Such a move could be beneficial to Heathrow, ensuring that it has the right resources and focused management.

The UK Government announced during the year that it was in favour of developing a third, short runway at Heathrow, subject to tight environmental conditions being met in terms of noise, emissions and air quality. Capacity constraints at the airport have led Heathrow to fall behind competing European airports in recent years, threatening its position as one of the world's leading airports. While expansion would help Heathrow compete more strongly, the debate over the future of the airport remains politically divisive and is likely to stay that way up to the UK general election and beyond.

Environment

All airlines have to meet a comprehensive range of local, national and international environmental regulations. Our approach to these is to comply with all regulations as an absolute minimum, and to exceed them in a number of key areas. For example, our commitment to halve our 2005 net CO₂ emissions by 2050 goes much further than current industry-wide commitments to stabilise emissions at 2005 levels by 2020.

Safety and security

Safety is a key priority for us. We have a formal safety management system in place which ensures that we meet all relevant regulations and we operate a comprehensive monitoring system to ensure all incidents are reported and necessary action taken. From the start of 2009, all IATA member airlines have been required to pass an International Operational Safety Audit (IOSA). We have held IOSA accreditation since October 2007.

Governments across the world have introduced a range of security measures to try to combat the threat of terrorism and illegal immigration. Airlines continue to engage with the European Commission, the UK and other governments to make sure that these measures are effective while causing the minimal inconvenience to customers.

Our security department works within the wider international security framework to ensure that any threats to our business are minimised and to protect our customers, worldwide assets, operations and staff.

"Landing fees and en route charges cost us £603 million, up 14.2 per cent. This was mainly due to the fact that we had to pay much higher charges to BAA for using Heathrow and Gatwick."

Our security department works within the wider international security framework to ensure that any threats to our business are minimised and to protect our customers, worldwide assets, operations and staff.

Our strategy and objectives

In an incredibly tough trading environment we have to focus hard on pulling ourselves through the immediate crisis, while preparing the business for better economic times. This year we have mapped out a long-term vision for our business. It is to be the world's leading global premium airline.

The Galleries lounges at Terminal 5 and Terminal 3 have had a fantastic reception and we are using the same concept at other key airports such as Milan, Johannesburg and Vancouver.

Progress against our Business Plan

BP11

The rolling three-year business plan, BP11, set out our agenda for 2008/09. Our main aims were to build on Terminal 5's strengths to upgrade the customer experience, continue to make the business more cost effective, grow our operations and make corporate responsibility a prominent part of our business. Record fuel prices and the global downturn meant we needed to revise our plans and reset priorities. Nevertheless, we have still made significant progress against our original goals, laying the foundations for future success.

An upgraded customer experience

Terminal 5 has transformed our operational performance and customer service. We have exceeded punctuality and baggage targets across the network, achieving record customer satisfaction scores. Service for premium customers has been upgraded with the new Club World product, now fitted to all Boeing 747 aircraft and over half of our Boeing 777 aircraft, and this year we will launch our new First cabin. The Galleries lounges at Terminal 5 and Terminal 3 have had a fantastic reception and we are using the same concept at other key airports such as Milan, Johannesburg and Vancouver.

Competitive cost base

With record fuel prices to contend with during the year we redoubled efforts to control costs. Terminal 5 has allowed us to cut the cost of our Heathrow operations by more than expected. By the end of March 2009, our overall Heathrow manpower levels had reduced by 1,074 MPE, 14 per cent lower than

the peak resource level during the first month of Terminal 5 operations.

A significant management voluntary severance programme also reduced the number of managers by a third. Capacity was realigned to meet weaker demand and, where possible, exploit our most fuel efficient aircraft.

A plan for growth

Despite the downturn, we have continued to grow where it makes economic sense and meets the needs of our customers. We launched new routes from London to Hyderabad and St Kitts; we launched OpenSkies, our subsidiary flying from continental Europe to North America in June 2008, and subsequently purchased L'Avion in July 2008; and we have announced the launch of the first London City to New York JFK service to start later this year.

Investing in efficient and flexible new aircraft makes sense, even in these tough times. With the arrival of our new Boeing 787s delayed, we contracted six Boeing 777-300ER aircraft (two acquired, four leased), with options for a further four.

Corporate responsibility

Our vision is to become the world's most responsible airline, and we have brought all our corporate responsibility activities together under the banner 'One Destination'. We have set challenging goals for further reductions in our carbon emissions, reducing and recycling waste and minimising air and noise pollution. We have continued to invest significantly in our community relations programme and are proud of our record of raising money for charities, both as a business and through the incredible energy and commitment of our people.

"We have exceeded punctuality and baggage targets across the network, achieving record customer satisfaction scores."

As discussed in the Chief Executive's review on page 10, we have set our sights on being the world's leading global premium airline.

The decisions we are taking now will determine how strongly we emerge from the downturn. The airline industry is in a period of unprecedented change and we have developed a clear vision for our business.

This vision is guiding us in how we deal with current market conditions and in how we go about building a sustainable future for our business.

Global Premium Airline

What we offer will appeal to customers across the globe. Wherever we operate, individuals and business travellers alike will want to fly with us whenever they can.

We will make sure all our customers enjoy a unique premium service whenever and wherever they come into contact with us. Our customers will recognise that the service we offer is worth paying that little bit more for.

We will remain focused on aviation, moving people and cargo is our core business. We will develop new products and services to complement this.

Five Key Goals – the steps we will take to achieve our vision:

Be the airline of choice for longhaul premium customers...

...so that people will want to fly with us whenever they can. We will continue to introduce great products such as the new business class seat on longhaul and a restyled First cabin. To complement our Heathrow home – Terminal 5 – we will redevelop premium facilities in New York JFK and continue to invest in lounges in other key cities.

Deliver an outstanding service for customers at every touch point...

...by training our colleagues, on the ground and in the air, in world-class hospitality and customer service. Customers can already check-in from their mobile or PDA, and we will continue to enhance ba.com. A new in-flight entertainment system will be launched later this year.

Grow our presence in key global cities...

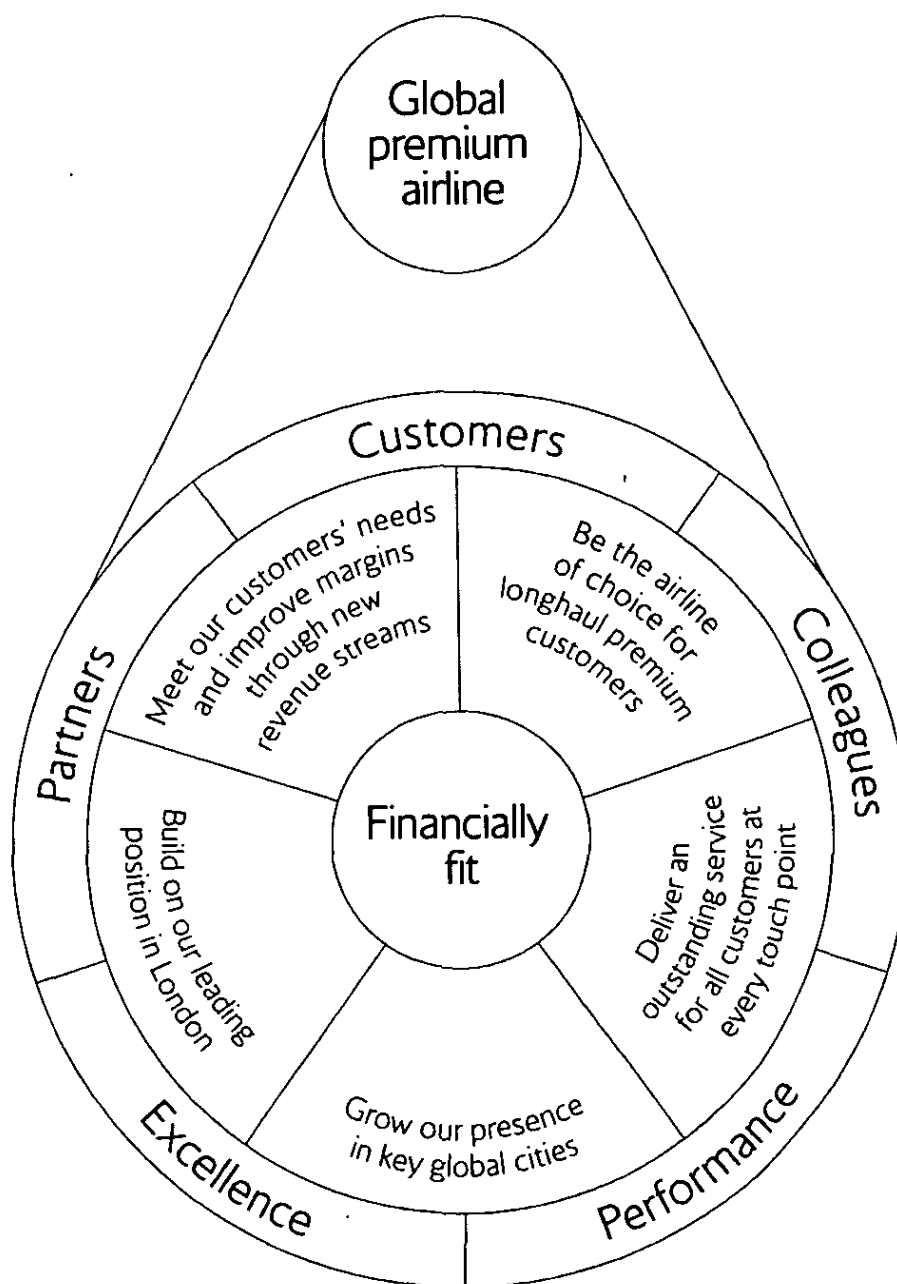
...to provide the best global connectivity for our customers. In addition to our new longhaul service from London City to New York JFK, our network depth will be strengthened with more flights to Dubai and Johannesburg and a return to Saudi Arabia.

Build on our leading position in London...

...the world's biggest aviation market. Ensuring Heathrow remains a world-class hub is vital to give us a strong London base to serve the largest international longhaul markets. We will acquire new slots, support plans for a third runway and work with BAA to improve baggage and terminal facilities at Heathrow.

Meet our customers' needs and improve margins through new revenue streams...

...by building profitable ancillary services that offer customers great value and re-enforce our brand. Our aim is to grow our mileage business and boost revenues from third-party engineering, in-flight sales and a new online retail website. On ba.com we have now launched a range of great value hotel and car hire options packaged with our flights.



In order to become the leading global premium airline, we need to look at the way we work as well as what we are doing as a business.

For that reason, along with our five key goals, we have launched a three-year change programme – Compete 2012 – linked to our sponsorship of the London 2012 Olympics. This programme is being progressively rolled out across our business to refresh our culture and will revolutionise the way we work.

Our strategy and objectives continued

Our employees are central to our ambitions to be the world's leading global premium airline.

Compete 2012

Our Compete 2012 programme aims to instil the drive and competition of the Olympic spirit into the way we work and perform as a team, and it puts our customers at the heart of our culture.

Customer

We think customer

Our people will set the standard and through them we will deliver world-leading customer service.

To continue our success, we need to be clear about what sets us apart.

- **We keep promises** – always doing what we say we will do;
- **We look the part** – our style is contemporary and understated;
- **We do things properly** – doing the right things for the right reasons and to a high standard;
- **We find solutions** – solving any problems inventively and working flexibly within a framework; and
- **We treat everyone as an individual** – respecting differences and adding a personal touch to make everyone feel valued.

We are using a comprehensive communications and training programme to help put these principles into practice in everything we do.

Colleagues

I am proud to give more

We expect great things of everyone who works for British Airways. Our colleagues are central to our ambitions to be the world's leading global premium airline. In return, they have the right to expect us to provide them with a great place to work – one which they can really feel proud of.

To achieve this we are:

- Investing in new leadership training;
- Implementing clear communication programmes;

- Improving the way we manage performance in all areas of our business through training and systems solutions;
- Re-enforcing the new organisation structure with clear accountabilities linked to our overall Company goals; and
- Innovating and improving our ways of working, using e-tools.

Performance

We make it happen

To be the world's leading global premium airline, we need to sustain our improving operational performance and be financially fit. That way we can both invest in our future and deliver a healthy return to our shareholders.

To achieve these goals we need to be able to measure our performance across the business and to make our managers accountable for delivery of our targets.

Excellence

We set standards that others aspire to

We developed a number of key operational processes ahead of our move into Terminal 5 which have helped us to become more efficient. Building on these we are now rolling out what we call the 'Lean' Continuous Improvement approach across our business.

Partners

We win together

The modern airline business is highly interconnected. We rely on a network of both airline and non-airline partnerships to deliver a complete service to our customers.

So to be the world's leading global premium airline, we also need our partners to see us as a great company to do business with. We are working hard to develop better and more sustainable relationships with our partners, particularly some 500 key businesses to whom we have given formal preferred supplier status.

Our Key Performance Indicators

Our performance through the year is reflected in our Key Performance Indicators. We failed to meet our financial target because of the unprecedented downturn in trading conditions. However, the move to Terminal 5 saw a step-change in our operational performance and we achieved record-breaking punctuality and customer recommendation scores.

Our Key Performance Indicators continued

KPI	How is it measured?	What does this mean and why is it key to our strategy?
Financial	Operating margin	We must achieve a consistently strong financial performance if we are to continue investing in the future success of the business and provide adequate shareholder returns. Operating margin is the main way we measure our financial performance. In 2002 we set ourselves the goal of achieving a 10 per cent operating margin through the economic cycle and in 2007/08 we delivered this for the first time in our history.
Customers	Customer recommendation	Customer recommendation is a key measure of our success. Our Global Performance Monitor (GPM) survey, an onboard customer survey, together with a follow-up online survey on the arrivals process, provides monthly insights into customers' views. The survey is carried out by an independent market research company and involves more than 57,000 customers each month. The customer recommendation measure is based on the percentage of customers who, when surveyed, were very, or extremely likely to 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.
Operations	Punctuality – 'Ready to Go'	Running a robust operation is key to both meeting our customers' expectations and to creating a cost-effective business. We monitor our operational performance via a broad range of measures at a variety of levels. Departure punctuality is our primary operational performance measure, requires other operational processes to run smoothly and is a key factor in whether customers would recommend British Airways to other travellers. 'Ready to Go' measures how many of our flights are prepared for departure at three minutes before the scheduled or planned departure time and focuses on the aspects of the departure process within our control.
Colleagues	Colleague involvement	Progressive, high-performing organisations are increasingly recognising that engaged employees are more committed to organisational goals and values and more willing to embrace change and improve customer service. For three years we have tracked opinions via an all-employee confidential Speak Up! survey, conducted and hosted by the independent research organisation, Ipsos MORI to measure our colleague involvement. Last year we indicated we would review our headline measure in this area. We have now defined an Employee Engagement Index, based on a basket of more detailed measures from the Speak Up! surveys, and have built employee responses into the way we measure and manage individual performance.

Achievements in 2008/09

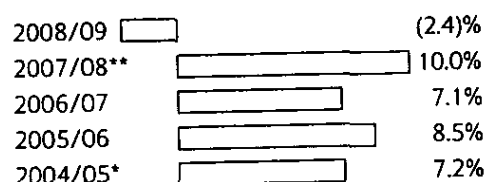
2008/09 was expected to be a tough year financially, given record fuel prices, and we expected a reduction in operating margin. The rapid decline in the global economic situation led us to revise our forecasts through the year. The economic recession that has followed has been severe, far more so than most had predicted. It has hit demand for air travel significantly, particularly premium business. That, coupled with record fuel prices in the early part of the year, has meant that we posted an operating loss of £220 million for the year, down £1,098 million from the previous year.

For 2008/09 we targeted a level of customer recommendation (the proportion of customers very or extremely likely to recommend British Airways) of 62 per cent. The move to Terminal 5 and the brilliant operational performance that we have delivered across our network as a result of this, drove a recommendation score of 65 per cent. This is the result of an increasing trend through the year and in March 2009 we achieved our highest monthly recommendation score (70 per cent) since we began tracking this in April 2002.

The move to Terminal 5 has delivered record-breaking levels of operational performance. Terminal 5 Ready to Go performance for 2008/09 averaged 46 per cent with a record high in March 2009 of 64 per cent. As good performance at Heathrow drives good performance across the network, we delivered our highest ever network-wide Ready to Go performance of 53 per cent. This translated into record levels of flights departing on time and within 15 minutes, as well as record levels of customer satisfaction with punctuality, as recorded by our GPM survey.

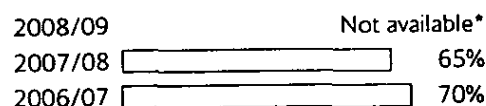
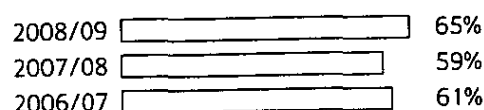
The autumn Speak Up! survey saw scores for pride, service and product advocacy, and satisfaction with basic conditions all improve significantly. This is a reflection of the improved operational performance over the summer and the impacts of moving to Terminal 5.

Performance over time



* Restated for the adoption of IFRS.

** Restated for the adoption of IFRIC 13 and 14.



* Based on a basket of detailed measures, not comparable at top-level with previous years.

Principal risks and uncertainties

"The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible."

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, pandemics and the availability of funding from the financial markets – 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.

The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible. A more detailed summary of risk management and internal control corporate governance processes are included on pages 58 and 59. Clear plans for mitigating many of our principal risks and uncertainties that we face are included in the section on 'Our strategy and objectives' and 'The way we run our business' on pages 24 to 28 and pages 34 to 52 respectively.

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.

Competition

The markets in which we operate are highly competitive. We face direct 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 such as being supported by government intervention.

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. A particular threat in the current economic environment is cash rich competitors growing market share and acting irrationally to force other airlines out of the market.

Consolidation/deregulation

As noted above, the airline industry is fiercely competitive and will need to rationalise to meet current market conditions. This will involve further airline failures and consolidation. As in all consolidations, a merger with Iberia, and the joint ATI application with Iberia and American Airlines, would introduce integration risks such as a failure to realise planned benefits, brand erosion and other execution risks.

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 have a negative impact on our margins.

Debt funding

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 future capital requirements are currently asset-related and already financed, there can be no assurance that aircraft will continue to provide attractive security for lenders in the future.

Employee 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.

Environment

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

Fuel price and currency fluctuation

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.

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies. 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 and selling the surplus or buying the shortfall of its currency obligations.

Fuel supply

The infrastructure that provides jet fuel to Heathrow is critical to the operation. Any breakdown in this infrastructure and/or contamination of the fuel supply will have a significant operational impact.

Global economic slowdown/credit crunch

Our revenue is highly sensitive to economic conditions in the markets in which we operate. Further deterioration in the global economy may have a material impact on our financial position. The financial services sector is one of our key customer segments and continued 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.

UK Government plans to double APD from 2010, and the European Union Emissions Trading Scheme, may have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit our competitors by reducing the relative cost of doing business from their hubs.

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 this. In February 2008, public consultation on the UK Government's conclusion that its environmental conditions could be met to allow full use of these two runways and the construction of a third, short runway, ended. This expansion of the airport would create extra capacity and reduce delays, enabling Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt.

Key supplier risk

We are dependent on suppliers for some principal business processes. In the current economic environment our suppliers are at increased risk of business failure. The failure of a key supplier may cause significant disruption to our operation. We describe the supplier risk in more detail on page 46.

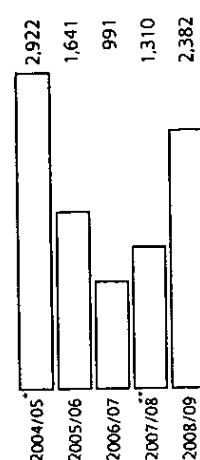
Pensions

If the financial markets deteriorate further, our pension deficit may increase, impacting balance sheet liabilities, which may in turn affect our ability to raise additional funds.

Safety/security incident

The safety and security of our customers and employees are fundamental values for us. Failure to prevent or respond to a major safety or security incident could adversely impact our operations and financial performance.

Net debt
£ million



* Restated for the adoption of IFRS.
** Restated for the adoption of IFRIC 13 and 14.

The way we run our business

To create a really high-performing business we need to build an inspiring and rewarding workplace where talented people can work to the best of their ability to meet our customers' needs and our wider social responsibility.

The way we run our business

The workplace

We are re-inventing the way we work at British Airways. We are creating a leaner organisation with a distinctive, high-performing culture through our flagship change programme, Compete 2012.

Over the next three years this programme, described in detail on page 28, will help us to achieve our vision of becoming the world's leading global premium airline.

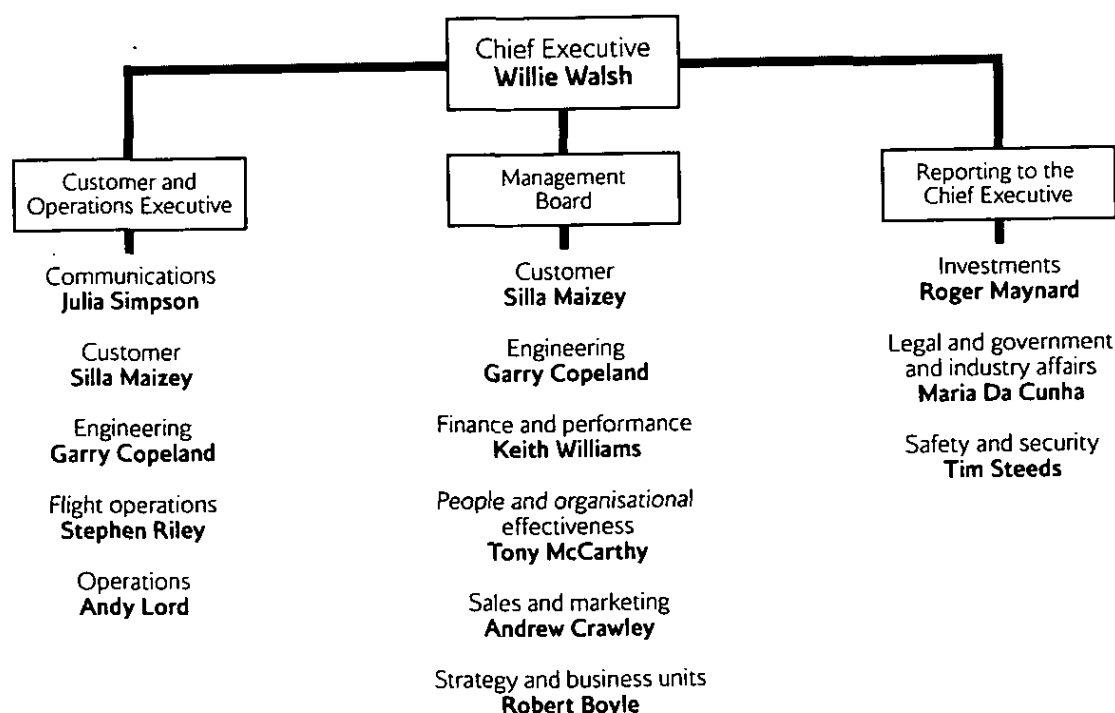
It will affect the way we interact with each other, how we measure individual performance and how we promote, develop and reward talent. Coupled with our commitment to be a responsible airline, it will also help us achieve our ambitious environmental targets, put our relationship with key suppliers on a new footing and continue our tradition of supporting communities in useful and imaginative ways.

Restructuring management

While Compete 2012 is a long-term change programme, current market conditions have made it imperative to move fast to create a leaner, more agile structure starting at the very top of our business.

In December 2008, a third of our managers left the business under a voluntary severance scheme. At the same time we redesigned the organisation to promote greater customer focus and better governance and leadership.

This restructuring effort has made us more efficient. It has also helped us identify and draw on new talent in the business, helped by the fact that we are now encouraging more people to move between functions to gain wider experience and find new outlets for their skills. To support greater



The way we run our business

The workplace continued

"Change must start at the top and during the year we reorganised our top management team, comprising nine directorate heads, led by the Chief Executive."

mobility, we have clarified individual and collective roles and responsibilities and now publish accountabilities for all of our top managers on our intranet.

Leadership development

We need great leaders to help us contend with current trading conditions and achieve our long-term vision. A leading global premium airline must be bold and highly effective in developing present and potential leaders.

This is why we introduced our High Performance Leadership (HPL) system during the year. This is an integrated system, linking business strategy, objective setting, performance assessment, development and reward. Focused initially on the senior leaders, HPL has rigorous assessment mechanisms to identify talented leaders and to provide them with the right tools and support to continue developing.

We have also defined, communicated and begun to measure individual performance against three capabilities we think we need in our leaders, in addition to operational excellence:

- Communicating a common vision;
- Agreeing accountabilities; and
- Motivating and inspiring others.

For each capability, specific behaviours have been developed so that leaders understand exactly what is expected of them and we are supporting them with a range of development programmes, including executive coaching, networks, forums and external courses. We are also using new techniques to measure performance. These will allow us to monitor individual progress and track our own overall success at managing talent.

Among the other leadership initiatives we launched were:

- **Behaviours for Success** – a leadership development programme for the HPL community, focusing on understanding and developing personal leadership performance;
- **Leadership Matters** – a scheme to identify and develop leaders who have pivotal roles in the Customer and Operations areas of our business; and
- **A Leadership Development Portfolio** that will be introduced this year with the aim of supporting current and potential leaders at every level of the business, including emerging leaders, those on a fast track to senior positions and those with strategic roles at the very top of our organisation.

The management of our business

Change must start at the top and during the year we reorganised our top management team, comprising nine directorate heads, led by the Chief Executive. It is now split into two groups – the Management Board and the Customer and Operations Executive.

The Management Board, which meets weekly, is responsible for the vision and strategic direction of the Company.

The Customer and Operations Executive is accountable for day-to-day customer service, operational performance and ensuring the highest standards of safety. This group also meets weekly.

Legal, director of safety and security and director of investments also report to the Chief Executive.

Our restructuring effort has made us more efficient. It has also helped us identify and draw on new talent in the business, helped by the fact that we are now encouraging more people to move between functions to gain wider experience and find new outlets for their skills. To support greater mobility, we have clarified individual and collective roles and responsibilities and now publish accountabilities for all of our top managers on our intranet.

The way we run our business

The workplace continued

"Given the deterioration in trading conditions during the year, no bonuses will be paid."

Airline operations
MPE reduction
(average)

0.7%

Employee costs
(excluding
restructuring)

£2,193m

People and organisational effectiveness

In transforming the way we work, we remain focused on creating a diverse, challenging and rewarding workplace which people across the airline can feel proud to be a part of, despite our expectation that the number of people employed will need to reduce as we seek to streamline our business.

Headcount

As at March 31, 2009, we employed 40,627 MPE.

Average attrition remains low at 7 per cent, with the exception of management grades where a voluntary redundancy programme contributed to a significant increase in attrition for this group.

Reward

We operate two principal funded 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, new employees were entitled to join the British Airways Retirement Plan (BARP).

SmartPension arrangements, which allow our UK-based employees to make their pension contributions in a more tax-efficient way, were introduced in early 2008. Around 90 per cent of those eligible are now benefiting from this arrangement.

Since 2005 our Employee Reward Plan (ERP) has allowed non-management employees to share in the success of the business based on the achievement of corporate measures and targets. However,

due to our losses in the year, the scheme did not operate in 2008/09.

Instead we used local incentive plans to offer rewards for improved performance, assessed against a range of operational, customer and financial measures. The first plan was introduced in Terminal 5 and has led to significant improvements in performance, with targets being exceeded frequently. This approach is now being considered in other areas to drive continuous improvement in our performance across the business.

Management bonus schemes, using a mix of financial and non-financial performance metrics, are designed to improve overall performance and to reward individual effort. Given the deterioration in trading conditions during the year, no bonuses will be paid.

However, we have replaced our grade-based reward scheme for managers with a new broad band system which links rewards more closely to individual performance and capability. Separately, our Bravo recognition scheme allows us to recognise people across our business for their efforts and achievements.

Diversity

We are proud to be a business that welcomes and nurtures difference. Diversity and inclusion are a way of life for us.

Our diversity initiatives are all about dignity and respect. They are designed to promote good relationships between colleagues, irrespective of their background, religion or culture. As part of our annual diversity week, a series of events was held to raise awareness and promote a more

Total members

March 31, 2009	APS	NAPS	BARP
Active members	1,494	28,130	6,770
Pensioners in payment	19,266	15,699	
Dependent pensioners	7,301	2,756	
Deferred pensioners	3,143	22,307	584
	31,204	68,892	7,354

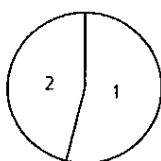
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Our diversity initiatives are all about dignity and respect. They are designed to promote good relationships between colleagues, irrespective of their background, religion or culture. As part of our annual diversity week, a series of events were held to raise awareness and promote a more positive and productive work environment.

The way we run our business

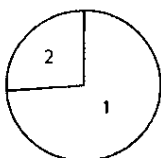
The workplace continued

Total employees



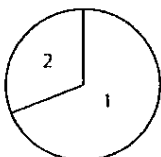
1 Men 54%
2 Women 46%

Senior managers



1 Men 74%
2 Women 26%

Managers



1 Men 69%
2 Women 31%

positive and productive work environment. These included an inter-faith panel discussion focusing on five key religions and a presentation from a member of the Board of the British Paralympic Association.

The focus this year has been on developing our Dignity at Work strategy to reduce harassment and bullying in the workplace. We have appointed and trained Harassment Advisors, drawn from across the business, in response to colleagues' requests for people they can approach confidentially about any issues they may have. The advisors act as a listening ear and provide practical advice and guidance. Our intention is to adopt a more informal approach to resolving potential conflicts using internal mediators.

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 for them 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 frontline employees are trained in disability awareness to increase their knowledge about disabled customers and employees.

We introduced a Building Ability strategy to identify and promote the needs of disabled customers and colleagues. We constantly look at how we can improve the journey experience for disabled customers and for the first time we conducted specific customer research to identify areas for development. In July 2008, 522 members of the British Paralympics Association travelled to Beijing for the Paralympic Games, providing us with important lessons we can translate into day-to-day practice.

Overall, our Dignity at Work strategy involves training, communications and

workshops across the business. All departments have targets to achieve and all employees must now complete the online 'Expect Respect' training course, introduced during the year.

Absence

We saw a modest improvement in attendance throughout the year. The headline annual absence level has improved by one day per person. At December 2008 it stood at 10.8 average days per person per annum, with some areas of the business meeting top quartile absence levels. While there has been a modest improvement overall this year, we still compare unfavourably with similar sized businesses in the UK. To remedy this we are creating a new programme to help managers deal with attendance issues.

Absences – days per person per annum

December 2008	10.8
January 2008	11.7
2003 baseline	16.7

Employee relations

We negotiate with a total of three trade unions representing colleagues across the business. We seek to work constructively with colleagues and their representatives to improve productivity and performance.

Despite the challenges we faced in the early days of Terminal 5, we went on during the year to achieve significant improvements in our operational performance. This was partly down to the agreements we reached for new working practices at the terminal. A major feature of these agreements was direct colleague engagement with the involvement of our recognised trade unions. Another key aspect was the introduction of local incentive plans for many terminal-based jobs as discussed above.

We continue to work hard to foster good relations with the representatives of our flying community. These relationships will remain key as we tackle the challenges ahead.

We carried out consultations with a number of groups within the business to see where we could improve efficiency and this has led to some beneficial changes in work practices and roles. The areas affected by restructuring included:

- Customer relations;
- Gatwick ramp and customer services;
- British Airways World Cargo;
- Glasgow cabin crew base; and
- Manchester engineering base.

During the year we fundamentally changed the way we organise our human resources (HR) management. We introduced HR Business Partners who now focus on good people management and employee relations and are responsible for day-to-day industrial relations matters. The central industrial relations team was consequently scaled back and given a more strategic role. To support this change we ran a number of bespoke industrial relations training courses to improve understanding and practice.

Engaging our colleagues

We ensure that colleagues are kept well informed about our Company, customers and industry by using comprehensive internal communications. Face-to-face communication is our priority and we run regular briefings across the Company so that as many people as possible can meet, question and share ideas with senior and line managers. We run workshops to support managers in communicating key announcements and also online forums and an online Ideas Exchange to encourage wider dialogue. Other communication channels include a personalised intranet, mobile SMS messaging, video and a range of Company-wide and local newsletters.

In 2008/09 we saw a sea change in the way people within our business think about working here. Our Speak Up! attitude survey in the autumn of 2008 recorded significant improvements in scores for pride, service and product advocacy, and satisfaction with basic conditions.

The results reflect the positive way colleagues feel about our move to Terminal 5 and our improved performance. Encouragingly, the number of people responding to the survey rose too,

indicating that more employees regard this as an important means of expressing their opinions.

To make the survey more effective, we want to ensure that changes are implemented as a result. All managers are now being given a clear responsibility to plan actions based on survey findings in an open and transparent way. Next year we will run the survey more frequently during the year, so that managers get regular feedback on changes in colleague opinion.

2009/10 will also see the launch of an Engagement Index. Building on Speak Up! results, this will help identify how managers can increase levels of engagement within their teams.

Employment tribunals

During 2008/09, the Group was served with 74 new proceedings in employment tribunals. British Airways Plc was the respondent in all but three of the proceedings. The other three are against BA Avionic Engineering, CityFlyer and BA Maintenance Cardiff. This remains a low figure given our relative size. Of the 74 proceedings:

- We lost no tribunal claims in the year;
- We did lose a preliminary hearing, currently being appealed, concerning the rights of staff employed and resident in Hong Kong to pursue discrimination claims in the UK;
- Six claims involved multiple claimants, including two, on how holiday pay should be calculated under Civil Aviation (Working Time) Regulations, brought on behalf of some 13,000 pilots and cabin crew members;
- Claims including a discrimination element outnumbered those for unfair dismissal for the second year. There were 19 unfair dismissal claims, about the same as in 2007/08; and
- A total of 47 claims for discrimination or discrimination and other matters were lodged, a 60 per cent increase on the year before. Of these, 31 are ongoing, 12 were settled and four withdrawn, won by British Airways or struck out.

"We negotiate with a total of three trade unions representing colleagues across the business. We seek to work constructively with colleagues and their representatives to improve productivity and performance."

The way we run our business

The marketplace

"Later this year we will introduce a new First cabin and the new aircraft we have on order will allow us to introduce further innovations including new seating in World Traveller Plus and World Traveller."

Customers

Our customers are at the heart of everything we do. Our overriding aim is to make sure we offer an upgraded service to everyone who chooses to fly with us.

We talk constantly to large numbers of customers to get a real understanding of their needs, each month surveying around 57,000 of them through our global performance feedback survey.

By doing this we get a close and accurate reading of how our customers' needs are changing and we are able to constantly improve their travelling experience. This is vital for us to secure our position as the world's leading global premium airline.

Service and training

Our people play a crucial role in providing the upgraded travel experience. We are committed to excellent service and are investing heavily in training customer-facing colleagues. Putting the customer at the heart of everything we do is also a key priority of our Compete 2012 change programme, described in detail on page 28.

These training programmes will continue in 2009, supplemented by service style training for our ground team at Heathrow and coaching for people in our contact centres in how to provide a more attentive and personal service.

Following the introduction of new corporate values last year, all training programmes have been redesigned. The behaviours are woven into all our courses to ensure colleagues, particularly those in customer-facing roles, meet our high standards.

During the year we delivered over 215,000 days of training. This included training days for cabin crew to enable them to deliver the highest level of premium service to our customers, and for ground staff to support the continued phased moves to Terminals 5 and 3 at Heathrow.

Ground experience

Terminal 5 continues to impress our customers. They are enjoying improved

punctuality, shorter check-in times and an altogether smoother travelling experience.

Around 21 million customers used the terminal during the year and customer satisfaction has increased noticeably since opening. In direct response to customer feedback, we have further improved the experience since opening, for instance by introducing a dedicated premium check-in zone.

The luxurious lounge complex at Terminal 5 has also been exceptionally well received, with an increase of over 20 percentage points in customer satisfaction. The new lounges offer greatly improved facilities, including wine bars, spa treatments, delicious food and upgraded communication links. We are now introducing similarly themed lounges across our network.

Onboard experience

The new Club World cabin layout was introduced on our Boeing 747 aircraft in 2007/08 and the roll-out was completed last year. Combining new levels of comfort, greater privacy and choice, the layout has achieved an increase in customer satisfaction, of over 20 percentage points. We are now rolling out the new cabin on our Boeing 777 aircraft.

Later this year we will introduce a new First cabin and the new aircraft we have on order will allow us to introduce further innovations including new seating in World Traveller Plus and World Traveller. Our new London City to New York JFK service will use Airbus A318 aircraft in an all-premium, 32-seat layout. This service is the first north Atlantic service from London City airport, and it will offer customers full mobile text and data services.

The new on-demand in-flight entertainment system has also been well received. Customers like the increased flexibility and the wider choice of movies, TV programmes, audio and interactive games.

We have improved the onboard experience for our premium shorthaul customers, offering them greater space

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The way we run our business

The marketplace continued

"During a recent survey, two thirds of respondents rated ba.com as Excellent or Very Good – proof that our creative development of the website is providing real value to our customers."

Average payment performance

91%

of payments were on time in the UK.

and privacy by keeping the middle seat free. Also, we have not forgotten our youngest passengers who can now enjoy an entertainment pack on longhaul flights featuring that much-loved character, Paddington Bear.

ba.com

ba.com – our online portal – is not only becoming more popular with customers, it is also helping us to drive down costs and increase revenues.

Almost a third of all our bookings are now made on ba.com, with almost half of all European leisure fares sold via the UK site. This year we introduced a new feature allowing customers to upgrade their booking at any time between buying a ticket and checking-in online.

A large number of our passengers now check-in online. They clearly enjoy the convenience of this service. For that reason we have now launched a popular new service, allowing customers to check-in or access real time arrivals and departures information through their mobiles.

During a recent survey, two thirds of respondents rated ba.com as Excellent or Very Good – which is proof that our creative development of the website is providing real value to our customers.

Cargo

BA World Cargo continues to focus on providing premium products. We have improved the 'Prioritise' (express) service through advancements in the new 'cool chain' technology. New services such as scanning for airmail and direct airport-to-door deliveries are just some of the improved solutions we are now offering shippers.

BA World Cargo also continues to play a leading role in simplifying the international supply chain. We are fully committed to the IATA coordinated e-freight initiative. Not only have we played an important role in formulating guidance for participating airlines, we were also the first European

carrier to use e-freight between Heathrow and New York.

Overseas branches

We fly to a number of destinations around the world (see inside front cover). In addition to the overseas branches we have established in many of these countries, we have branches in countries to which we do not fly.

Suppliers, partners and alliances

Suppliers

Overall supplier costs, excluding fuel, were up nearly 7 per cent year on year, reflecting significant inflationary pressures on suppliers' own costs. In continuing to control our costs, we have decided to prioritise those projects that really add value to the customer proposition.

Goods and services are procured through a strategic sourcing process. We use benchmarking principles to make sure we derive the maximum value from them, both at the point of purchase and over the life of the supply contract.

During the year we signed major in-flight catering agreements with three suppliers, all of which will come into effect from April 1, 2010. We believe these agreements will set a new benchmark for high-quality airline catering. Using three suppliers will also help us to minimise our exposure to supplier failure.

We continued to reduce our carbon footprint with the delivery of the first of our new Boeing 777 aircraft during the year. Lower fuel burn and reduced environmental impact were key factors in our choice of aircraft.

In addition, we have selected the Thales in-flight entertainment system for all new aircraft delivered from 2010. With bigger screens, the multimedia system will give customers access to over 100 movies, 300 programmes and 400 CDs as well as a range of radio programmes and podcasts

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The way we run our business

The marketplace continued

"We are committed to making responsible purchasing decisions, and during 2008/09 started to refine our purchasing process and train our procurement team to make sure this happens."

whenever they want. The system is lighter so will also help us reduce aircraft weight and use less fuel.

Supplier risk

Mitigating supplier risk is a key priority, particularly in the current economic climate. Our procurement team records and measures risk across our most important suppliers. We have currently identified a number of suppliers who, if they ceased trading or experienced severe 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 in trouble.

In addition to managing supplier risks, we also routinely monitor the financial health of critical suppliers using monthly Dun & Bradstreet company reports as an early warning system.

We use business continuity plans to cover the risk of supply failures and regularly review their effectiveness with the suppliers themselves. Equally, we make sure effective contingency plans are in place to respond to any supply interruption.

Payment performance

We have again made good progress on paying suppliers in accordance with our agreed terms. On average, 91 per cent of payments were on time in the UK for the year ended March 31, 2009. This compares with 88 per cent in the preceding year and exceeds our 90 per cent target. Next year we expect to improve further through increased use of e-invoicing and purchasing cards.

We are a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and are committed to paying our suppliers on agreed terms. The number of days' purchases in creditors at March 31, 2009, is calculated in accordance with the provisions of the Companies Act 1985 and was 32 days (2008: 33 days).

Corporate responsibility in the supplier base

We are committed to making responsible purchasing decisions, and during 2008/09 started to refine our purchasing process and train our procurement team to make sure this happens. We will continue to survey potential suppliers to assess their corporate responsibility credentials, using independently-held, self-certification data when deciding with which suppliers to work.

Procurement delivery

Using preferred suppliers helps us to control costs. In December 2008, 96 per cent of our external spend was with 500 suppliers who have all been awarded formal preferred supplier status. Increasingly we are also making sure our spend goes through our approved order-based process. In December 2008, 99 per cent of spend was approved this way.

Partners and alliances

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 the 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.

We have improved the onboard experience for our premium shorthaul customers, offering them greater space and privacy by keeping the middle seat free. And we have not forgotten our youngest passengers who can now enjoy an entertainment pack on longhaul flights featuring that much-loved character, Paddington Bear.

The way we run our business

Community investment

"Our partnership with UNICEF, Change for Good, celebrated reaching its £25 million milestone in July 2008."

2008/09

£5.4m

donated to charity.

BA Fun Run

£55,000

raised for Cancer Research UK.

We have a long history of investing in the communities in which we operate. This work continues and in 2008/09 we supported over 120 community and conservation organisations in a variety of ways, including donating travel awards, cargo and excess baggage space.

We work closely with the communities around Heathrow and the UK regions. Our main priorities include education and youth development, supporting volunteering by our colleagues and promoting sustainable tourism, heritage and the environment.

We continue to be a member of both the London Benchmarking Group (LBG) and the Business in the Community (BITC) 15 Percent Club.

Education and youth development

Our Community Learning Centre – close to our Waterside headquarters at Heathrow – has welcomed nearly 50,000 young people and adult learners on a range of education programmes since its opening in 1999. Programmes relevant to the school curriculum are run in partnership with the United Nations International Children's Emergency Fund (UNICEF) focusing on places we fly to, using workshops on customer service, information and communication technology and the environment.

Languages

The British Airways language flag award, offered to schools across the UK, has been recognised by the Foreign and Commonwealth Office and in 2008 won the Business Language Champion Partnership of the Year Award. We are seeking official accreditation for the programme which will allow the test to earn university points. Over 1,500 young people have gained a flag award in languages ranging from French to Urdu.

Partnerships

In partnership with the Natural History Museum, we have developed programmes allowing pupils from Heathrow schools to visit the museum, meet scientists and experience the work of the Darwin Centre.

Overseas, we have been working with UK and South African partners on a multi-agency Safer Communities programme in South Africa to reduce crime and increase community confidence. Since the programme began in 2003, over 40 schools and more than 200 volunteer youth coaches have been trained.

Change for Good

Our partnership with UNICEF, Change for Good, raised £3 million in the year to March 31, 2009. The onboard collection programme, supported by over 2,400 cabin crew champions, enabled us to help fund UNICEF's work with vulnerable children. Change for Good celebrated reaching its £25 million milestone in July 2008.

In August 2008 our Chief Executive visited Tanzania to see the work of Change for Good at first hand, particularly how funds are being used to support and treat mothers and babies affected by HIV/AIDS. We have also invested significantly in China to support literacy programmes and in Nigeria our donations have been used to buy malaria nets.

Employee fundraising

Over 3,500 retired and current employees donated over £630,000 directly from their payroll to their chosen charities through our Giving Scheme during the year. In addition, we supported Children in Need and Red Nose Day across the airline raising over £13,000 for charities in the UK and overseas.

Last year's BA Fun Run raised in excess of £55,000 for Cancer Research UK. During 2008/09 our World Cargo team collected and delivered over 95 tonnes of high-quality gifts, donated by employees from across the airline.

Charitable donations

BITC reported our total direct and in-kind donations for 2008/09 at £5.4 million (2008: £5.7 million). Of these, direct charitable donations amounted to £444,000 (2008: £398,000).

Our Community Learning Centre – close to our Waterside headquarters at Heathrow – has welcomed nearly 50,000 young people and adult learners on a range of education programmes since its opening in 1999. Programmes relevant to the school curriculum are run in partnership with the United Nations International Children’s Emergency Fund (UNICEF) focusing on places we fly to, using workshops on customer service, information, communication technology and the environment.

The way we run our business

Environment

"In March 2009 our carbon offset scheme became the first airline offset product to meet the requirements of the UK Government's Quality Assurance Scheme."

Over
55,000
tonnes of CO₂ were offset
by customers in 2008.

35%
of dry waste at Heathrow
and Gatwick was recycled
in 2008.

Climate change

Climate change is an issue of huge importance to us and we have a long-term commitment to address it. Our climate change programme covers four main areas: policy measures to curb emissions growth; voluntary carbon offsetting; fuel efficiency; and support for scientific research.

Our target is to reduce our net CO₂ emissions by 50 per cent by 2050, relative to 2005. Meeting this target will require investment in new technology, sustainable biojet fuels and in cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets.

Governments will come together in December 2009 to discuss a future global agreement on climate change. International aviation emissions were not included in the Kyoto Protocol, but we believe that they must be incorporated into this new agreement. We are playing a leading role in aviation groups to develop a global policy approach for the sector.

In December 2008 the European Union finalised the conditions for including aviation in its Emissions Trading System (ETS). With our experience of emissions trading since 2002 we are well placed to meet the EU ETS requirements.

Our offsetting scheme allows passengers to add a carbon offset when they book a flight through ba.com. During 2008, some 150,000 customers offset over 55,000 tonnes of CO₂ in this way and their contributions have helped fund UN-certified carbon cutting initiatives in China and Brazil. In March 2009 our scheme became the first airline offset product to meet the requirements of the UK Government's Quality Assurance Scheme for Carbon Offsetting – a guarantee that we are achieving genuine, additional and measurable carbon reductions.

We continue to look for ways to improve fuel efficiency and over 600 projects have so far been assessed. Of these, 55 have been implemented, delivering over 65,000 tonnes of CO₂ savings, equivalent to nearly

21,000 tonnes of fuel. In addition, we have reduced CO₂ emissions associated with our UK property portfolio by nearly 11 per cent.

In 2008 our carbon efficiency, expressed in grammes of CO₂ per passenger kilometre (gCO₂/pkm), was just over 107 grammes. Our target is to improve that figure to 83 gCO₂/pkm by 2025. Our carbon footprint was 17.6 million tonnes of CO₂ in 2008.

We are also supporting a number of scientific research projects. These include the European Commission's IAGOS project which is investigating whether aircraft can be used to collect atmospheric data in-flight and a partnership to develop new policies on preventing deforestation.

Waste

We aim to minimise waste, reduce disposal to landfill and increase reuse and recycling. Where we cannot prevent waste disposal, we aim to manage our waste responsibly.

In 2008 we recycled 35 per cent of dry waste at Heathrow and Gatwick (up from 30 per cent the year before). We have set ourselves the target of recycling 50 per cent by 2010. We will achieve this through the provision of more recycling centres, handling a wider range of materials and by encouraging better segregation of waste.

The amount of waste at Heathrow and Gatwick sent to landfill fell by 7.2 per cent to 3,424 tonnes, during the year. Our non-recyclable waste at Heathrow and Gatwick will be processed through a waste to energy plant before the end of 2009, helping us to meet our target of zero waste to landfill by 2010.

Noise

We are investing in quieter aircraft and technology and aim to change the way we fly to reduce the noise of our activities. We have set a target to reduce our average noise per flight by 15 per cent by 2015.

Night noise is a particular concern for people living near Heathrow and is one of the key issues we want to address. During 2008, we contravened the noise limits at

We are investing in quieter aircraft and technology and aim to change the way we fly to reduce the noise of our activities. We have set a target to reduce our average noise per flight by 15 per cent by 2015.

We also aim to reduce our CO₂ emissions by 50 per cent by 2050, relative to 2005. Meeting this target will require investment in new technology, sustainable biojet fuels and in cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets.

The way we run our business

Environment continued

Heathrow 36 times, a reduction of 23 per cent compared with 2007. This year, these were principally a result of Boeing 747-400 departures being delayed.

At Heathrow, we use a Continuous Descent Approach on landing to save fuel and cut noise. During 2008, 95 per cent of all day and night flights operated this way, compared with an airport average of 82 per cent for daytime and 88 per cent for night time flights.

Air quality

We have a number of operating initiatives to improve our air quality performance. We have already achieved a reduction in NO_x emissions (nitrogen oxide – a greenhouse gas) through the modification of Boeing 747 (RB211) engines and Boeing 777 (GE90) engines. We plan to further modify our Boeing 737 engines to deliver a 20 per cent reduction in NO_x.

At Terminal 5 and other airports worldwide, we are able to use aircraft stands with fixed ground power and pre-conditioned air which means we will rely less on aircraft auxiliary power units. We have developed procedures for aircraft to taxi on one less engine after landing, and

are now developing similar procedures to taxi out to the runway. These measures will cumulatively reduce CO₂ and NO_x emissions, fuel consumption and noise.

Fleet modernisation

In response to delivery delays for our new efficient Boeing 787 aircraft, we have contracted for six Boeing 777-300ER aircraft (two acquired, four leased) due to start arriving in 2010, with options on a further four. We have ordered two Airbus A318 aircraft for our transatlantic services from London City Airport. Additionally, we have ordered six Embraer E190SR and five E170 aircraft to replace the RJ85 and RJ100 aircraft currently operated from London City Airport.

We are also improving our performance on the ground. At Terminal 5, we have invested in buses specified to the future Euro 5 exhaust emission standard and a fleet of electric baggage tugs. Remote monitoring by telematics technology is being used to manage fleet efficiency and an automatic fuel management system has been fitted to refuelling equipment at Heathrow. We continue to be a member of the Heathrow Clean Vehicles Programme.

Summary of environmental achievements and targets

	Target	2008 ^a	2007 ^a	2006 ^a
Carbon efficiency gCO ₂ /pkm ^b	83 by 2025	107	110	110
CO ₂ emissions (million tonnes)		17.6	17.7	16.6
Heathrow departure noise violations – day		4	1	9
Heathrow departure noise violations – night		32	46	56
Continuous Descent Approach (Heathrow) % – day	95	95	95	84
Continuous Descent Approach (Heathrow) % – night	95	95	94	88
Total waste at Heathrow and Gatwick – including our catering companies (metric tonnes)		26,184	27,121 ^c	26,920
% recycling (Heathrow and Gatwick)	50 per cent by 2010	35.1	30.1	28.9
Waste to landfill (tonnes) (Heathrow and Gatwick)	Zero by 2010	3,424	3,688	4,063
Waste per passenger (kg) (Heathrow and Gatwick)	reduce by 2 per cent per annum	0.78	0.79 ^c	0.78
Heathrow air quality/NO _x emissions to 1,000ft (metric tonnes)		1,081	1,107	1,096

a Calendar years.

b With effect from 2008, traffic statistics now include data related to customers who have flown on 'frequent flyer' mileage redemption tickets. This change brings the Group into line with industry standards, and also into line with all major scheduled carriers.

c Increased due to revised data on catering waste.

Corporate governance

The Board is accountable to the Company's shareholders for the high standards of corporate governance to which the Company is committed.

Board of directors

The names and details of the current directors are set out below. All served throughout the financial year ended March 31, 2009.

Board members as at May 21, 2009.

Chairman

Martin Broughton

Board member since May 2000, 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 currently President of the Confederation of British Industry (CBI), his term of office is due to end on June 2, 2009.

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 being additionally appointed Group Treasurer in 2000, Keith was appointed Chief Financial Officer in January 2006. He is a non-executive director of Transport for London. Keith 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. Audit, Nominations and Remuneration Committees. Maarten is Deputy Chairman of BT Group.

Baroness Kingsmill

Independent non-executive director since November 2004. Audit, Nominations and Safety Review Committees. A former Deputy Chairman of the Competition Commission, she chaired the Department of Trade and Industry's Accounting for People task force. A member of the Microsoft European Policy Council. Adviser to Coutts bank.

Jim Lawrence

Independent non-executive director since November 2006. Remuneration Committee. Jim is Chief Financial Officer of Unilever.

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. He is an advisory board member of Siemens Holdings PLC, a senior adviser to HCL Technologies Ltd (India) and a director of the homeless charity Shelter.

Alison Reed

Independent non-executive director since December 2003. Chairman of the Audit Committee. Remuneration Committee. Alison was previously Chief Financial Officer 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. Life peer since 1996 and Privy Councillor since 1998. Former Deputy Leader of The House of Lords and Minister of State from 1997 until 2005 when she stepped down from Government. International adviser to DLA Piper, Rio Tinto, Consolidated Contractors Company, MerchantBridge, and non-executive director of Caparo Group.

Company Secretary

Alan Buchanan

Joined the airline in 1990 becoming Company Secretary in April 2000.

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, Martin Broughton and Keith Williams will retire and seek re-election by shareholders at the annual general meeting to be held on July 14, 2009. Biographical notes about the directors seeking re-election are set out in the explanatory notes of the Notice of annual general meeting. Chumpol NaLamlieng and Dr Martin Read have decided to retire as Board members when their current three-year terms of office come to an end at the annual general meeting and will therefore not be standing for re-election.

Management Board

In the day-to-day running of the Company, the Chief Executive is supported by the Management Board, the members of which, as at May 21, 2009, were the Chief Financial Officer and:

Robert Boyle

Director of Strategy and Business Units. Joined the airline in 1993 in Corporate Finance, becoming Director of Planning in 2004, Commercial Director from October 2006 until his appointment on January 1, 2009, as Director of Strategy and Business Units.

Garry Copeland

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

Andrew Crawley

Director of Sales and Marketing. Joined the airline in 1992 and has worked in a variety of sales, marketing and operational roles in the UK, Europe and Asia. He became Director of Sales and Marketing on January 1, 2009.

Silla Maizey

Acting Director of Customer. Joined the airline in 1978 and has held various positions in Finance, Customer Service and Operations. Prior to her appointment as Acting Customer Director on January 1, 2009, Silla was Head of Corporate Responsibility.

Tony McCarthy

Director People and Organisational Effectiveness. Joined the airline in December 2007 from Royal Mail.

The members of the Management Board are designated as persons discharging managerial responsibility, along with the 11 directors.

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

Director	Board meetings attended in the period	Audit Committees attended in the period	Nominations Committees attended in the period	Remuneration Committees attended in the period	Safety Review Committees attended in the period
Total in the period	7	4	1	3	4
Martin Broughton	7		1		
Willie Walsh	7				
Keith Williams	7				
Maarten van den Bergh	6		1	3	4
Baroness Kingsmill	7	4	1		4
Jim Lawrence	5			3	
Chumpol NaLamlieng	7	2			
Dr Martin Read	7		1	3	
Alison Reed	7	4		3	
Ken Smart	7	4			4
Baroness Symons	7	3			2

On April 1, 2009, Maarten van den Bergh left the Safety Review Committee and joined the Audit Committee.

Details of the directors' remuneration and share interests are set out in the report of the Remuneration Committee on pages 65 to 73.

Corporate governance statement

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. 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'), has been adopted as the Company's corporate governance statement.

In accordance with the Listing Rules, the Company is required to report firstly on how it applies the main 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.

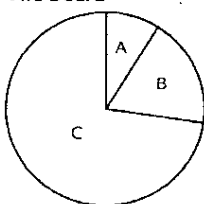
The Board

The Board directs the Company's risk assessment, resource management, strategic planning and financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met. Certain functions are delegated to committees consisting of non-executive directors as detailed within this section. The Board generally 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 in succession planning. For these purposes a schedule of matters reserved for Board decisions has been established. The Board has also drawn up a schedule of matters which must be reported to it. These schedules are reviewed at least annually. A statement of the directors' responsibilities in respect of the financial statements is set out on page 74 and a statement on going concern is given on page 17.

The Chairman leads the Board and the Chief Executive leads the executive management of the Company. Their respective roles are more fully described in the corporate governance section of the Company's investor relations website bashares.com. The Chairman's responsibilities include setting the Board agenda. With the Company Secretary, he ensures that Board members receive accurate, timely and clear information. As mentioned on page 54, the Chairman was independent at the time of his appointment in July 2004.

Of the 11 Board members serving at the year end, excluding the Chairman, two were executive directors and eight were non-executive directors.

The Board



- A Chairman
- B Executive directors 2
- C Non-executive directors 8

The non-executive directors are drawn from a range of business and other backgrounds. This diversity is identified by the members as one of the strengths of the Board. Maarten van den Bergh is the Board's senior independent director. In this role he is available to the shareholders should they have any concerns that they have been unable to resolve through normal channels. He is also responsible for leading the Board's discussions on the Chairman's performance and would lead the process for the appointment of a new Chairman, when appropriate.

The non-executive directors scrutinise the performance of the management in order to be satisfied as to the integrity and strength of financial information, controls and risk management. They have a prime role in appointing, removing and succession planning of senior management and, through the Remuneration Committee, they are responsible for determining appropriate levels of remuneration for the executive directors.

Although the non-executive directors are eligible for non-contractual travel concessions in addition to their fees, this is not considered to affect their independence.

All directors receive regular and timely information about the Company prior to Board meetings. They also have access to the Company Secretary for any further information they may require. If any of the non-executive directors has any concerns about the running of the Company they would first discuss these concerns with one of the executive directors, the Company Secretary or the Chairman. If these concerns cannot be resolved, then their concerns are recorded in the Board minutes. No such concerns arose during the year.

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 where they can discuss corporate governance matters with major shareholders. Independent professional advice would be available to directors in appropriate circumstances, at the Company's expense. No such advice was needed during the year in question. 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. Although the Committee is currently satisfied with the composition of the Board, it has been conducting a search for a replacement for Chumpol NaLamlieng, who announced in November 2008 that he will retire from the Board at the annual general meeting in July 2009.

It was also subsequently announced that Dr Martin Read would not be seeking re-election after having served for nine years on the Board.

The Company Secretary ensures that the Board members receive briefings on changes in regulation or law, as circumstances require. During the year in question this included further training in relation to the implications of the Companies Act 2006 as various aspects of it came into force. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Board Committees

The Board has four specific Committees: Audit, Nominations, Safety Review and Remuneration. Each Committee meets regularly under terms of reference set by the Board and copies are available on bashares.com. 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. Every Committee has authority to take external advice as required.

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, the Board received an external view of the Company's investor relations activity again this year.

Board performance evaluation

During the year, each director privately met the senior independent director to review the performance of the Board, its Committees and the individual directors and Chairman and the results were presented to, and considered by, the Board. In addition, the Chairman and non-executive members typically meet without any executives present at least twice each financial year.

Relations with shareholders

The Company maintains regular contact with its larger institutional shareholders through its investor relations team, through meetings with the executive directors and the Chairman and through annual institutional investor events. The presentations from these events are also available to private shareholders through the Company's investor relations website, bashares.com. Seven members of the Board attended the annual investor day in March 2009. Private shareholders receive the Company's shareholder magazine twice a year and are encouraged to express their views and concerns either in person at the annual general meeting or by e-mail. The main themes are reported to the Board and responded to by the Chairman in his address at the annual general meeting. All of the Board members attended the 2008 annual general meeting. The 2009 annual general meeting will be held on Tuesday July 14 at 11.00 am at The Queen Elizabeth II Conference Centre, London. The ordinary business of the meeting will be the approval of the annual report and accounts; approval of the remuneration report; the re-election of directors; and the reappointment and remuneration of the auditors. The special business to be considered at the meeting will be the directors' authority to allot new shares, the disapplication of pre-emptive rights in relation to an allotment of new shares, the authority of the Company to purchase its own shares, the ability of the Company to hold general meetings at 14 days' notice and amendments to the Company's Articles of Association. Full details can be found in the Notice of Meeting available on our website bashareholders.com. 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. All 15 resolutions put to shareholders at the 2008 annual general meeting were passed, with a minimum vote of 97.75 per cent. For the first time this year, it is planned that the Chairman's and Chief Executive's speeches will be available on the website after the meeting.

Directors' conflicts

With effect from October 1, 2008, the new Companies Act 2006 provisions regarding directors' conflicts of interest came into force. These place directors under an obligation to avoid situations arising on or after October 1, 2008, in which they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company (Section 175(1)). This duty is not infringed if the matter has been authorised in advance by the directors pursuant to provisions of the articles permitting them to do so. This duty does not apply to a conflict of interest arising in relation to a transaction or arrangement with the relevant company directly (such as a contract of employment).

At the 2008 annual general meeting, shareholders were asked to approve a new set of articles including provisions allowing the directors to authorise conflicts. Pursuant to this, a register of authorised interests is maintained by the Company Secretary and updated by the Board as needed from time to time.

Throughout the year, the Company has complied with all relevant provisions set out in Section 1 of the Combined Code (June 2006).

Directors' and officers' liability insurance

The Company has purchased insurance against directors' and officers' liability as permitted by the Companies Act 1985 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 Company 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.

Political donations

At the annual general meeting in 2008, shareholders passed a resolution to authorise the making of political donations and the incurring of political expenditure for the purposes of section 367 of the Companies Act 2006. This authorisation was taken on a four-year basis as a precaution only and we have no present intention of using it. In the event that any political donation is made or political expenditure incurred, we would seek further shareholder approval.

We do not make political donations or incur political expenditure within the ordinary meaning of those words and have no intention of doing so. The amount of political donations made and political expenditure incurred in the year to March 31, 2009, was £nil (2008: £nil).

Post-balance sheet events

There were no material post-balance sheet events occurring after March 31, 2009.

Corporate governance statement continued

Internal control and risk management

Internal control

The directors are responsible for, and for 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.

Standing instructions

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.

Organisation structure

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

Information systems are developed to support the Company's long-term objectives and are managed by a professionally staffed Information Management team within the Chief Financial Officer's organisation. Appropriate policies and procedures are in place covering all significant areas of the business.

Strategic plan

The business agenda is determined by the strategy (pages 24 to 28) setting out the agreed targets for financial return and service standards, and identifying and prioritising improvement opportunities to deliver those targets. The strategic 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 Board on an annual basis approves the strategy, which is supported by a detailed financial plan for the year ahead. Progress against the plan is monitored each month.

Management accounting system

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 and previous forecast are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Management Board to discuss performance with specific projects being discussed as and when required. Throughout 2008/09, the Capital Investment Committee, chaired by the Chief Financial Officer, was instrumental in maintaining tight control of capital and major contract expenditure and headcount. All major corporate projects are audited regularly.

Internal control framework

Effective 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 Management Board. 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 control function which operates internationally and to a programme based on risk assessment. Professionally qualified personnel manage the department with experience gained from both inside and outside the industry. A risk-based audit plan, which provides assurance over key business processes and commercial and financial risks facing the Company, is approved by the Audit Committee quarterly.

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 management takes appropriate action. No significant failings or weaknesses were identified during 2008/09.

Risk management

The Company has 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 Management Board and the Head of Corporate Risk and Internal Control. 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 quarterly to the Audit Committee to assist the Board in the management of risk in accordance with the October 2005 Revised Guidance for Directors on the Combined Code.

The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk to the other. The outcome includes a heat map which plots each critical risk on an impact and likelihood scale. For each critical risk, mitigating actions exist and are actively managed. This process is iterative and refreshed on an ongoing basis. This report does not include the mapped results and mitigating actions for the principal risks because of the sensitive commercial nature of some of management's plans.

Liquidity risk is discussed in more detail within the Chief Financial Officer's report on page 17. The Treasury Committee, chaired by the Group Treasurer is responsible for managing liquidity risk and operates within clearly defined parameters.

Auditor

Resolutions to reappoint the retiring auditor, Ernst & Young LLP, and to authorise the directors to determine its remuneration will be proposed at the 2009 annual general meeting.

Receipts and returns to shareholders

Dividend

The Board has decided not to recommend the payment of a final dividend (2008: 5 pence per share).

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 £95 million by virtue of a resolution passed at the annual general meeting of the Company held on July 15, 2008. This authority expires on July 14, 2009, and shareholders will be asked to renew this authority at the 2009 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.

The Company is authorised to conduct share buy-backs up to approximately 10 per cent of the issued ordinary share capital. This is subject to certain limitations relating to the maximum and minimum prices that may be paid for any shares bought back. This authority is only exercised if the Board considers the buy-back to be in the interests of shareholders. The Company has not conducted any share buy-backs since the authority was first obtained. Shareholders will be asked to renew this authority at the 2009 annual general meeting.

Shares, which have been bought back, are held in treasury. They 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, 2009 (2008: nil).

Shares and shareholders

The number of ordinary shares issued and fully paid as at March 31, 2009, was 1,153,628,000 (March 31, 2008: 1,153,105,000). The increase over March 31, 2008, reflects the issue of new ordinary shares to satisfy the share options exercised during the year under the British Airways Share Option Plan 1999 and the vesting of shares awarded under the Performance Share Plan as set out in notes 33 and 34 to the financial statements.

Capital structure and shareholder rights

The authorised share capital of the Company is £378 million divided into 1,512 million 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.

Corporate governance statement continued

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.

The shares of a person subjected to an Affected Share Notice may, subject to the specific terms of that notice, no longer confer on the holder any entitlement to exercise rights conferred by membership in relation to general meetings. This includes the rights 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.

Additionally, if that person 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 them 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 1985; or (ii) their holder is precluded from exercising voting rights by the Financial Services Authority's (FSA) listing rules or the City Code on Takeovers and Mergers.

Following its delisting from the New York Stock Exchange, the Company maintains an American Depositary Receipts (ADR) programme in the US as a Level I programme. This means that the Company's ADRs 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 depositary is the registered holder of the shares. As at March 31, 2009, the equivalent of 21.3 million shares were held in ADR form (March 31, 2008: 26.2 million).

Shareholders can appoint a proxy to vote on their behalf on a poll at shareholder meetings (or any adjournment thereof), either by posting the proxy form to the address set out in the notice of meeting or online via the Company's investor relations website. Proxy appointments must be received by 11.00 am on Sunday July 12, 2009, in order to be eligible for the 2009 annual general meeting. If the shares are held in British Airways Investor Services, the Company Nominee, voting instructions must be received by 11.00 am on Saturday July 11, 2009.

In order to protect the air service 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, 2009, 34 per cent of the ordinary shares of the Company were held by non-UK nationals (March 31, 2008: 31 per cent) and 20 per cent of the ordinary shares were held by persons who were not nationals of states comprising the EEA (March 31, 2008: 19 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.

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 dividends. The Trustee does not vote the shares that it holds. At March 31, 2009, there were 2,165,281 shares held in the Trust (March 31, 2008: 2,087,147).

Shareholder analysis

As at March 31, 2009, there were 214,119 shareholders (March 31, 2008: 214,254). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	87.70	4.64
1,001 – 5,000	10.82	3.81
5,001 – 10,000	0.87	1.08
10,001 – 50,000	0.36	1.24
50,001 – 100,000	0.05	0.65
100,001 – 250,000	0.07	2.01
250,001 – 500,000	0.04	2.52
500,001 – 750,000	0.02	2.01
750,001 – 1,000,000	0.01	1.71
Over 1,000,000	0.06	80.33
Total	100.00	100.00

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	97.84	10.12
Bank or Nominee	1.87	88.45
Insurance companies	0.01	0.01
Pension trusts	0.01	0.02
Investment trusts	0.02	0.01
Other corporate bodies	0.25	1.39
Total	100.00	100.00

Significant holdings

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 March 31, 2009:

Name of shareholder	Percentage of holding	Direct %	Indirect %
Iberia	9.07	9.07	Nil
Standard Life plc	8.01	5.15	2.86
Barclays PLC	6.90	6.90	Nil
AMVESCAP Plc	6.74	Nil	6.74
Lloyds Banking Group plc	5.37	0.80	4.57
AXA S.A.	4.85	0.75	4.10
INVESCO plc	4.30	Nil	4.30
Legal & General Group Plc	3.99	3.99	Nil

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.

Report of the Audit Committee

Members: Alison Reed (Chairman), Baroness Kingsmill, Chumpol NaLamlieng, Ken Smart and Baroness Symons. Maarten van den Bergh rejoined the Committee with effect from April 1, 2009.

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 the year ended March 31, 2009. In addition, given the downturn in the economic conditions and the potential impact on the Company's results for the year, the Committee held an additional meeting to support its review of the Company's year-end financial statements. During the course of the year the Committee has also 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 Corporate Risk and Internal Control, the Group Financial Controller, the Group Reporting Manager and representatives from the external auditor.

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 issue of a revised version of Guidance on Audit Committees by the Financial Reporting Council in October 2008, are available on the Company's investor relations website, bashares.com.

The key duties of the Committee include to:

- Monitor the integrity of the Company's year-end financial statements, the interim management report and its interim management 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;
- Keep under review the Company's risk management process, ensuring that it remains robust and appropriate for the economic environment, using a top down and bottom up methodology;
- Oversee the processes for the appointment, reappointment and removal of the auditors. Approve the terms of their engagement and the remuneration for the audit services;

- Oversee the performance, as well as the objectivity and independence, of the external auditor. 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.

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. The Committee also reviewed the draft interim management statements.

As discussed above, the Committee held an additional meeting as part of the year-end process in which it focused on matters requiring significant management judgement and key assumptions, together with presentational and disclosure issues associated with new accounting standards and/or interpretive guidance. In particular, these included the Group's goodwill impairment reviews, pensions, material provisions and investment valuations. In addition, the Committee reviewed the Company's assessment of going concern and liquidity risk.

Internal controls

The Committee has an ongoing process for reviewing the effectiveness of the system of internal controls. During 2008/09 it considered reports from the Head of Corporate Risk and Internal Control summarising the work planned and undertaken, recommending improvements and describing actions taken by management.

Internal audit

During 2008/09, the Committee reviewed and agreed the risk-based audit plan and resources required. It also evaluated the performance of internal audit from the quality of reports and recommendations from the Head of Corporate Risk and Internal Control.

Risk Group

The Committee reviewed the reports produced by the risk management process during the year. It discussed with management how they will continue to deliver high-quality oversight and risk evaluation against the background of the current economic conditions. As part of the management restructuring, responsibility for risk management passed to the Head of Corporate Risk and Internal Control.

External audit

The Committee reviewed the external audit strategy and the findings of the external auditor from its review of the interim announcement and its audit of the annual financial statements. The Committee also reviewed the scope and cost of the external audit and the non-audit work carried out by the auditor.

Whistleblowing

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

Auditor independence

The Committee reviews the work undertaken by the external auditor and each year assesses 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, and meeting all applicable legal and regulatory requirements.

Other issues

Details of the fees paid to the external auditor during 2008/09 can be found in note 7 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 Nominations Committee

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

The Chairman chairs the Committee 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. 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, which were amended during the year, are available on the Company's investor relations website, 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 and succession planning.

In relation to the appointment of new Board members, the process used for the nomination of new candidates starts 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. The Committee is satisfied with the current composition and diversity of the Board. However, following the decision of Chumpol NaLamlieng not to stand for re-election, the Committee has been engaged in a search for a further non-executive director. An independent search firm has been engaged for this process. A different independent search firm is also being used to assist in the selection of a permanent Customer Director to join the Chief Executive's Management Board. The Committee is supportive of this move which is designed to increase the customer focus within the Company.

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 2009, Martin Broughton and Keith Williams. 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.

Report of the Safety Review Committee

Members: Ken Smart (Chairman), Baroness Kingsmill and Baroness Symons.

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 investor relations website, 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 2008/09, issues raised at the Safety Review Committee included:

- An understanding of the background to the Boeing 777 short landing at Heathrow on January 17, 2008, and the processes put in place to assure the Board of the continuing airworthiness of the Boeing 777 fleet. Significantly, as the investigation proceeded, the Safety Review Committee received detailed briefings on the aircraft's fuel systems, the manner in which ice can be formed within the system and the precautions required by the Certification Authorities to ensure safe operation;

- The oversight of the management reduction programme to ensure ongoing safety and compliance; and
- The oversight of the start-up of the OpenSkies operation.

The Chief Executive is the named Accountable Manager for the Company for the purposes of the Air Operators Certificate and EU Ops (EU Ops which are prescribed in Annex 111 to EU Regulation No. 3922/1991 replaced the former Joint Airworthiness Requirements (JAR-OPS) in July, 2008). As the Accountable Manager, he chairs quarterly meetings with 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 Director of Safety and Security, the Head of Aviation Safety, the Head of Operational Safety and the Head of Operational Risk and Compliance. 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.

Report of the Remuneration Committee

Information not subject to audit

Members: Dr Martin Read (Chairman), Maarten van den Bergh, Jim Lawrence and Alison Reed.

Committee and advisers

The Company's Remuneration Committee determines on behalf of the Board, within the agreed terms of reference, the overall remuneration packages for the Chairman, the executive directors and the other members of the Management Team (as defined in the Committee's terms of reference found on the Company's investor relations website). 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 Committee's main duties can be summarised as:

- To determine the framework or broad policy for the remuneration of the Chairman, the executive directors and the other members of the Management Team including incentive compensation plans and equity based plans;
- Within the terms of the agreed policy, to determine the total remuneration packages for the Chairman, the executive directors and the other members of the Management Team; and
- To determine the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments, undertaking direct supervision of such matters in relation to the executive directors and the other members of the Management Team.

The Committee has three main meetings every financial year. The first meeting, typically held in the first quarter of the financial year, assesses performance in the prior year and considers bonus awards in relation to that year, reviews salary levels and determines the level of awards to be granted under the long-term incentive schemes. The second meeting, typically held in the third quarter of the financial year, is a planning meeting for the next year to review the market trends and issues of interest to investors. Any new remuneration schemes would be considered in detail at this meeting. The third meeting, typically held in the fourth quarter of the financial year, considers the bonus and long-term incentive targets for awards to be made in the following year. Additional meetings are held as required.

The Company currently participates in four main salary survey sources run by Hay, PricewaterhouseCoopers (PwC), Hewitt New Bridge Street (Hewitt) 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.

Hewitt is the adviser to the Remuneration Committee and gave advice to the Committee that materially assisted it. Its terms of reference are available for inspection on the Company's investor relations website. The Chairman, Chief Executive, Chief Financial Officer, Company Secretary, Director – People and Organisational Effectiveness and two Reward Managers, 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 2008/09. In addition to its advice on remuneration, Hewitt also provided some advice to the Company on general employee reward and on pensions and PwC also provided minor advisory services.

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

Executive directors

Policy

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 broadly comparable with other UK-based international businesses of similar size.

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

The Committee has taken the Company's Key Performance Indicators into account in shaping the compensation package for the executive directors and is satisfied that the compensation package does not, of itself, raise any environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

The Company is operating in very challenging market conditions, with significant pressure on its revenues. Although the Company is making every effort to manage its controllable costs, the Company made a significant loss for 2008/09.

The Remuneration Committee has considered how to restructure its remuneration arrangements in the current economic environment, while also recognising that it is very important to incentivise and retain management to drive the business forward. It is worth noting that the Company has significantly reduced headcount at senior management levels and is demanding higher levels of performance from those who remain. It is also seeking to recruit top talent from outside the organisation.

The Committee has weighed these factors carefully and has decided that it wishes to make some changes to the annual bonus for 2009/10 and to the performance conditions applying to Performance Share awards to be granted in 2009. These changes (which have been discussed with the ABI, Risk Metrics and some major investors) are described below.

Report of the Remuneration Committee continued

Remuneration package

The package for the executive directors for 2008/09 consisted 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, was approximately 60 per cent of total target remuneration (excluding pension arrangements). The package for the executive directors for 2009/10 will be the same other than in relation to the annual bonus scheme as described below. As a result, the proportion of performance-related variable remuneration, through the bonus scheme and awards under the Performance Share Plan, has exceptionally fallen to approximately 50 per cent of total target remuneration (excluding pension arrangements).

Expected value of the elements of the package

	Chief Executive	Chief Financial Officer
Salary	37.14%	37.64%
On-target bonus	27.84%	23.52%
Expected value of LTIP	29.71%	30.11%
Pension	4.45%	7.70%
Benefits	0.86%	1.03%
Total	100.00%	100.00%

The Committee assesses remuneration packages on a total remuneration basis, taking into account the value of each of the individual elements of the package. 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 current base salaries for the executive directors, which took effect from July 1, 2008, are:

Willie Walsh	£735,000 (2007: £700,000)
Keith Williams	£440,000 (2007: £415,000)

Salary increases of 5 per cent for the Chief Executive and 6 per cent for the Chief Financial Officer were awarded in July 2008

after comparison with the median salary ranges for their respective positions and were in line with the increases for other senior executives in the Company (average 5.1 per cent). The average pay award for managers generally was 4 per cent. The five bargaining groups representing non-management grades received a pay award of RPI (4.0 per cent) in February 2008 with additional incremental salary increases adding a further 1.7 per cent on average to the Company's employee costs for these groups (although these are weighted towards the pilot and cabin crew groups). In addition, all bargaining groups except cabin crew received a further 0.6 per cent to reflect the change of review date from October to February (1.2 per cent paid over two years).

As a result of market conditions, the Company has indicated that there will be no increase in base salary levels in 2009/10. This is in line with the Company-wide objective of no increases in base pay throughout the organisation.

Annual bonus

The amount of annual bonus available for distribution to senior executives generally for 2008/09 was subject to a maximum limit of 100 per cent of salary. For the executive directors, the maximum limit for the Chief Executive was 150 per cent and 125 per cent for the Chief Financial Officer.

The annual bonus for executive directors was based one third on operating margin, one third on customer recommendation and one third on punctuality. These were judged by the Committee to be the major drivers for the business, reflecting three of the Company's Key Performance Indicators. Further details on these can be found on pages 29 to 31. Unlike previous years, these measures operated independently, however, no bonus was payable on the customer recommendation or punctuality measures unless the Company reported a pre-tax profit. Where threshold performance on these Company-wide targets was not achieved, the executive directors were potentially able to earn up to 15 per cent of salary in the case of the Chief Executive and 12.5 per cent of salary in the case of the Chief Financial Officer in recognition of their personal contribution. The Committee retained discretion to prevent any bonus payments if the Company's performance was judged by it to be inadequate.

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

The Company failed to achieve its operating margin target for the year. By contrast, the stretch targets for the customer recommendation and the punctuality elements of the annual bonus were both exceeded. As the Company did not achieve a pre-tax profit for the year, nothing was payable in respect of these elements of the annual bonus. In the light of economic conditions, the Company has decided not to make any payment under the personal contribution element of the annual bonus scheme.

The Committee recognises that the Company is expecting to make a loss in 2009/10 but wishes to provide some degree of incentive to the executives to manage the business in difficult circumstances. In the light of current economic conditions and taking into account the views of investors and the Chief Executive, the Committee has decided that the bonus maximum for 2009/10 should be reduced by half and that any award would only be payable in deferred shares under the British Airways Deferred Share Plan. The Committee has determined that the annual bonus should be based on three measures with one half of the total award based on achievement of financial plan for the year, one quarter based on customer recommendation and one quarter based on punctuality. All targets will be challenging.

The two non-financial measures are two of the Company's Key Performance Indicators and are more fully described on page 30. The customer recommendation measure is based on the percentage of customers who say that they are 'extremely likely' or 'very likely' to recommend British Airways. Punctuality is measured on the basis of the percentage of British Airways' flights that are prepared for departure and 'Ready to Go' at three minutes before the scheduled departure time. For both customer recommendation and punctuality, the Committee has set a sliding scale around the targets for the year, with significant stretch required above the target to earn full payment. In relation to the element of the bonus relating to the financial plan, payment will begin once the financial plan has been achieved with a sliding scale so that full payment requires performance significantly better than plan. A total maximum of 75 per cent of base salary for the Chief Executive and 62.5 per cent of base salary for the Chief Financial Officer would be available if the Company achieved the maximum performance on all of the three measures. The personal contribution element has been removed from this year's plan such that if nothing is earned on the Company measures, no bonus will be paid. The Committee also retains discretion to prevent any bonus payments for customer recommendation and/or punctuality if, in its opinion, the financial performance of the Company has not been satisfactory in the circumstances.

Long-term incentive arrangements

British Airways Performance Share Plan 2005

The British Airways Performance Share Plan (PSP) is the long-term incentive plan awarded to key senior executives of the Company, those most directly involved in shaping and delivering the medium to long-term business goals of the Company. The plan was approved by shareholders at the annual general meeting in 2005. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions (see below) in full or in part at the third anniversary of award. No payment is required from individuals when the shares are awarded or when they vest. The Remuneration Committee supervises the operation of the PSP. Awards worth up to 150 per cent of an executive's base salary can be granted under the PSP. For the 2008 award, both the Chief Executive and the Chief Financial Officer received this level of award. Other members of the Management Board received awards equivalent to 100 per cent of their respective base salaries. The Committee considers that maintaining these award levels is appropriate for the 2009 awards,

taking account of the fact that award levels are not high by FTSE 100 market standards, that the annual bonus has been scaled back and that the overall remuneration packages for the two executive directors are not high by market standards.

The awards made annually from 2005 to 2008 were each subject to two performance conditions which operate independently of each other. This meant 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 was subject to a Total Shareholder Return (TSR) performance condition, measured against a group of other airline companies, and the other 50 per cent was subject to an average operating margin performance condition. The use of two separate but complementary performance conditions created 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 were measured over a single three-year performance period which began on April 1 prior to the award date. The awards would 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 (ie 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 (ie 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 awards from 2005 to 2008 are shown in the table below:

Air Berlin (2008 only)	Lufthansa
Air Canada	Northwest Airlines
Air France	(2005 and 2008 awards only)
Air New Zealand	Qantas Airways
Alitalia	Ryanair
All Nippon Airlines	SAS
American Airlines	Singapore Airlines
Cathay Pacific Airways	Southwest Airlines
Continental Airlines	(2005, 2006 and 2007 awards only)
Delta Airlines	United Airlines
(2005 and 2008 awards only)	(2006, 2007 and 2008 awards only)
easyJet	US Airways
Iberia	(2006, 2007 and 2008 awards only)

It is currently intended that the comparator group for awards that are made in 2009 will be broadly the same as that used in 2008 (with the exception of Alitalia which has delisted and Northwest which has merged with Delta).

Report of the Remuneration Committee continued

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

Award	Performance period	Average annual operating margin over performance period	Average annual operating margin over performance period	
			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.

The Committee has given considerable thought to the 2009 PSP awards. As noted above, previous awards have been based 50 per cent on operating margin and 50 per cent on British Airways' TSR compared to other airlines.

While the Committee believes that it is generally desirable to base part of the award on financial performance, the lack of visibility over the period 2009/10 to 2011/12 and, in particular, the timing and scale of the global economic recovery and the possibility of a merger with Iberia make it very difficult to set financial targets over the next three years.

Therefore, the Committee proposes that the 2009 award should be based 100 per cent on the TSR performance condition. As outlined above and in line with previous practice, TSR will be compared to a basket of other airlines and vesting will occur for rankings between median and upper quintile. The Remuneration Committee proposes to underpin the TSR test with a requirement relating to financial performance. However, the lack of visibility referred to above makes it very difficult to apply a quantifiable target. Therefore, the Committee proposes that irrespective of the outcome on TSR, awards will only vest if the Remuneration Committee is satisfied that the Company's underlying financial performance has shown an improvement and that this is satisfactory in the circumstances prevailing over the three-year period. The Remuneration Committee has selected this performance condition because it is challenging, aligned to shareholders' interests and, despite the current circumstances, is a reliable means of comparing management's performance within its sector.

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 are expected to retain no fewer than 50 per cent of the shares (net of tax) which vest from these two schemes until they have invested an amount in a personal 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. Awards were made under the DSP in November 2006 and August 2008. In each case, an award of deferred shares to the value of one half of the bonus earned was made to qualifying executives. Other than on retirement or redundancy, the shares will be subject to forfeiture if the executive leaves during the three-year deferral period. On vesting, executives will receive the benefit of any dividends paid over the deferred period.

For further information regarding these schemes, see pages 71 to 73 which contain details of awards to executive directors during 2008/09 and in prior years under current and historic share incentive schemes and also see note 34 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, but this will be kept under review.

Service contracts

Each of the executive directors serving at March 31, 2009, 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 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 investor relations 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, Keith Williams earned fees of £13,097 as a non-executive director of Transport for London.

Pension schemes

The Company has three main pension schemes. Two of these, Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS), are defined benefit schemes and are closed to new members. The third scheme, the British Airways Retirement Plan (BARP), has been available to new joiners since April 1, 2003, and is a defined contribution scheme. 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. The Company operates a SmartPension arrangement, which allows individuals to make their pension contributions in a more tax-efficient way. Further details of pension provisions are set 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 Remuneration Committee determines the Chairman's fee. 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. The executive directors, on the recommendation of the Chairman, determine fees for the non-executive directors. For the year in question, the fees (which were fixed 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. The level of fees for non-executive directors was reviewed during the year. However, no change was proposed. 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:

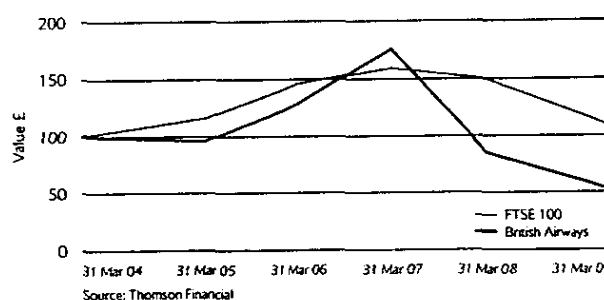
Non-executive	Date of appointment	Date of election/ last re-election	Expiry date
Martin Broughton	May 12, 2000	July 18, 2006	2009
Maarten van den Bergh	July 1, 2002	July 15, 2008	2011
Baroness Kingsmill	November 1, 2004	July 15, 2008	2011
Jim Lawrence	November 1, 2006	July 18, 2007	2010
Chumpol NaLamlieng	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 15, 2008	2011
Baroness Symons	July 19, 2005	July 15, 2008	2011

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 investor relations 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.



This graph shows the value, by March 31, 2009, of £100 invested in British Airways Plc on March 31, 2004, compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year ends.

Both Willie Walsh and Keith Williams participate in the SmartPension arrangement, the effects of which have not been taken into account when reporting their basic salaries and pension benefits above.

Directors' beneficial interests in shares

	British Airways Plc ordinary shares	
	March 31, 2009	April 1, 2008
Current Board members	69,090	69,090
Martin Broughton	121,734	22,000
Willie Walsh	15,693	5,000
Keith Williams	2,000	2,000
Maarten van den Bergh	2,000	2,000
Baroness Kingsmill	20,000	20,000
Chumpol NaLamlieng	8,000	8,000
Dr Martin Read	10,000	10,000
Alison Reed	2,000	2,000
Ken Smart	0	0
Baroness Symons		
Total	250,517	140,090

	British Airways Plc American Depositary Shares*	
	March 31, 2009	April 1, 2008
Jim Lawrence	1,000	1,000

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

There have been no changes to the shareholdings set out above between March 31, 2009 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 2005/06. The Plan provided for the grant of options to acquire ordinary shares in the Company or the Company's American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options.

British Airways Share Option Plan 1999

	Date of grant	Number of options as at April 1, 2008	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options as at March 31, 2009
Keith Williams	Aug 26, 1999	30,456	394p				Aug 26, 2002	Aug 26, 2009	30,456
	June 28, 2000	26,315	380p				June 28, 2003	June 28, 2010	26,315
	June 26, 2001	38,940	321p				June 26, 2004	June 26, 2011	38,940
	July 1, 2002	91,160	181p				July 1, 2005	July 1, 2012	91,160
	June 25, 2003	114,649	157p				June 25, 2006	June 25, 2013	114,649
	June 25, 2004	72,480	262p				June 25, 2007	June 25, 2014	72,480
	June 23, 2005	69,927	276p				June 23, 2008	June 23, 2015	69,927
Total		443,927		-	-	-			443,927

The performance conditions in relation to all the options listed in the table have been satisfied, therefore all options have vested accordingly.

Report of the Remuneration Committee

continued

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, 2008	Awards vesting during the year	Options exercised during the year	Awards lapsing during the year	Awards made during the year	Number of awards as at March 31, 2009
Willie Walsh	PSP	August 30, 2005	319,148	99,734	–	219,414		0
	PSP	November 24, 2006	185,950					185,950
	PSP	August 9, 2007	254,854					254,854
	PSP	August 19, 2008					430,664	430,664
Total			759,952	99,734	–	219,414	430,664	871,468
Keith Williams	LTIP	June 9, 2003	46,631	10,693	–	23,526		46,631
	LTIP	June 16, 2004	22,141					22,141
	PSP	August 30, 2005	34,219					0
	PSP	November 24, 2006	77,479					77,479
	PSP	August 9, 2007	125,910					125,910
	PSP	August 19, 2008					257,813	257,813
Total			306,380	10,693	–	23,526	257,813	529,974

The vested LTIP awards disclosed above were subject to a performance condition that the Company's TSR performance relative to the constituents of the FTSE 100 was median or above. 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 2006, 2007 and 2008 are subject to the performance conditions outlined earlier in this report on pages 67 and 68. 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 measured against a group of airlines, and 50 per cent is subject to average operating margin performance. Awards generally vest on the third anniversary of the award date.

The award granted in 2005 was tested at the end of 2007/08. None of the shares subject to the TSR performance condition vested, however, 31.25 per cent of the award vested as a result of our average operating margin over the three years. Due to the Insider Dealing window being closed, the vesting date was September 4, 2008, just after the third anniversary of the award date (August 30, 2008). The remainder of the award lapsed.

The value attributed to the Company's ordinary shares is in accordance with the plan rules on the date of the 2005 PSP award (August 30, 2005) was 282 pence. The share price on the date of vesting of this award (September 4, 2008), was 253 pence. The money value of the shares received was the share price on the date of vesting multiplied by the number of shares in respect of which the awards vested, as shown in the table above. In addition, both Willie Walsh and Keith Williams received a cash dividend equivalent payment of £5,128 and £550 respectively.

The award granted in 2006 was tested at the end of 2008/09. As a result, none of the shares will vest as neither the TSR nor operating margin performance conditions were met. The award therefore lapsed on May 7, 2009.

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, 2008	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards as at March 31, 2009
Willie Walsh	2005/06	November 24, 2006	27,800		June 30, 2009			27,800
Keith Williams	2005/06	November 24, 2006	16,991		June 30, 2009			16,991
	2007/08	August 19, 2008			June 30, 2011		26,100	26,100

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2008 PSP and DSP awards, (August 19, 2008), was 256 pence (2007: 412 pence; 2006: 484 pence).

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, 2009, the headroom available for the all-employee share schemes was 5.27 per cent and 0.30 per cent for the discretionary schemes. The Company's current intention is to use newly issued shares for the Share Option Plan 1999 and the Performance Share Plan 2005 and market purchased shares for the Long Term Incentive Plan 1996 and the Deferred Share Plan 2005.

The highest and lowest prices of the Company's shares during 2008/09 and the share price at March 31, 2009, were:

	2009	2008
At March 31	140.80	234.25
Highest in the year	282.50	519.00
Lowest in the year	109.90	218.00

Approved by the Board and signed on its behalf by



Dr Martin Read

Non-executive director and Chairman of the Remuneration Committee
May 21, 2009

Responsibilities statements

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 54. 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 as listed on page 54 are responsible for preparing the annual report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards (IFRS) as adopted by the 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 as listed on page 54 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 as listed on page 54 confirm that, to the best of each person's knowledge:

- The Group and 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 (loss)/profit of the Company and of the Group taken as a whole; and
- The directors' report and business review 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.

Approved by the Board and signed on its behalf by



Alan Buchanan
Company Secretary

May 21, 2009

Financial statements

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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, 2009, 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 39. 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 report of

the Remuneration Committee, the Chairman's statement, the Chief Executive's review, 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

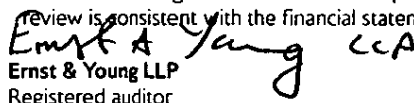
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the report of the Remuneration Committee 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, 2009, and of its loss 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, 2009;
- The financial statements and the part of the report of the Remuneration Committee 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 21, 2009

Group consolidated income statement

For the year ended March 31, 2009

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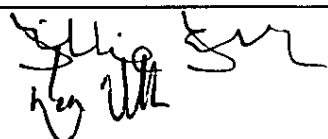
£ million	Note	Group	
		2009	2008 Restated
Traffic revenue			
Passenger		7,836	7,600
Cargo		673	615
		8,509	8,215
Other revenue		483	543
Revenue	3	8,992	8,758
Employee costs (excluding restructuring)	8	2,193	2,165
Restructuring	4	78	1
Depreciation, amortisation and impairment	4	694	692
Aircraft operating lease costs		73	68
Fuel and oil costs		2,969	2,055
Engineering and other aircraft costs		510	451
Landing fees and en route charges		603	528
Handling charges, catering and other operating costs		1,021	977
Selling costs		369	361
Currency differences		117	6
Accommodation, ground equipment and IT costs		585	576
Total expenditure on operations		9,212	7,880
Operating (loss)/profit	4	(220)	878
Fuel derivative (losses)/gains		(18)	12
Finance costs	9	(182)	(175)
Finance income	9	95	111
Net financing (expense)/income relating to pensions	9	(17)	70
Retranslation charges on currency borrowings	9	(59)	(11)
Profit on sale of property, plant and equipment and investments	10	8	14
Share of post-tax profits in associates accounted for using the equity method	20	4	26
Net charge relating to available-for-sale financial assets	11	(12)	(3)
(Loss)/profit before tax		(401)	922
Tax	12	43	(194)
(Loss)/profit after tax from continuing operations		(358)	728
Loss from discontinued operations (after tax)	5	-	(2)
(Loss)/profit after tax		(358)	726
Attributable to:			
Equity holders of the parent		(375)	712
Minority interest		17	14
		(358)	726
Earnings/(loss) per share			
Continuing operations:			
Basic	13	(32.6)p	62.1p
Diluted	13	(32.6)p	61.6p
Discontinued operations:			
Basic	13		(0.2)p
Diluted	13		(0.2)p
Total:			
Basic	13	(32.6)p	61.9p
Diluted	13	(32.6)p	61.4p

Balance sheets

At March 31, 2009

£ million	Note	Group		Company	
		2009	2008 Restated	2009	2008 Restated
Non-current assets					
Property, plant and equipment:					
Fleet	15	5,996	5,976	5,805	5,794
Property	15	971	977	920	924
Equipment	15	266	310	258	301
		7,233	7,263	6,983	7,019
Intangibles:					
Goodwill	18	40	40		
Landing rights	18	205	159	163	159
Software	18	22	22	22	22
		267	221	185	181
Investments in subsidiaries	20			2,356	2,207
Investments in associates	20	209	227		
Available-for-sale financial assets	21	65	80	27	24
Employee benefit assets	36	340	320	340	320
Derivative financial instruments	32	3	51	3	51
Prepayments and accrued income		25	19	9	9
Total non-current assets		8,142	8,181	9,903	9,811
Current assets and receivables					
Inventories	22	127	112	125	109
Trade receivables	23	530	586	517	574
Other current assets	24	268	308	382	371
Derivative financial instruments	32	40	241	40	241
Other current interest-bearing deposits	25	979	1,181	43	399
Cash and cash equivalents	25	402	683	219	433
		1,381	1,864	262	832
Total current assets and receivables		2,346	3,111	1,326	2,127
Total assets		10,488	11,292	11,229	11,938
Shareholders' equity					
Issued share capital	33	288	288	288	288
Share premium		937	937	937	937
Investment in own shares		(9)	(10)	(9)	(10)
Other reserves	35	430	1,847	10	1,444
Total shareholders' equity		1,646	3,062	1,226	2,659
Minority interest	35	200	200		
Total equity		1,846	3,262	1,226	2,659
Non-current liabilities					
Interest-bearing long-term borrowings	28	3,074	2,751	3,333	2,971
Employee benefit obligations	36	191	330	182	322
Provisions for deferred tax	12	652	1,075	592	1,017
Other provisions	30	256	210	215	185
Derivative financial instruments	32	123	4	123	4
Other long-term liabilities	27	204	168	169	132
Total non-current liabilities		4,500	4,538	4,614	4,631
Current liabilities					
Current portion of long-term borrowings	28	689	423	689	421
Trade and other payables	26	2,796	2,875	4,045	4,036
Derivative financial instruments	32	471	20	471	20
Current tax payable		4	4	4	3
Short-term provisions	30	182	170	180	168
Total current liabilities		4,142	3,492	5,389	4,648
Total equity and liabilities		10,488	11,292	11,229	11,938

Willie Walsh
Keith Williams
May 21, 2009



Cash flow statements

For the year ended March 31, 2009

Overview

Our business

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Financial statements

£ million	Note	Group		Company	
		2009	2008 Restated	2009	2008 Restated
Cash flow from operating activities					
Operating (loss)/profit		(220)	878	(165)	862
Operating loss from discontinued operations			(2)		
Depreciation, amortisation and impairment		694	692	670	672
Operating cash flow before working capital changes		474	1,568	505	1,534
Movement in inventories, trade and other receivables		32	96	(28)	89
Movement in trade and other payables and provisions		(136)	(325)	(132)	(276)
Payments in respect of restructuring		(64)	(32)	(62)	(30)
Cash payment to NAPS pension scheme	36		(610)		(610)
Payment to DOJ in settlement of competition investigation			(149)		(149)
Other non-cash movement		1	3	7	(32)
Cash generated from operations		307	551	290	526
Interest paid		(177)	(182)	(163)	(169)
Taxation		3	(66)	26	(108)
Net cash flow from operating activities		133	303	153	249
Cash flow from investing activities					
Purchase of property, plant and equipment	15	(547)	(596)	(528)	(592)
Purchase of intangible assets	18	(24)	(33)	(24)	(32)
Purchase of shares in associated undertakings	20		(54)		
Proceeds from sale of other investments		7		7	
Proceeds from sale of property, plant and equipment		5	11	10	11
Insurance recoveries for write-off of Boeing 777 aircraft		12	51	12	51
Purchase of subsidiary (net of cash acquired)		(34)		(144)	(1,016)
Cash inflow from disposal of subsidiary company			1		
Interest received		105	117	53	123
Dividends received		17	3	6	4
Decrease in other current interest-bearing deposits		202	458	356	1,238
Net cash used in investing activities		(257)	(42)	(252)	(213)
Cash flows from financing activities					
Proceeds from long-term borrowings		377	172	377	172
Repayments of borrowings		(66)	(68)	(55)	(57)
Payment of finance lease liabilities		(402)	(356)	(411)	(355)
Exercise of share options		1	4	1	4
Dividends paid		(58)		(58)	
Distributions made to holders of perpetual securities		(17)	(14)		
Net cash used in financing activities		(165)	(262)	(146)	(236)
Net decrease in cash and cash equivalents		(289)	(1)	(245)	(200)
Net foreign exchange differences		8	(29)	31	(29)
Cash and cash equivalents at April 1		683	713	433	662
Cash and cash equivalents at March 31	25	402	683	219	433

Statements of changes in equity

For the year ended March 31, 2009

£ million	Group					
	Issued capital	Share premium	Investment in own shares	Other reserves (note 35)	Total shareholders' equity	Minority interest
At April 1, 2008	288	937	(10)	1,818	3,033	200
Adoption of IFRIC 13				(206)	(206)	
Adoption of IFRIC 14				235	235	
At April 1, 2008 (Restated)	288	937	(10)	1,847	3,062	200
Loss for the year				(375)	(375)	17
Exchange differences and other movements				38	38	
Net movement on cash flow hedges				(988)	(988)	
Exercise of share options			2	(2)		
Cost of share-based payment				1	1	
Purchase of own shares			(1)		(1)	
Share of other movements in reserves of associates				(26)	(26)	
Held-to-maturity investments marked-to-market				(5)	(5)	
Available-for-sale financial assets – gains recycled to the income statement				(4)	(4)	
Total income and expense for the year			1	(1,361)	(1,360)	17
Net dividends (note 14)				(56)	(56)	
Distributions made to holders of perpetual securities						(17)
At March 31, 2009	288	937	(9)	430	1,646	200

For the year ended March 31, 2008

£ million	Group					
	Issued capital	Share premium	Investment in own shares	Other reserves (note 35)	Total shareholders' equity	Minority interest
At April 1, 2007	288	933	(10)	1,000	2,211	200
Adoption of IFRIC 13				(202)	(202)	
Adoption of IFRIC 14				199	199	
At April 1, 2007 (Restated)	288	933	(10)	997	2,208	200
Profit for the year				712	712	14
Exchange differences and other movements				24	24	
Net movement on cash flow hedges				119	119	
Cost of share-based payment				3	3	
Tax effect of share-based payment				(7)	(7)	
Deferred tax – rate change adjustment				6	6	
Share of other movements in reserves of associates				(2)	(2)	
Net fair value adjustment on available-for-sale financial assets				(5)	(5)	
Total income and expense for the year				850	850	14
Issue of shares		4			4	
Distributions made to holders of perpetual securities						(14)
At March 31, 2008 (Restated)	288	937	(10)	1,847	3,062	200

£ million	Company				
	Issued capital	Share premium	Investment in own shares	Other reserves (note 35)	Total equity
At April 1, 2008	288	937	(10)	1,344	2,559
Adoption of IFRIC 13				(135)	(135)
Adoption of IFRIC 14				235	235
At April 1, 2008 (Restated)	288	937	(10)	1,444	2,659
Profit for the year				(389)	(389)
Exercise of share options			2	(2)	
Cost of share-based payment				1	1
Purchase of own shares			(1)		(1)
Net movement on cash flow hedges				(988)	(988)
Total income and expense for the year			1	(1,378)	(1,377)
Net dividends (note 14)				(56)	(56)
At March 31, 2009	288	937	(9)	10	1,226

For the year ended March 31, 2008

£ million	Company				
	Issued capital	Share premium	Investment in own shares	Other reserves (note 35)	Total equity
At April 1, 2007	288	933	(10)	683	1,894
Adoption of IFRIC 13				(136)	(136)
Adoption of IFRIC 14				199	199
At April 1, 2007 (Restated)	288	933	(10)	746	1,957
Profit for the year				577	577
Cost of share-based payment				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 year				698	698
Issue of shares		4			4
At March 31, 2008 (Restated)	288	937	(10)	1,444	2,659

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, 2009, were authorised for issue by the Board of Directors on May 21, 2009, 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 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 (IASs).

2 Summary of significant accounting policies

Basis of preparation

The basis of preparation and accounting policies set out in this Report and Accounts have been prepared in accordance with the recognition and measurement criteria of IFRS 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 (£ million), 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 operating expenditure.

Revenue recognition – mileage programmes

The Group operates two principal loyalty programmes. The airline's 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 fair value attributed to the awarded mileage credits is deferred as a liability and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The accounting policy for mileage revenue recognition was amended during the year in line with the adoption of IFRIC 13. Refer to 'Impact of new International Financial Reporting Standards' note in this section for impact of the change in policy.

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 the redemption of the miles is recognised when the miles are redeemed.

The Group also operates the AIRMILES scheme, operated by the Company's wholly-owned subsidiary Air Miles 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 redemption services is recognised when the miles are redeemed.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the Management Board as detailed on page 35. The nature of the operating segments is set out in note 3.

Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised, but tested annually for impairment.

a Goodwill

Where the cost of a business combination exceeds the fair value 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. 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, less any accumulated impairment losses. Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. In October 2008 the Group revised the economic life for landing rights acquired within the EU to that of an indefinite economic life, due to regulation changes in the EU regarding the ability to trade landing rights. Landing rights with indefinite economic lives are reviewed annually for impairment. Had the Group not revised the economic life for landing rights, the amortisation charge for the year would have been £5 million greater than is currently reported.

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 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

c Property and equipment

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

d Leased and hire purchase assets

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of 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 predetermined 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.

Notes to the accounts continued

2 Summary of significant accounting policies continued

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 the income statement.

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

a Pension obligations

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'. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets, together with adjustments for unrecognised past service costs. Where plan assets exceed the defined benefit obligation, an asset is recognised to the extent that an economic benefit is available to the Group, in accordance with the terms of the plan and applicable statutory requirements. The benefit should be realisable during the life of the plan or on the settlement of the plan liabilities. Refer to the 'Impact of new International Financial Reporting Standards' note in this section for the impact of the adoption of IFRIC 14.

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 on a straight-line basis in the income statement over the estimated average remaining service period.

b Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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 the 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 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 Group's 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 the income statement.

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 the income statement. 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 the income statement 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 the income statement.

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.

Notes to the accounts continued

2 Summary of significant accounting policies continued

Certain loan repayment instalments denominated in US dollars, euro 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 highly probable.

Impairment in financial assets

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

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 income statement 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 has 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.

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 19).

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 and volatility and making assumptions about them. The assumptions and models used are disclosed in note 34.

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 and are disclosed in note 36.

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 are disclosed in note 11.

e Passenger revenue recognition

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used for transportation ('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.

During the current year, changes in estimates regarding the timing of revenue recognition primarily for unused flexible tickets were

made, resulting in increased revenue in the current year of £109 million.

During the prior year, changes in estimates regarding the timing of revenue recognition for unused restricted tickets were made, resulting in increased revenue in the prior year of £36 million.

Both the above changes reflect more accurate and timely data obtained through the increased use of electronic tickets.

Impact of new International Financial Reporting Standards

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

IFRIC 13 'Customer Loyalty Programmes'; effective for periods beginning on or after July 1, 2008, which 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 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. The Group has chosen to 'early adopt' this interpretation, the results for the year ended March 31, 2008, have been restated accordingly. The net impact on the income statement for the year ended March 31, 2008, is a £5 million increase in total revenue, a £2 million increase in expenditure on operations and a £7 million increase to the taxation charge for the year. The net impact to the balance sheet as at March 31, 2008, is a £206 million decrease in shareholders' equity, a £285 million increase in trade and other payables and a £79 million decrease in the provision for deferred tax.

IFRIC 14 'Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction' is effective for periods beginning on or after January 1, 2008, and provides guidance on assessing the limit in IAS 19 'Employee Benefits', on the amount of the surplus that can be recognised as an asset. It also provides guidance on how the pension asset or liability may be affected by a statutory or contractual minimum-funding requirement. The results for the year ended March 31, 2008, have been restated accordingly. The net impact on the income statement for the year ended March 31, 2008, is a £36 million increase in finance income. The net impact on the balance sheet as at March 31, 2008, is a £235 million increase to shareholders' equity and a £235 million increase in employee benefit assets.

IFRS 8 'Operating Segments' is effective for annual periods beginning on or after January 1, 2009. 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 has chosen to early adopt IFRS 8. All disclosures relating to segment information including all comparative information have been updated to reflect the new requirements. The composition of the Group's business segments has not changed as a result of the adoption of IFRS 8.

New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the date of these financial statements which management believe could impact the Group in future periods. Management has not yet determined the potential effect of the amendments.

IFRS 2 (Amendment) 'Share Based Payments – Vesting Conditions and Cancellations'; effective for periods beginning on or after January 1, 2009, clarifies that only service 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. The Group will apply this amendment from April 1, 2009.

IAS 28 (Amendment) 'Investments in Associates'; effective for periods beginning on or after January 1, 2009, subject to EU endorsement, requires an investment in an associate to be treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment. The Group will apply this amendment from April 1, 2009.

IAS 36 (Amendment) 'Impairment of Assets'; effective for periods beginning on or after January 1, 2009, subject to EU endorsement, requires that where the fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made. The Group will apply this amendment from April 1, 2009.

IAS 38 (Amendment) 'Intangible Assets'; effective for periods beginning on or after January 1, 2009, subject to EU endorsement, requires that expenditure on advertising and promotional activities be recognised as an expense as soon as the entity has the 'right to access' the goods or has received the services. Advertising and promotional goods now specifically include mail order catalogues. The Group will apply this amendment from April 1, 2009.

IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement'; effective for periods beginning on or after January 1, 2009, allows the reclassification of derivative instruments into or out of the classification of 'at fair value through profit or loss'. Furthermore, the amendment offers guidance on the designation and documentation of hedges at the segment level and the applicable interest rate on cessation of fair value hedge accounting. The Group will apply this amendment from April 1, 2009.

IFRS 7 (Amendment) 'Financial Instruments: Disclosure'; effective for periods beginning on or after January 1, 2009, subject to EU endorsement. The amendment requires enhanced disclosure about fair value measurements and liquidity risks relating to financial instruments. The Group will apply this amendment from April 1, 2009.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the Group.

Notes to the accounts continued

3 Segment information

a Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Management Board makes resource allocation decisions based on route profitability, which considers aircraft type and route economics, with only limited reference to the strength of the cargo business. The objective in making resource allocation decisions is to optimise consolidated financial results. While the operations of OpenSkies and CityFlyer are considered to be separate operating segments, their activities are considered to be sufficiently similar in nature to aggregate the two segments and report them together with the network passenger and cargo operations. Therefore, based on the way the Group treats the network passenger and cargo operations, and the manner in which resource allocation decisions are made, the Group has only one reportable operating segment for financial reporting purposes, reported as the 'airline business'.

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of Air Miles Travel Promotions Limited, British Airways Holidays Limited and Speedbird Insurance Company Limited.

For the year ended March 31, 2009

£ million	Airline business	All other segments	Unallocated	Total
Revenue				
Sales to external customers	8,840	152		8,992
Inter-segment sales	18			18
Segment revenue	8,858	152		9,010
Segment result				
Other non-operating expense	(240)	20		(220)
	(30)			(30)
(Loss)/profit before tax and finance costs	(270)	20		(250)
Net finance costs	78	(59)	(182)	(163)
Profit on sale of assets	8			8
Share of associates' profit	4			4
Tax			43	43
Loss after tax	(180)	(39)	(139)	(358)
Assets and liabilities				
Segment assets	10,164	115		10,279
Investment in associates	209			209
Total assets	10,373	115		10,488
Segment liabilities	3,842	381		4,223
Unallocated liabilities*			4,419	4,419
Total liabilities	3,842	381	4,419	8,642
Other segment information				
Property, plant and equipment – additions (note 15d)	643	2		645
Intangible assets – additions (excluding L'Avion – note 18c)	21			21
Purchase of subsidiary (net of cash acquired – note 6c)	34			34
Depreciation, amortisation and impairment (note 4a)	693	1		694
Impairment of available-for-sale financial asset – Flybe (note 21)	13			13
Exceptional items (note 4b):				
Restructuring	78			78
Unused tickets (note 2)	(109)			(109)
Impairment of OpenSkies goodwill	5			5

* Unallocated liabilities primarily include deferred taxes of £652 million and borrowings of £3,763 million which are managed on a Group basis.

3 Segment information continued

For the year ended March 31, 2008, Restated

£ million	Continuing operations				Discontinued operations*	Total
	Airline business	All other segments	Unallocated	Total		
Revenue						
Sales to external customers	8,570	188		8,758		8,758
Inter-segment sales	31			31		31
Segment revenue	8,601	188		8,789		8,789
Segment result	857	21		878	(2)	876
Other non-operating income	9			9		9
Profit/(loss) before tax and finance costs	866	21		887	(2)	885
Net finance income/(costs)	181	(11)	(175)	(5)		(5)
Profit/(loss) on sale of assets	16	(2)		14		14
Share of associates' profit	26			26		26
Tax			(194)	(194)		(194)
Profit/(loss) after tax	1,089	8	(369)	728	(2)	726
Assets and liabilities						
Segment assets	10,966	99		11,065		11,065
Investment in associates	227			227		227
Total assets	11,193	99		11,292		11,292
Segment liabilities	3,479	298		3,777		3,777
Unallocated liabilities**			4,253	4,253		4,253
Total liabilities	3,479	298	4,253	8,030		8,030
Other segment information						
Property, plant and equipment – additions (note 15d)	636	1		637		637
Intangible assets – additions (note 18c)	40			40		40
Depreciation, amortisation and impairment (note 4a)	690	2		692		692
Impairment of available-for-sale financial asset – Flybe (note 21)	6			6		6
Exceptional items (note 4b):						
Restructuring	1			1		1
Unused tickets (note 2)	(36)			(36)		(36)

* As disclosed in note 5, BA Connect, which previously comprised the majority of the 'Regional airline business' segment, was disposed of in March 2007.

** Unallocated liabilities primarily include deferred taxes of £1,075 million and borrowings of £3,174 million which are managed on a Group basis.

b Geographical segments – by area of original sale

£ million	Group	
	2009	2008 Restated
Europe:	5,617	5,581
UK	4,197	4,362
Continental Europe	1,420	1,219
The Americas	1,719	1,697
Africa, Middle East and Indian sub-continent	875	821
Far East and Australasia	781	659
Revenue	8,992	8,758

Total of non-current assets excluding available-for-sale financial assets, employee benefit assets, derivative financial instruments and prepayments and accrued income located in the UK is £7,337 million (2008: £7,336 million) and the total of these non-current assets located in other countries is £372 million (2008: £375 million).

Notes to the accounts continued

4 Operating (loss)/profit

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

Depreciation, amortisation and impairment of fixed assets:

£ million	2009	Group 2008
Owned assets	381	362
Finance leased aircraft	131	119
Hire purchased aircraft	110	118
Other leasehold interests	50	62
Impairment charge on goodwill	5	
Amortisation of intangible assets	17	31
Total depreciation, amortisation and impairment	694	692

Operating lease costs:

£ million	2009	Group 2008
Minimum lease rentals – aircraft	82	80
– property	106	119
Sub-lease rentals received	(10)	(16)
Net onerous lease provision release	(1)	(9)
	177	174

Cost of inventories:

£ million	2009	Group 2008
Cost of inventories recognised as an expense, mainly fuel and other	2,078	2,128
<i>Includes: write-down of inventories to net realisable value</i>	2	5

b Exceptional items

£ million	2009	Group 2008
Recognised in operating (loss)/profit:		
Employee costs – restructuring (note 8)	78	1
Unused tickets (note 2)	(109)	(36)
Impairment of goodwill (note 19)	5	
	(26)	(35)

During the year the Group incurred restructuring costs in relation to the reduction in employees announced during the year.

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 Limited (Flybe). The acquisition of BA Connect by Flybe excluded the London City airport routes and the BA Connect-operated service from Manchester to New York. The disposal was completed on March 5, 2007. The business sold comprised the majority of the 'Regional airline business' segment as disclosed in the financial statements for the year ended March 31, 2006.

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.

5 Discontinued operations continued

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 28 per cent (2008: 30 per cent). The differences are explained below:

£ million	Group	
	2009	2008
Accounting loss before income tax from discontinued operations	-	(2)
Accounting loss multiplied by standard rate of corporation tax in the UK of 28 per cent (2008: 30 per cent)		(1)
Effects of:		1
Non-deductible expenses		-
Total tax credit on discontinued operations for the year	-	-

6 Business combinations

In July 2008, the Group subsidiary, OpenSkies, acquired the entire issued share capital of the French airline L'Avion, for a cash consideration of €68 million (£54 million). Additional consideration of €10 million (£9 million, retranslated as at March 31, 2009) is payable in July 2009, based on the terms of the Purchase Agreement. The retranslation difference of £1 million has been charged to currency differences in the income statement. L'Avion was a privately owned business class airline that operated two Boeing 757s between Paris (Orly) and New York (Newark) airports. The operations of OpenSkies and L'Avion were merged in April 2009.

Details of the fair value of the net assets acquired and goodwill arising on the acquisition of L'Avion are as follows:

a Purchase consideration

£ million	
Cash consideration	54
Transaction costs directly associated with the acquisition	2
Contingent consideration	8
Total purchase consideration	64
Fair value of net assets acquired	59
Goodwill arising on acquisition	5

The goodwill is attributable to the workforce of the acquired business and synergies expected to arise after OpenSkies' acquisition of L'Avion. As a result of the goodwill impairment review performed as at March 31, 2009, goodwill associated with the acquisition was considered to be impaired, and accordingly an impairment charge of £5 million has been recognised in the consolidated income statement (note 19).

b The assets and liabilities arising from the acquisition are as follows

£ million	Carrying amount	Fair value
Property, plant and equipment	6	6
Landing rights		35
Prepayments and accrued income	3	3
Other current assets	4	4
Cash and cash equivalents	22	22
Trade and other payables	(11)	(11)
Net assets acquired	24	59

c Net cash flow in respect of the acquisition comprises

£ million	
Cash consideration	54
Transaction costs directly associated with the acquisition	2
Cash and cash equivalents in subsidiary acquired	(22)
Cash outflow on acquisition included in the cash flow statement	34

Notes to the accounts continued

6 Business combinations continued

d Contribution to Group results

The acquired airline contributed revenues of £23 million and a net loss of £7 million to the Group for the period from the date of acquisition to March 31, 2009. If the acquisition occurred on April 1, 2008, Group revenues would have been £9,012 million and loss after tax would have been £363 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the airline to reflect the additional amortisation that would have been charged assuming the fair value adjustment to intangible assets had been applied from April 1, 2008, together with the consequential tax effects. The amounts calculated are not affected by the Group's decision to change the economic life of landing rights acquired within the EU to that of an indefinite economic life as this prospective change took place in the post-acquisition period, on September 30, 2008 (note 18).

7 Auditor's remuneration

£'000	Group		Company	
	2009	2008	2009	2008
Group auditor				
Fees payable to the Group's auditor for the audit of the Group's accounts	1,882	1,985	1,882	1,985
Audit of the Group's subsidiaries pursuant to legislation	352	271		
Other services pursuant to legislation	59	57	43	43
Other services relating to taxation	360	308	360	308
Services relating to corporate finance transactions	1,654	286	1,654	286
All other services	10	113	6	113
	4,317	3,020	3,945	2,735

Of the Group fees, £3,933,000 relates to the UK (2008: £2,788,000) and £384,000 relates to overseas (2008: £232,000).

Of the Company fees, £3,585,000 relates to the UK (2008: £2,527,000) and £360,000 relates to overseas (2008: £208,000).

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.

8 Employee costs and numbers

a Staff costs

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

Number	Group		Company	
	2009	2008	2009	2008
UK	39,137	39,193	37,041	36,962
Overseas	5,850	5,947	5,057	5,159
	44,987	45,140	42,098	42,121

£ million	Group		Company	
	2009	2008	2009	2008
Wages and salaries	1,466	1,432	1,389	1,361
Social security costs	158	150	147	142
Costs related to pension scheme benefits	175	216	169	211
Other post-retirement benefit costs	4	4	3	3
Other employee costs	390	363	372	352
Total employee costs excluding restructuring	2,193	2,165	2,080	2,069
Restructuring	78	1	78	1
Total employee costs	2,271	2,166	2,158	2,070
Employee costs relating to continuing operations	2,271	2,166	2,158	2,072
Employee income relating to discontinued operations				(2)

8 Employee costs and numbers continued

In addition, included in 'Wages and salaries' is a total expense for share-based payments of £1 million (2008: £3 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

Other employee costs include allowances and accommodation for crew.

b Directors' emoluments

£'000	Group	
	2009	2008
Fees	748	732
Salary and benefits	1,189	1,123
Performance-related bonuses		134
	1,937	1,989

During the year, one director accrued benefits under a defined benefit pension scheme and one director accrued benefits under a defined contribution pension scheme.

The report of the Remuneration Committee discloses full details of directors' emoluments and can be found on pages 65 to 73.

9 Finance costs and income

£ million	Group	
	2009	2008
a Finance costs	34	36
On bank loans*	75	70
On finance leases	22	31
On hire purchase arrangements	38	39
On other loans*	169	176
Interest expense	12	10
Unwinding of discounting on provisions**	(4)	(15)
Capitalised interest	5	4
Change in fair value of cross currency swaps	182	175

* Total interest expense for financial liabilities not at fair value through the income statement is £72 million (2008: £75 million).

** Unwinding of discount on the competition investigation provision and restoration and handback provisions (note 30).

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

£ million	Group	
	2009	2008
b Finance income	95	111
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	95	111
c Financing income and expense relating to pensions	(34)	70
Net financing (expense)/income relating to pensions	17	
Amortisation of actuarial gains on pensions	(17)	70
d Retranslation charges on currency borrowings	59	11

Notes to the accounts continued

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

£ million	Group	
	2009	2008
Net profit on sale of property, plant and equipment	2	12
Write-off of Boeing 777 aircraft		(60)
Insurance recoveries on Boeing 777 aircraft		63
Net profit/(loss) on the disposal of investments	6	(1)
	8	14

11 Net charge relating to available-for-sale financial assets

£ million	Group	
	2009	2008
Income from available-for-sale financial assets*	3	5
Amounts written off investments**	(15)	(8)
	(12)	(3)

* Includes £3 million (2008: £4 million) attributable to interest earned on loans to The Airline Group Limited, an available-for-sale financial asset.

** Includes £13 million (2008: £6 million) attributable to impairment of the Group's investment in Flybe (note 21) and £2 million (2008: £2 million) impairment of its investment in Inter-Capital and Regional Rail Ltd, a loss making entity that manages Eurostar (UK) Limited until 2010.

12 Tax

a Tax on (loss)/profit on ordinary activities

Tax (credit)/charge in the income statement

£ million	Group	
	2009	2008 Restated
Current income tax		
UK corporation tax	(37)	72
Relief for foreign tax paid	(3)	(2)
Advance corporation tax reversal	26	(47)
UK tax	(14)	23
Foreign tax	2	1
Adjustments in respect of prior years – UK corporation tax	(18)	(8)
Adjustments in respect of prior years – advance corporation tax	21	
Total current income tax (credit)/charge	(9)	16
Deferred tax		
Effect of the change in the rate of UK corporation tax on opening balances		(70)
Property, plant and equipment related temporary differences	(65)	(57)
Effect of abolition of industrial buildings allowances	79	
Pensions	41	237
Unremitted earnings of associate companies	11	5
Advance corporation tax	(26)	47
Tax losses carried forward	(56)	
Exchange differences	(3)	
Share option deductions written back	1	5
Other temporary differences	(3)	(1)
Adjustments in respect of prior years – deferred tax	8	12
Adjustments in respect of prior years – advance corporation tax	(21)	
Total deferred tax (credit)/charge	(34)	178
Total tax (credit)/charge in the income statement	(43)	194

12 Tax continued

Tax (credit)/charge directly to equity

£ million	Group	
	2009	2008
Deferred tax	(251)	67
Deferred tax on net movement on revaluation of cash flow hedges	(133)	(21)
Deferred tax on foreign exchange in reserves		7
Deferred tax on share options in issue		(6)
Corporation tax rate change for items credited directly to reserves	(6)	
Deferred tax on Iberia unremitted earnings	(390)	47
Tax (credit)/charge taken directly to equity	(390)	47

b Reconciliation of the total tax (credit)/charge

The tax (credit)/charge for the year on the (loss)/profit from continuing operations is less than the notional tax credit on those (losses)/profits calculated at the UK corporation tax rate of 28 per cent (2008: 30 per cent). The differences are explained below:

£ million	Group	
	2009	2008 Restated
Accounting (loss)/profit before tax	(401)	922
Accounting (loss)/profit multiplied by standard rate of corporation tax in the UK of 28 per cent (2008: 30 per cent)	(112)	277
Effects of:		
Non-deductible expenses	7	7
Foreign exchange and unwind of discount on competition investigation provisions	9	2
Share option deductions written back	1	5
Deductions available on aircraft refinancing surpluses	(4)	(5)
Disposals and write-down of investments	3	(1)
Tax on associates' profits and dividends		(5)
Tax on subsidiary unremitted earnings	(2)	
Overseas tax in relation to branches	(1)	
Euro preferred securities accounted for as minority interest	(5)	(4)
Tax on revaluation of intra-group foreign currency loans	(4)	(5)
Effect of pension fund accounting under IFRIC 14	(5)	(11)
Effect of abolition of industrial buildings allowances	79	
Unrecognised deferred tax asset on pension deficit	2	
Other permanent differences		(2)
Current year losses not recognised	2	
Adjustments in respect of prior years	(10)	4
Rate benefit of trading loss carry back	(3)	
Effect of UK corporation tax rate reduction from 30 per cent to 28 per cent		(68)
Tax (credit)/charge in the income statement (note 12a)	(43)	194

c Deferred tax

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

£ million	Group		Company	
	2009	2008 Restated	2009	2008 Restated
Fixed asset related temporary differences	1,121	1,105	1,034	1,019
Pensions related temporary differences	(16)	(56)	(13)	(54)
Exchange differences on funding liabilities	(69)	68	(69)	67
Advance corporation tax	(94)	(47)	(94)	(47)
Tax losses carried forward arising from the implementation of IFRIC 13	(52)		(52)	
Tax losses carried forward arising from loss per income statement	(57)	(1)	(57)	
Subsidiary and associate unremitted earnings	27	18	17	4
Fair value (losses)/profits recognised on cash flow hedges	(174)	78	(174)	78
Share options related temporary differences	(1)	(3)	(1)	(3)
Deferred revenue in relation to loyalty reward programmes	(35)	(93)		(52)
Other temporary differences	2	6	1	5
At March 31	652	1,075	592	1,017

Notes to the accounts continued

12 Tax continued

c Deferred tax continued

Movement in provision

£ million	Group		Company	
	2009	2008 Restated	2009	2008 Restated
Balance at April 1	1,154	930	1,069	855
Restatement of balances arising from implementation of IFRIC 13	(79)	(86)	(52)	(58)
Restated balance at April 1	1,075	844	1,017	797
Deferred tax (credit)/charge relating to profit (note 12a)	(34)	178	(41)	173
Deferred tax (credit)/charge taken directly in reserves (note 12a)	(390)	47	(384)	47
Deferred tax arising on acquisition of equity in Iberia		3		
Revaluation of foreign currency balances and other movements	1	3		
At March 31	652	1,075	592	1,017

d Other taxes

The Group also contributed tax revenues through payment of transaction and payroll related taxes. A breakdown of these other taxes payable during 2009 was as follows:

£ million	Group	
	2009	2008
UK Air Passenger Duty	319	365
Other ticket taxes	155	144
Payroll related taxes	158	150
Total	632	659

The UK Government has proposed substantial increases in the rates of Air Passenger Duty from November 1, 2009, and further increases are proposed to take effect from November 1, 2010.

e Factors that may affect future tax charges

The Group has UK capital losses carried forward of £141 million (2008: £158 million). These losses are available for offset against future UK chargeable gains. No deferred tax asset has been recognised in respect of these capital losses as no further utilisation is currently anticipated. The Group has deferred taxation arising on chargeable gains by roll-over and hold-over relief claims that have reduced the tax basis of fixed assets by £69 million (2008: £69 million). No deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they could be offset against the UK capital losses carried forward. The Group also has unrecognised temporary differences representing future capital losses of £281 million (2008: £nil) if properties which previously qualified for industrial buildings allowances were realised at their residual value.

The Group has overseas net operating losses of £8 million (2008: £nil) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated.

The Group has an unrecognised temporary difference of £8 million (2008: £nil) arising from contributions to pension funds that are not expected to create a reduction in the Group's future tax liabilities.

Deferred tax has been provided on the Group's share of the unremitted earnings of associate companies and on the unremitted earnings of subsidiary companies that are expected to be paid as dividends to the parent company within the foreseeable future. Were the retained earnings of other overseas subsidiary companies to be remitted to the parent company as a dividend, the temporary differences upon which the Group has not provided for deferred tax are £26 million (2008: £19 million).

13 Earnings per share

	Profit		Earnings per share	
	2009 £ million	2008 £ million Restated	2009 Pence	2008 Pence Restated
(Loss)/profit for the year attributable to shareholders and basic earnings per share	(375)	712	(32.6)	61.9
Represented by:				
Continuing operations	(375)	714	(32.6)	62.1
Discontinued operations		(2)		(0.2)
Diluted (loss)/profit for the year attributable to shareholders and diluted earnings per share	(375)	712	(32.6)	61.4
Represented by:				
Continuing operations	(375)	714	(32.6)	61.6
Discontinued operations		(2)		(0.2)
Weighted average number of shares for basic EPS ('000)			1,151,230	1,150,537
Dilutive potential ordinary shares:				
Employee share options ('000)			2,702	8,093
Weighted average number of shares for diluted EPS ('000)			1,153,932	1,158,630

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 year but which may be dilutive in the future. Details of the Group's share options can be found in note 34.

14 Dividends

The directors recommended not to declare a dividend for the year ended March 31, 2009. The Company declared a dividend of 5 pence per share (totalling £58 million) for the year ended March 31, 2008. The dividend was paid in July 2008 and was accounted for as a reduction in shareholders' equity for the year ended March 31, 2009.

The Group reversed £2 million of previously declared dividends, relating to historic unclaimed dividends that are no longer expected to be collected.

Equity dividends

£ million	Group	
	2009	2008
Prior year 5 pence dividend per ordinary share paid during the year	58	
Unclaimed dividends	(2)	
	56	-

Notes to the accounts continued

15 Property, plant and equipment

a Group

£ million	Fleet	Property	Equipment	Group total
Cost				
Balance at April 1, 2007	11,223	1,398	753	13,374
Additions (note 15d)	428	122	87	637
Disposals	(262)	(12)	(36)	(310)
Balance at March 31, 2008	11,389	1,508	804	13,701
Additions (note 15d)	584	54	13	651
Disposals	(118)	(45)	(30)	(193)
Reclassifications	(19)	1	(1)	(19)
Exchange movements		(2)	(3)	(5)
At March 31, 2009	11,836	1,516	783	14,135
Depreciation and impairment				
Balance at April 1, 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
Charge for the year	561	59	52	672
Disposals	(116)	(45)	(29)	(190)
Reclassifications	(18)			(18)
At March 31, 2009	5,840	545	517	6,902
Net book amounts				
March 31, 2009	5,996	971	266	7,233
March 31, 2008	5,976	977	310	7,263
Analysis at March 31, 2009				
Owned	2,535	950	260	3,745
Finance leased	2,004			2,004
Hire purchase arrangements	1,342			1,342
Progress payments	85	21	6	112
Assets not in current use*	30			30
	5,996	971	266	7,233
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

£ million	Group	
	2009	2008
The net book amount of property comprises:		
Freehold	267	274
Long leasehold improvements	260	256
Short leasehold improvements**	444	447
At March 31	971	977

* During the year, two Boeing 747-400 aircraft were temporarily stood down. The net book value of the two aircraft as at March 31, 2009, amounts to £30 million. These aircraft are expected to return to the operating fleet and, as such, the Group continues to depreciate the aircraft.

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

15 Property, plant and equipment continued

As at March 31, 2009, bank and other loans of the Group are secured on fleet assets with a cost of £624 million (2008: £477 million) and letters of credit of £330 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2008: £330 million).

Included in the cost of tangible assets for the Group is £349 million (2008: £345 million) of capitalised interest.

Property, plant and equipment with a net book value of £3 million was disposed of by the Group during the year ended March 31, 2009 (2008: £70 million) resulting in a net gain on disposal of £2 million (2008: £15 million).

b Company

£ million	Fleet	Property	Equipment	Company total
Cost				
Balance at April 1, 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
Additions	559	54	8	621
Disposals	(118)	(45)	(30)	(193)
Reclassifications	(19)			(19)
At March 31, 2009	11,464	1,430	714	13,608
Depreciation and impairment				
Balance at April 1, 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
Charge for the year	545	58	50	653
Disposals	(116)	(45)	(29)	(190)
Reclassifications	(18)			(18)
At March 31, 2009	5,659	510	456	6,625
Net book amounts				
March 31, 2009	5,805	920	258	6,983
March 31, 2008	5,794	924	301	7,019
Analysis at March 31, 2009				
Owned	2,356	899	252	3,507
Finance leased	2,004			2,004
Hire purchase arrangements	1,342			1,342
Progress payments	73	21	6	100
Assets not in current use*	30			30
	5,805	920	258	6,983
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

Notes to the accounts continued

15 Property, plant and equipment continued

£ million	Company total	
	2009	2008
The net book amount of property comprises:		
Freehold	220	226
Long leasehold improvements	256	256
Short leasehold improvements**	444	442
At March 31	920	924

* During the year, two Boeing 747-400 aircraft were temporarily stood down. The net book value of the two aircraft as at March 31, 2009, amounts to £30 million. These aircraft are expected to return to the operating fleet and, as such, the Company continues to depreciate the aircraft.

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

As at March 31, 2009, bank and other loans of the Company are secured on fleet assets with a cost of £551 million (2008: £404 million).

Included in the cost of tangible assets for the Company is £347 million (2008: £343 million) of capitalised interest.

Property, plant and equipment with a net book value of £3 million was disposed of by the Company during the year ended March 31, 2009 (2008: £67 million) resulting in a net gain on disposal of £2 million (2008: £15 million).

c Depreciation

Fleet is 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	
	2009	2008
Boeing 747-400 and 777-200	3.7	3.7
Boeing 767-300	4.8	4.8
Boeing 757-200	4.4	4.4
Boeing 737-400	4.8	4.9
Airbus A319, A320, A321	4.9	4.9

For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft 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 prior 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 £33 million decrease in the annual depreciation charge for this engine type.

The economic lives of the Boeing 737-400 aircraft were reviewed and extended during the year in accordance with the planned usage of the aircraft. The net impact to the income statement is a £1 million decrease to the depreciation charge for the year ended March 31, 2009.

Property, with the exception of 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 property, plant and equipment additions

£ million	Fleet	Property	Equipment	Group total	
				2009	2008
Cash paid	438	66	43	547	596
Capitalised interest	4			4	15
Acquired through business combinations	6			6	
Reclassification of operating leases to finance leases	122			122	
Accrual movements	14	(12)	(30)	(28)	26
At March 31	584	54	13	651	637

During the year ended March 31, 2009, the Group acquired property, plant and equipment with a cost of £651 million (2008: £637 million), including £6 million of additions arising from the acquisition of L'Avion (note 6). Included in the acquisition of these assets is £122 million relating to the reclassification of 10 Airbus A319 aircraft from operating leases to finance leases, where the Group waived the right to return the aircraft to the lessor.

16 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,805 million for the Group commitments (2008: £3,306 million) and £4,617 million for the Company commitments (2008: £3,301 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

The outstanding commitments include £4,793 million for the acquisition of five Boeing 777s (from 2009 to 2012), 24 Boeing 787s (from 2012 to 2016), two Airbus A318s (2009), 10 Airbus A320s (from 2009 to 2012), 12 Airbus A380s (from 2012 to 2014) and 11 Embraer E-Jets (from 2009 to 2010).

17 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, 2009, no assets were sold (2008: £3 million aircraft and £5 million property).

At March 31, 2009, there were no assets held for sale (2008: Nil).

In April 2009, the Group agreed to the sale of 11 Boeing 757 aircraft, these aircraft will exit the business over a two-year period beginning June 2010. The economic lives and residual values of the aircraft were adjusted in April 2009 to reflect the terms of the sale agreement.

18 Intangible assets

a Group

£ million	Goodwill	Landing rights	Software	Group total
Cost				
Balance at April 1, 2007	40	175	143	358
Additions		28	12	40
Disposals			(2)	(2)
Balance at March 31, 2008	40	203	153	396
Additions	5	44	12	61
Disposals			(15)	(15)
Impairment (note 19)	(5)			(5)
Exchange movements*		7		7
At March 31, 2009	40	254	150	444
Amortisation				
Balance at April 1, 2007	–	36	110	146
Disposals			(2)	(2)
Charge for the year		8	23	31
Balance at March 31, 2008	–	44	131	175
Disposals			(15)	(15)
Charge for the year		5	12	17
At March 31, 2009	–	49	128	177
Net book amounts				
March 31, 2009	40	205	22	267
March 31, 2008	40	159	22	221

* Goodwill and landing rights with a carrying value of £5 million and £42 million respectively are associated with the acquisition of L'Avion, an airline operating services between Paris (Orly) and New York (Newark) airports. The functional currency of L'Avion is euros, as such, these assets are subject to exchange movements.

Notes to the accounts continued

18 Intangible assets continued

b Company

£ million	Landing rights	Software	Company total
Cost			
Balance at April 1, 2007	175	143	318
Additions	28	11	39
Disposals		(1)	(1)
Balance at March 31, 2008	203	153	356
Additions	9	12	21
Disposals		(15)	(15)
At March 31, 2009	212	150	362
Amortisation			
Balance at April 1, 2007	36	109	145
Charge for the year	8	23	31
Disposals		(1)	(1)
Balance at March 31, 2008	44	131	175
Charge for the year	5	12	17
Disposals		(15)	(15)
At March 31, 2009	49	128	177
Net book amounts			
March 31, 2009	163	22	185
March 31, 2008	159	22	181

c Analysis of Group intangible asset additions (excluding goodwill)

£ million	Landing rights	Software	Group	
			2009	2008
Cash paid	12	12	24	33
Acquired through business combinations	35		35	
Accrual movements	(3)		(3)	7
Total additions	44	12	56	40

d Allocation of indefinite-life intangibles to cash-generating units

Landing rights based within the EU, considered to have an indefinite useful life, are assigned to 'cash-generating units' for the purposes of impairment review. An impairment review has been conducted on the network airline operations, including passenger operations, cargo operations and related ancillary operations. A separate review has been conducted on the operations of OpenSkies and the landing rights acquired as a result of the acquisition of L'Avion in July 2008.

The allocation of indefinite-life landing rights to cash-generating units is as follows:

£ million	Group	
	2009	2008
Network airline operations	163	
OpenSkies	30	
Total indefinite-life landing rights	193	—

19 Impairment of goodwill

Goodwill impairment review is carried out at the level of a 'cash-generating unit', defined as the smallest identifiable group of assets, liabilities and associated goodwill that generates cash inflows that are largely independent of the Group's other cash flows from other assets or groups of assets. On this basis, the impairment review has been conducted on two cash-generating units identified as containing an element of goodwill. An impairment review was performed on the goodwill associated with the network airline operations, including passenger and cargo operations out of all operated airports as well as all related ancillary operations. A separate impairment review has been conducted on the operations of OpenSkies, for the additional goodwill arising on the acquisition of L'Avion in July 2008 (note 6).

Goodwill is reviewed for impairment annually by comparison of the carrying value of the cash-generating unit to the recoverable amount. If the carrying value exceeds the recoverable amount, goodwill is considered impaired. The amount of impairment loss is measured as the difference between the carrying value and the recoverable amount.

a Goodwill analysed by cash-generating units

£ million	Group	
	2009	2008
Network airline operations	40	40
OpenSkies	5	
Carrying value of goodwill before impairment charges	45	40
Impairment of OpenSkies goodwill	(5)	
Carrying value of goodwill	40	40

Network airline operations

The recoverable amount of the network airline operations has been measured based on its value in use, based on the discounted cash flow model; cash flow projections are based on the business plan approved by the Board covering a five-year period. Cash flows beyond the five-year period are projected to increase in line with UK long-term growth assumptions. This growth rate reflects the planned expansion of the Group as a result of the introduction into service of committed aircraft such as the Airbus A380 and Boeing 787. The pre-tax discount rate applied to the cash flow projections are derived from the Group's post-tax weighted average cost of capital, adjusted for the risks specific to the market.

No impairment charge has arisen as a result of the impairment review performed on the network airline operations.

OpenSkies

The recoverable amount of the OpenSkies cash-generating unit has been measured on its value-in-use, based on the discounted cash flow model; cash flow projections are based on the business plan approved by the Board covering a five-year period. Cash flows beyond the five-year period are projected to increase in line with EU long-term growth assumption. The pre-tax discount rate applied to the cash flow projections are derived from OpenSkies' post-tax weighted average cost of capital, adjusted for the risks specific to the market.

The operating margins of both cash-generating units 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 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.

An impairment charge of £5 million has been recognised in the consolidated income statement against the goodwill of OpenSkies as a result of the impairment review performed.

The key assumptions used in the value-in-use calculations for both the network airline operations and OpenSkies are:

	2009	2008
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	8.90%	8.90%
Long-term growth rate	2.50%	2.50%
Operating margin range	(6.6)% – 10.0%	7%
Fuel price range per barrel	\$60 – \$75	\$85

Notes to the accounts continued

19 Impairment of goodwill continued

b Key assumptions used in goodwill impairment review

Sensitivity of cash-generating units' recoverable amounts to changes in key assumptions.

The following table demonstrates the excess of the recoverable amount over the carrying amount of each cash-generating unit.

£ million	2009	
	Network airline	Total
Goodwill	40	40
Excess of recoverable amount over carrying amount	400	400

£ million	2008	
	Network airline	Total
Goodwill	40	40
Excess of recoverable amount over carrying amount	600	600

Network airline operations

The network airline unit's recoverable amount exceeds its carrying amount by £400 million. Based on sensitivity analysis, it is estimated that if there were an adverse change in the long-term operating margin by 2 per cent, the recoverable amount of the network airline unit would equal its carrying amount. An increase in the discount rate of 0.9 per cent would result in the value-in-use of the network airline unit being equal to its carrying amount.

20 Investments

a Group

Investment in associates

£ million	Group	
	2009	2008
Balance at April 1	227	125
Exchange movements	27	24
Additions*		57
Share of attributable results	4	23
Share of movements on other reserves	(32)	(2)
Dividends received	(17)	
At March 31	209	227

* £3 million of the 2008 additions are non-cash, attributed to deferred tax liabilities recognised on Iberia's unremitted earnings.

Market value of listed associates

£ million	Group	
	2009	2008
At March 31	184	275

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, Líneas 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 its commercial relationships with Iberia.

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 from 9.95 per cent at March 31, 2007, to 13.15 per cent. The acquisition of these additional shares in Iberia resulted in goodwill of £9 million, which was reflected in investment in associates.

20 Investments continued

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	
	2009	2008
Non-current assets	300	218
Current assets	392	414
Current liabilities	(284)	(234)
Non-current liabilities	(216)	(188)
Share of net assets	192	210
Goodwill attributable to investments in associates	17	17
Revenues	574	556
Net profit after tax	4	26

b Company

£ million	Cost	Provisions	Company	
			2009	2008
Balance at April 1	3,219	(1,012)	2,207	1,185
Exchange movements	23		23	17
Additions	144		144	1,016
Intra-group transfer				(5)
Provision		(18)	(18)	(6)
At March 31	3,386	(1,030)	2,356	2,207

The provision of £18 million at March 31, 2009, relates to the £5 million impairment of the Company's investment in OpenSkies, associated with goodwill arising on the acquisition of L'Avion and the £13 million impairment of the Group's investment in The Plimsoll Line, which holds the investment in Flybe (2008: £6 million).

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 in principal investments on page 134.

During the prior year, the Company invested £999 million in a subsidiary whose primary purpose is to invest the Company's excess cash. In addition, the Company invested £17 million in a subsidiary relating to the launch of a new airline, OpenSkies.

During the year, the Company invested £40 million in the subsidiary OpenSkies in order to fund the acquisition of L'Avion and £104 million in the subsidiary CityFlyer in order to fund operations.

21 Available-for-sale financial assets

£ million	Group		Company	
	2009	2008	2009	2008
Available-for-sale financial assets	65	80	27	24

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 an earnings multiple model or by reference to other valuation methods. On March 5, 2007, the Group acquired a 15 per cent investment in Flybe in connection with the disposal of the regional business of BA Connect. The investment in Flybe was valued at £49 million at acquisition.

In the prior year, the Group performed a review of its investment in Flybe 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 was reflected in the income statement within amounts relating to available-for-sale financial assets.

Notes to the accounts continued

21 Available-for-sale financial assets continued

The Group performed a review of its investment in Flybe at March 31, 2009. Despite a growth in Flybe's revenue and an expected reporting of profit for the year ended March 31, 2009, the review showed a further decline in fair value, associated with lower rate of forecast revenue and earnings growth than previously expected. Accordingly, the Group recognised a £13 million impairment of the investment. The impairment charge has been recognised in the income statement relating to available-for-sale financial assets. The investment is now valued at £30 million.

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	
	2009	2008	2009	2008
Listed	8	13		
Unlisted	57	67	27	24
At March 31	65	80	27	24

22 Inventories

£ million	Group		Company	
	2009	2008	2009	2008
Expendables and consumables	127	112	125	109

23 Trade receivables

£ million	Group		Company	
	2009	2008	2009	2008
Trade receivables	543	598	530	586
Less: provision for doubtful receivables	13	12	13	12
Net trade receivables	530	586	517	574

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

£ million	Group		Company	
At April 1, 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
Provision for doubtful receivables		3		3
Exchange movement on revaluation		2		2
Receivables written off during the year		(2)		(2)
Unused amounts reversed		(2)		(2)
At March 31, 2009		13		13

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					
2009	530	510	14	2	4
2008	586	578	1	1	6
Company					
2009	517	510	2	1	4
2008	574	567	1	1	5

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

24 Other current assets

£ million	Group		Company	
	2009	2008	2009	2008
Amounts owed by subsidiaries			169	116
Other debtors	88	103	88	102
Prepayments and accrued income	180	205	125	153
At March 31	268	308	382	371

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

a Cash and cash equivalents

£ million	Group		Company	
	2009	2008	2009	2008
Cash at bank and in hand	247	180	219	175
Short-term deposits falling due within three months	155	503		258
Cash and cash equivalents	402	683	219	433
Other current interest-bearing deposits maturing after three months	979	1,181	43	399

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 £402 million for the Group (2008: £683 million) and for the Company £219 million (2008: £433 million).

At March 31, 2009, the Group and Company had no outstanding bank overdrafts (2008: £nil).

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.

b Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2009	2008
Decrease in cash and cash equivalents during the period	(289)	(1)
Net cash outflow from decrease in debt and lease financing	468	424
Decrease in other current interest-bearing deposits	(202)	(458)
New loans and finance leases taken out and hire purchase arrangements made	(377)	(172)
Increase in net debt resulting from cash flow	(400)	(207)
Exchange movements and other non-cash movements	(672)	(112)
Increase in net debt during the period	(1,072)	(319)
Net debt at April 1	(1,310)	(991)
Net debt at March 31	(2,382)	(1,310)

Notes to the accounts continued

25 Cash, cash equivalents and other current interest-bearing deposits continued

c Analysis of net debt

£ million	Group			
	Balance at April 1	Net cash flow	Other non-cash	Balance at March 31
Cash and cash equivalents	713	(1)		683
Current interest-bearing deposits maturing after three months	1,642	(458)		1,181
Bank and other loans	(946)	68		(876)
Finance leases and hire purchase arrangements	(2,400)	184	(7)	(2,298)
Year to March 31, 2008	(991)	(207)	(7)	(1,310)
Cash and cash equivalents	683	(289)		402
Current interest-bearing deposits maturing after three months	1,181	(202)		979
Bank and other loans	(876)	66		(848)
Finance leases and hire purchase arrangements	(2,298)	25	(126)	(2,915)
Year to March 31, 2009	(1,310)	(400)	(126)	(2,382)

Net debt comprises the current and non-current portions of long-term borrowings less cash, cash equivalents and other current interest-bearing deposits.

26 Trade and other payables

£ million	Group		Company	
	2009	2008 Restated	2009	2008 Restated
Trade creditors	666	648	624	621
Unredeemed frequent flyer liabilities	1	1	1	1
Amounts owed to subsidiary companies			1,639	1,543
Other creditors:				
Other creditors	669	577	661	572
Other taxation and social security	39	40	37	40
	708	617	698	612
Accruals and deferred income:				
Sales in advance of carriage	769	911	743	892
Accruals and deferred income	652	698	340	367
	1,421	1,609	1,083	1,259
At March 31	2,796	2,875	4,045	4,036

27 Other long-term liabilities

£ million	Group		Company	
	2009	2008	2009	2008
Other creditors	11	13	4	7
Accruals and deferred income	193	155	165	125
At March 31	204	168	169	132

28 Long-term borrowings

£ million	Group		Company	
	2009	2008	2009	2008
a Current				
Loans, finance leases and hire purchase arrangements:				
Bank and other loans*	69	113	57	102
Finance leases**	103	64	115	73
Hire purchase arrangements	517	246	517	246
At March 31	689	423	689	421
b Non-current				
Loans, finance leases and hire purchase arrangements:				
Bank and other loans*	779	764	582	554
Finance leases**	1,979	1,376	2,156	1,567
Hire purchase arrangements	316	611	316	611
Loans from subsidiaries			279	239
At March 31	3,074	2,751	3,333	2,971

* Bank and other loans are repayable up to the year 2019. Bank and other loans of the Group amounting to US\$108 million (2008: US\$132 million), £382 million (2008: £410 million) and ¥6,915 million (2008: ¥nil) and bank loans of the Company amounting to US\$108 million (2008: US\$132 million) and £172 million (2008: £189 million) and ¥6,915 million (2008: ¥nil) 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.

** Included in finance leases for the Company is £188 million (2008: £200 million) of finance leases with other subsidiaries of the Group, of which £11 million (2008: £9 million) is classified as current.

c Bank and other loans

Bank and other loans comprise the following:

£ million	Group		Company	
	2009	2008	2009	2008
£250 million fixed rate 8.75 per cent eurobonds 2016 ⁽ⁱ⁾	248	248	248	248
£100 million fixed rate 10.875 per cent eurobonds 2008		61		61
Floating rate sterling mortgage loans secured on aircraft ⁽ⁱⁱ⁾	187	201	143	153
Floating rate US dollar mortgage loans secured on aircraft ⁽ⁱⁱⁱ⁾	76	67	76	67
Fixed rate sterling mortgage loans secured on aircraft ^(iv)	194	209	29	36
Floating rate Japanese yen mortgage loans secured on aircraft ^(v)	49		49	
Floating rate US dollar mortgage loans not secured on aircraft ^(vi)	49	40	49	40
European Investment Bank loans ^(vii)	45	51	45	51
	848	877	639	656
Less: current instalments due on bank loans	69	113	57	102
At March 31	779	764	582	554

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

(ii) 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.

(iii) 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.

(iv) 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 2018.

(v) Floating rate Japanese yen mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.55 per cent above LIBOR. The loans are repayable in March 2014.

(vi) Floating rate US dollar mortgage loans are not secured on aircraft and bear interest of 0.75 per cent above LIBOR. The loans are repayable in 2014.

(vii) 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

28 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

million	Group		Company	
	2009	2008	2009	2008
Bank and other loans:				
Bank:				
US dollar	\$178	\$211	\$178	\$211
Japanese yen	¥6,915		¥6,915	
Sterling	£427	£461	£217	£240
	£600	£568	£391	£347
Euro-sterling notes:				
Sterling	£248	£309	£248	£309
Loans from subsidiary undertakings:				
Euro			€300	€300
			£279	£239
Finance leases:				
US dollar	\$1,518	\$1,205	\$1,518	\$1,205
Euro	€77		€77	
Sterling	£948	£834	£1,136	£1,034
	£2,082	£1,440	£2,271	£1,640
Hire purchase arrangements:				
US dollar	\$72	\$89	\$72	\$89
Japanese yen	¥101,350	¥112,442	¥101,350	¥112,442
Sterling	£62	£244	£62	£244
	£833	£857	£833	£857
At March 31	£3,763	£3,174	£4,022	£3,392

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	
	2009	2008	2009	2008
Future minimum payments due:				
Within one year	687	389	707	407
After more than one year but within five years	1,163	1,218	1,252	1,303
In five years or more	1,672	1,268	1,811	1,431
	3,522	2,875	3,770	3,141
Less: Finance charges	607	578	666	644
Present value of minimum lease payments	2,915	2,297	3,104	2,497
The present value of minimum lease payments is analysed as follows:				
Within one year	620	310	632	319
After more than one year but within five years	926	989	981	1,040
In five years or more	1,369	998	1,491	1,138
At March 31	2,915	2,297	3,104	2,497

29 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	
	2009	2008	2009	2008
Within one year	84	77	60	62
Between one and five years	334	169	309	143
Over five years	444	17	444	17
At March 31	862	263	813	222

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	
	2009	2008	2009	2008
Within one year	84	86	80	82
Between one and five years	249	244	238	229
Over five years, ranging up to the year 2145	1,562	1,612	1,557	1,603
At March 31	1,895	1,942	1,875	1,914

The Group and Company sub-lease 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 seven 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	
	2009	2008	2009	2008
Fleet				
Within one year	6	6	4	1
Between one and five years	8	13	9	2
At March 31	14	19	13	3
Property and equipment				
Within one year	6	5	6	5
Between one and five years	24	19	24	19
Over five years	10	1	10	1
At March 31	40	25	40	25

Notes to the accounts continued

30 Provisions for liabilities and charges

							Group
£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	Total
At April 1, 2008:							
Current			29	7	134		170
Non-current	22	11	83		84	10	210
	22	11	112	7	218	10	380
Arising during the year	10		15	81	(9)	35	132
Utilised		(3)	(29)	(64)	(10)	(32)	(138)
Release of unused amounts		(1)	(7)	(3)			(11)
Exchange		2	19		42		63
Unwinding of discount			1		11		12
At March 31, 2009	32	9	111	21	252	13	438
Analysis:							
Current			24	21	137		182
Non-current	32	9	87		115	13	256
	32	9	111	21	252	13	438

							Company
£ million		Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	Total
At April 1, 2008:							
Current			29	5	134		168
Non-current		11	80		84	10	185
		11	109	5	218	10	353
Arising during the year			12	81	(9)	35	119
Utilised		(3)	(29)	(62)	(10)	(32)	(136)
Release of unused amounts		(1)	(7)	(3)			(11)
Exchange		2	19		42		63
Other movements		(5)					(5)
Unwinding of discount			1		11		12
At March 31, 2009	4	105	21	252	13		395
Analysis:							
Current			22	21	137		180
Non-current	4	83		115		13	215
	4	105	21	252		13	395

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 utilised or such time as further claims are considered unlikely under the respective insurance policies.

The onerous lease provision relates partly to the sub-lease of one 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 2037.

30 Provisions for liabilities and charges continued

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 2051.

The balance remaining on the Group restructuring provision was £21 million at March 31, 2009, mainly relating to targeted voluntary severance costs expected to be paid during the next financial year.

There are ongoing investigations into the Group's passenger and 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.

Included in the amount arising during the year for litigation is a £22 million reduction in the competition provision relating to a change in the net present value of the provision arising from changes to the expected payment profile, offset by a £12 million increase in the provision as a result of the accrual of legal fees.

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

31 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, capital 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.

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, capital risk and the 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 (loss)/profit before tax and equity:

Group						Company					
2009			2008			2009			2008		
Increase/ (decrease) in fuel price per cent	Effect on loss before tax £ million	Effect on equity £ million	Increase/ (decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/ (decrease) in fuel price per cent	Effect on loss before tax £ million	Effect on equity £ million	Increase/ (decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million
30	15	301	10	14	166	30	15	301	10	14	166
(30)	(4)	(337)	(10)	(11)	(163)	(30)	(4)	(337)	(10)	(11)	(163)

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.

Notes to the accounts continued

31 Financial risk management objectives and policies continued

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 euro, US dollars and Japanese yen.

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

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

Group	Strengthening/ (weakening) in euro rate per cent	Effect on (loss)/profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in US dollar rate per cent	Effect on (loss)/profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on (loss)/profit before tax £ million	Effect on equity £ million
2009	20	(7)	(33)	20	(52)	(162)	20	(8)	(138)
	(20)	6	32	(20)	52	162	(20)	8	138
2008	10	(2)	(26)	10	(4)	(42)	10	(7)	(57)
	(10)	2	22	(10)	3	32	(10)	5	47
Company									
2009	20	(7)	(33)	20	(52)	(162)	20	(8)	(138)
	(20)	6	32	(20)	52	162	(20)	8	138
2008	10	(2)	(26)	10	(6)	(42)	10	(7)	(57)
	(10)	2	22	(10)	5	32	(10)	5	47

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 (loss)/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.

		2009	
		Effect on loss before tax	
		100 basis points increase	50 basis points decrease
£ million			
Group			
Variable rate instruments		(2)	1
Company			
Variable rate instruments		(10)	5
		2008	
		Effect on profit before tax	
		100 basis points increase	100 basis points decrease
£ million			
Group			
Variable rate instruments		3	(3)
Company			
Variable rate instruments		(3)	3

31 Financial risk management objectives and policies continued

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. Treasury activities which include placing money market deposits, fuel hedging and foreign currency transactions could lead to a concentration of different credit risks on the same counterparty. This risk is managed by the allocation of an overall exposure limit for the counterparty that is then allocated down to specific treasury activities for that party. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings and credit default swap levels. 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 32.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 37.

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 Company's long-term corporate debt ratings at March 31, 2009, assigned by Moody's and Standard & Poor's respectively were Ba1 and BB+. The Moody's rating was reduced from Baa3 in February 2009 and the Company is on credit watch for a further downgrade. The Standard & Poor's rating was reduced to BB with a stable outlook in May 2009. The downgrades were due to adverse trading conditions. The downgrades have had no impact on debt covenants or liquidity since the Group has committed borrowing facilities through to 2016, and adequate cash reserves to meet operating requirements for the next 12 months.

At March 31, 2009, the Group and Company had unused overdraft facilities of £20 million (2008: £20 million) and €4 million (€4 million) (2008: €20 million (£16 million) respectively).

The Group and Company held undrawn uncommitted money market lines of £25 million as at March 31, 2009 (2008: £45 million).

The Group and Company had the following undrawn general and committed aircraft financing facilities:

million	2009	
	Currency	£ equivalent
US dollar facility expiring June 2013	\$1,301	911
US dollar facility expiring March 2014	\$940	658
US dollar facility expiring June 2010	\$228	160
US dollar facility expiring September 2016	\$509	356
US dollar facility expiring December 2012	\$270	189
US dollar facility expiring June 2012	\$269	189
Japanese yen facility expiring January 2011	¥68,085	485

million	2008	
	Currency	£ equivalent
US dollar facility expiring June 2010	\$266	134
US dollar facility expiring June 2012	\$115	58
US dollar facility expiring December 2015	\$509	256
US dollar facility expiring March 2014	\$940	472
US dollar facility expiring December 2012	\$1,615	812
Japanese yen facility expiring January 2011	¥75,000	381

Notes to the accounts continued

31 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date 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 2009
Cash and cash equivalents	402					402
Other current interest-bearing deposits	740	248				988
Trade receivables	530					530
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(447)	(240)	(474)	(689)	(1,672)	(3,522)
Fixed rate borrowings	(31)	(21)	(51)	(141)	(425)	(669)
Floating rate borrowings	(20)	(40)	(60)	(171)	(156)	(447)
Trade and other payables	(1,374)					(1,374)
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(4)	(7)
Forward currency contracts	(13)	(2)	(3)			(18)
Fuel derivatives	(252)	(204)	(111)	(2)		(569)
Forward currency contracts	31	9	3			43
At March 31	(434)	(250)	(697)	(1,005)	(2,257)	(4,643)

£ 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	(1,265)					(1,265)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	(15)	(5)	(1)			(21)
Fuel derivatives				(1)		(1)
Forward currency contracts	5	3				8
Fuel derivatives	151	82	50	1		284
At March 31	719	162	(581)	(989)	(1,948)	(2,637)

£ million						Company
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2009
Cash and cash equivalents	219					219
Other current interest-bearing deposits	20	24				44
Trade receivables	517					517
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(461)	(246)	(495)	(757)	(1,811)	(3,770)
Fixed rate borrowings	(25)	(25)	(50)	(137)	(1,058)	(1,295)
Floating rate borrowings	(20)	(36)	(56)	(157)	(125)	(394)
Trade and other payables	(2,961)					(2,961)
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(4)	(7)
Forward currency contracts	(13)	(2)	(3)			(18)
Fuel derivatives	(252)	(204)	(111)	(2)		(569)
Forward currency contracts	31	9	3			43
At March 31	(2,945)	(480)	(713)	(1,055)	(2,998)	(8,191)

31 Financial risk management objectives and policies continued

e Liquidity risk continued

£ million	Company					Total 2008
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
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	(2,776)					(2,776)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	(15)	(5)	(1)			(21)
Fuel derivatives				(1)		(1)
Forward currency contracts	5	3				8
Fuel derivatives	151	82	50	1		284
At March 31	(1,506)	(202)	(592)	(1,025)	(2,590)	(5,915)

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 25 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, 2009 and 2008 were as follows:

£ million (except ratios)	Group	
	2009	2008 Restated
Capital reserves	1,646	3,062
Add minority interests	200	200
Total equity	1,846	3,262
Net debt (a)	2,382	1,310
Total capital (b)	4,228	4,572
Gearing ratio (a)/(b)	56.3	28.7

The increase in the gearing ratio during 2009 resulted primarily from decreased equity due to adverse marked-to-market adjustments on fuel derivatives and foreign currency borrowings, as well as the operating loss reported. The gearing ratio was further impacted by increased borrowings relating to the delivery of nine Airbus A320s and one Boeing 777 aircraft. The carrying value of foreign currency borrowings has increased as a result of the weakening of sterling during 2009.

Notes to the accounts continued

32 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, 2009, are set out below:

£ million	Group		Company	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	402	402	219	219
Other liquid deposits maturing over three months	979	979	43	43
Trade receivables	530	530	517	517
Available-for-sale financial assets	65	65	27	27
Forward currency contracts*	43	43	43	43
Financial liabilities:				
Trade and other payables	1,374	1,374	2,961	2,961
Interest-bearing loans and borrowings:				
Finance lease and hire purchase obligations	2,915	3,030	3,104	3,239
Fixed rate borrowings	442	386	556	490
Floating rate borrowings	406	406	362	362
Cross currency swaps**	7	7	7	7
Forward currency contracts**	18	18	18	18
Fuel derivatives**	569	569	569	569

* Current portion of derivative financial assets is £40 million.

** Current portion of derivative financial liabilities is £471 million.

The 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 3 months	1,181	1,181	399	399
Trade receivables	586	586	574	574
Available-for-sale financial assets	80	80	24	24
Forward currency contracts*	8	8	8	8
Fuel derivatives*	284	284	284	284
Financial liabilities:				
Trade and other payables	1,265	1,265	2,776	2,776
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**	21	21	21	21
Fuel derivatives**	1	1	1	1

* Current portion of derivative financial assets is £241 million.

** Current portion of derivative financial liabilities is £20 million.

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, 2009. 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, 2009.

32 Financial instruments continued

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 £722 million (2008: £569 million) has therefore been included as the fair value above.

Euro-sterling notes and Euro-sterling bond 2016

These are stated at quoted market value.

b Fair values of financial assets and financial liabilities

Forward currency transactions

These are stated at the marked-to-market value of the instruments.

Over-the-counter (OTC) fuel derivatives

These are stated at the marked-to-market value of the instruments.

c Hedges

i Cash flow hedges

At March 31, 2009, 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; and
- 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:

£ million						Group
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2009
Debt repayments to hedge future revenue	30	30	69	178	150	457
Forward contracts to hedge future payments	(10)	(6)	(1)			(17)
Hedges of future fuel purchases	361	178	97	2		638
	381	202	165	180	150	1,078
Related deferred tax charge						(301)
Total amount included within equity						777

Notional value of financial instruments used as cash flow hedging instruments:

million	Group	Company
	Notional amount	Notional amount
To hedge future currency revenues against US dollars	\$118	\$118
To hedge future currency revenues against sterling	£60	£60
To hedge future operating payments in US dollars	\$365	\$365
To hedge future Brazilian real capital payments against US dollars	\$67	\$67
Hedges of future fuel purchases	\$2,612	\$2,612
Debt repayments to hedge future revenue – Euro	€77	€77
– US dollars	\$1,570	\$1,570
– Japanese yen	¥95,358	¥95,358

Notes to the accounts continued

32 Financial instruments continued

c Hedges continued

i Cash flow hedges continued

£ million	Group				
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Debt repayments to hedge future revenue	(1)	(1)		(5)	(10)
Forward contracts to hedge future payments	10	1	1		
Hedges of future fuel purchases	(148)	(94)	(45)	(2)	
	(139)	(94)	(44)	(7)	(10)
Related deferred tax charge					83
Total amount included within equity					(211)

Notional value of financial instruments used as cash flow hedging instruments:

million	Group		Company	
	Notional amount		Notional amount	
To hedge future currency revenues against US dollars	\$143		\$143	
To hedge future currency revenues against sterling	£235		£235	
To hedge future operating payments against US dollars	\$440		\$440	
Hedges of future fuel purchases	\$4,143		\$4,143	
Debt repayments to hedge future revenue – US dollars	\$1,307		\$1,307	
– Japanese yen	¥100,798		¥100,798	

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a loss of £7 million (2008: £12 million gain). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases. In the current year, £5 million of cash flow hedging losses previously recognised in equity were transferred to the income statement, relating to forecast transactions (future revenue) that are no longer expected to occur.

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.

33 Share capital

Ordinary shares of 25 pence each	Group and Company			
	2009		2008	
	Number of shares 000s	£ million	Number of shares 000s	£ million
Authorised				
At April 1 and March 31	1,512,000	378	1,512,000	378
Allotted, called up and fully paid				
At April 1	1,153,105	288	1,151,575	288
Exercise of options under Employee Share Option Schemes	523		1,530	
At March 31	1,153,628	288	1,153,105	288

34 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 report of the Remuneration Committee on pages 67 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 the year ending March 31, 2005, 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 the year ending March 31, 2006, in relation to performance during the year ending March 31, 2005 (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 LTIP have been made since June 16, 2004.

c Performance Share Plan

In 2005 the Group introduced a Performance Share Plan (PSP) for senior executives. Options over shares are 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 100 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years (pages 67 and 68). No payment is due upon exercise of the options. Executives awarded shares under the PSP 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 options summary

e Share options summary	Group and Company								
	Deferred Share Plan		Performance Share Plan		Long Term Incentive Plan		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, 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	
Granted in the year	710	2.74	2,573	2.15					
Exercised during the year**/**	(269)		(454)		(183)		(69)	1.64	
Expired/cancelled	(187)		(1,476)				(2,765)	2.83	
Outstanding at April 1, 2009	1,041		4,539		1,099		14,080	2.74	
Options exercisable:									
At March 31, 2009					1,099		14,080	2.74	
At March 31, 2008	7	4.84			1,282		11,413	2.74	

* Included within this balance are options over 3,875,252 (2008: 5,235,228) 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 Share Option Plan exercised is £2.36 (2008: £4.19).

*** Part of the exercise of share options during the year was met through shares previously held by British Airways Employees Benefits Trust (Jersey) Limited.

Notes to the accounts continued

34 Share options continued

e Share options summary continued

Range of exercise prices 2009 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	2,168	3.88	1.66	2,168	1.66
£2.62 – £3.20	8,830	5.78	2.70	8,830	2.70
£3.21 – £3.94	3,082	1.41	3.61	3,082	3.61
At March 31, 2009	14,080	4.53	2.74	14,080	2.74

Range of exercise prices 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
At March 31, 2008	16,914	5.41	2.75	11,413	2.74

For all outstanding share option schemes as at March 31, 2009, the weighted average remaining contractual life is four years (2008: five years). For options granted during the year the weighted average option life was three years (2008: three years).

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 term and conditions upon which the options were granted. The following table lists the inputs to the models for the PSP options granted in the year:

	2009	2008
Expected share price volatility (per cent)	24	24
Historical volatility (per cent)	35	24
Expected comparator group volatility (per cent)	21-98	19-96
Expected comparator correlation (per cent)	41	28
Expected life of options (years)	3	3
Weighted average share price (£)	1.88	3.82

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 PSP 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:

	2009	2008
Employee costs	1	3

35 Other reserves and minority interests

a Group

	Group				
£ million	Retained earnings	Unrealised gains and losses	Currency translation	Total	Minority interests*
Balance at April 1, 2007	903	99	(2)	1,000	200
Profit for the year attributable to shareholders	680			680	
Exchange differences and other movements			24	24	
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	
Cost of share-based payment	3			3	
Tax effect of share-based payment	(7)			(7)	
Deferred tax – rate change adjustment	6			6	
Share of other movements in reserves of associates	(2)			(2)	
Net fair value adjustment on available-for-sale financial assets		(5)		(5)	
Total income and expense for the year	680	114	24	818	
Balance at March 31, 2008:	1,583	213	22	1,818	200
Adoption of IFRIC 13	(206)			(206)	
Adoption of IFRIC 14	235			235	
At March 31, 2008 (Restated)	1,612	213	22	1,847	200
Loss for the year attributable to shareholders	(375)			(375)	
Exchange differences and other movements			38	38	
Fair value of cash flow hedges transferred to passenger revenue		13		13	
Fair value of cash flow hedges transferred to fuel and oil costs		(78)		(78)	
Fair value of cash flow hedges transferred to currency differences		(46)		(46)	
Net change in fair value of cash flow hedges		(877)		(877)	
Exercise of share options	(2)			(2)	
Cost of share-based payment	1			1	
Share of other movements in reserves of associates	(26)			(26)	
Held-to-maturity investments marked-to-market		(5)		(5)	
Available-for-sale financial assets – gains recycled to the income statement		(4)		(4)	
Net dividends	(56)			(56)	
Total income and expense for the year	(458)	(997)	38	(1,417)	
At March 31, 2009	1,154	(784)	60	430	200

* Minority Interests comprise €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.

Notes to the accounts continued

35 Other reserves and minority interests continued

b Company

£ million	Company		
	Retained earnings	Unrealised gains and losses	Total
Balance at April 1, 2007	591	92	683
Profit for the year attributable to shareholders	540		540
Cost of share-based payment	3		3
Tax effect of share-based payment	(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
Total income and expense for the year	542	119	661
Balance at March 31, 2008:	1,133	211	1,344
Adoption of IFRIC 13	(135)		(135)
Adoption of IFRIC 14	235		235
At April 1, 2008 (Restated)	1,233	211	1,444
Loss for the year attributable to shareholders	(389)		(389)
Cost of share-based payment	(2)		(2)
Deferred tax – rate change adjustment	1		1
Fair value of cash flow hedges transferred to passenger revenue		13	13
Fair value of cash flow hedges transferred to fuel and oil costs		(78)	(78)
Fair value of cash flow hedges transferred to currency differences		(46)	(46)
Net change in fair value of cash flow hedges		(877)	(877)
Net dividends	(56)		(56)
Total income and expense for the year	(446)	(988)	(1,434)
At March 31, 2009	787	(777)	10

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 (LTIP). At March 31, 2009, the Group and Company held 2,134,461 shares for the LTIP and other employee share schemes (2008: 2,087,147 shares). The purchase of shares was financed by the Company granting a loan to British Airways Employee Benefits Trust (Jersey) Limited.

36 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 five per cent in any one year.

In February 2007, following consultation with members and agreement with the Trustees, the Group amended NAPS for future service to restrict future increases in pensionable pay to RPI and increase the normal retirement age to 65. 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. Additionally, guarantees are issued in respect of APS, £230 million and NAPS, £100 million.

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 £2.1 million (2008: £1.9 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 determined employer contribution rates of an average of 34.6 per cent of pensionable pay for APS and 20.7 per cent of pensionable pay for NAPS. For NAPS, the contribution rate to be paid by the employer 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 ended March 31, 2009, were £25 million (2008: £17 million). The Company's contributions to APS and NAPS in the next year as determined by the actuarial review completed in March 2006 are expected to be approximately £320 million.

a Employee benefit schemes recognised on the balance sheet

£ million	Employee benefit obligations		Employee benefit assets	
	2009	2008	2009	2008
Arising under defined benefit pension plans and post-retirement benefits	57	204	340	320
Arising under post-retirement medical benefit plans	123	116		
Total arising under post-retirement benefits	180	320	340	320
Other employee benefit obligations	11	10		
At March 31	191	330	340	320

At March 31, 2009, NAPS was recognised on the balance sheet as an asset. However, due to the level of unrecognised losses it holds, its net position is a liability and therefore on all future tables within this note, it is included as an employee benefit obligation.

Employee benefit assets refer to the Group and Company in all instances. Employee benefit obligations include £9 million (2008: £8 million) relating to British Airways Holidays Limited with the remainder relating to the Company.

Notes to the accounts continued

36 Pension costs continued

b Scheme assets and liabilities

£ million	2009					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value:						
Equities	3,780	122	3,902	898	16	914
Bonds	1,665	76	1,741	4,679	12	4,691
Others	604	5	609	348		348
Fair value of scheme assets	6,049	203	6,252	5,925	28	5,953
Present value of scheme liabilities	7,216	497	7,713	5,065	28	5,093
Net pension (liability)/asset	(1,167)	(294)	(1,461)	860	-	860
Net pension asset/(liability) represented by:						
Net pension asset/(liability) recognised	26	(180)	(154)	304	10	314
Tax effect of APS surplus recognised				135		135
Cumulative actuarial (losses)/gains not recognised	(1,193)	(114)	(1,307)	421	(10)	411
	(1,167)	(294)	(1,461)	860	-	860

£ million	2008 Restated					
	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
Net pension (liability)/asset	(357)	(163)	(520)	1,236	6	1,242
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	(148)	(172)	(320)	312	8	320
Tax effect of APS surplus recognised				126		126
Cumulative actuarial (losses)/gains not recognised	(209)	9	(200)	798	(2)	796
	(357)	(163)	(520)	1,236	6	1,242

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.

36 Pension costs continued

c Amounts recognised in the income statement

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	129	7	136	14		14
Past service cost	3		3	1		1
Recognised in arriving at operating loss	132	7	139	15	–	15
Expected return on scheme assets	(502)	(19)	(521)	(338)	(3)	(341)
Interest costs on scheme liabilities	502	26	528	367	1	368
Amortisation of APS surplus (net of tax)				(17)		(17)
Other finance cost	–	7	7	12	(2)	10

£ 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				19		19
Interest costs on scheme liabilities	425	23	448	318	1	319
Other finance cost	(70)	5	(65)	(4)	(1)	(5)

d Unrecognised cumulative actuarial gains and losses

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Amount of unrecognised actuarial losses at April 1, 2007 (Restated)	(593)	7	(586)			
Actual return on scheme assets	6	(8)	(2)	523	3	526
Less: Expected return on scheme assets	(495)	(18)	(513)	(341)	(2)	(343)
	(489)	(26)	(515)	182	1	183
Other actuarial gains/(losses)	873	28	901	616	(3)	613
Cumulative unrecognised actuarial (losses)/gains at March 31, 2008	(209)	9	(200)	798	(2)	796
Actual return on scheme assets	(1,462)	(6)	(1,468)	(385)	(6)	(391)
Less: Expected return on scheme assets	(502)	(19)	(521)	(338)	(3)	(341)
	(1,964)	(25)	(1,989)	(723)	(9)	(732)
Other actuarial gains/(losses)	980	(98)	882	372	1	373
Amortisation of APS surplus (gross of tax)				(26)		(26)
Cumulative unrecognised actuarial (losses)/gains at March 31, 2009	(1,193)	(114)	(1,307)	421	(10)	411

The actuarial assumptions made for the expected rates of return on assets were derived by considering best estimates for the expected long-term real rates of return from the main asset classes and combining these in proportions for each scheme. These assumed rates of return are net of investment expenses.

Notes to the accounts continued

36 Pension costs continued

e Actuarial assumptions

At March 31

Per cent per annum	2009			2008		
	NAPS	APS*	Other schemes	NAPS	APS*	Other schemes
Inflation	3.0	2.7	2.5-3.0	3.5	3.5	3.0-5.0
Rate of increase in salaries	3.0	2.7	2.8-8.5	3.5	4.0	1.5-5.5
Rate of increase of pensions in payment	2.9	2.7	1.5-10.0	3.4	3.5	1.5-11.0
Discount rate	6.9	7.1	1.9-7.6	6.6	7.0	2.0-6.6
Expected rate of return on scheme assets	7.1	4.7	5.5-8.5	6.9	5.2	4.0-7.6

* Rate of increase in salaries is assumed to be in line with inflation (2008: 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).

Rate of increase in healthcare costs are based on medical trend rates of 10 per cent grading down to 5 per cent over five years (2008: 11 per cent grading down 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 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 £110 million in APS and approximately £140 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 £50 million in APS and £120 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	(3)	2
Effect on defined benefit obligation	(26)	21

f Present value of scheme liabilities

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 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
Current service cost	129	7	136	14		14
Past service cost	3		3	1		1
Interest cost	502	26	528	367	1	368
Benefits paid	(221)	(18)	(239)	(385)	(1)	(386)
Employee contributions	78		78	8		8
Actuarial (gains)/losses	(980)	98	(882)	(372)	(1)	(373)
At March 31, 2009	7,216	497	7,713	5,065	28	5,093

The defined benefit obligation comprises £169 million (2008: £134 million) arising from unfunded plans and £7,544 million (2008: £7,955 million) from plans that are wholly or partly funded.

36 Pension costs continued

g Fair value of scheme assets

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 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
Expected return on plan assets	502	19	521	338	3	341
Employer contributions	306	6	312	19		19
Contributions by employees	78		78	8		8
Benefits paid	(221)	(18)	(239)	(385)	(1)	(386)
Actuarial losses	(1,964)	(25)	(1,989)	(723)	(9)	(732)
At March 31, 2009	6,049	203	6,252	5,925	28	5,953

h 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, 2009						
Fair value of scheme assets	6,049	203	6,252	5,925	28	5,953
Present value of defined benefit obligation	(7,216)	(497)	(7,713)	(5,065)	(28)	(5,093)
(Deficit)/surplus in the scheme	(1,167)	(294)	(1,461)	860		860
Experience adjustments arising on plan liabilities	(980)	98	(882)	(372)	(1)	(373)
Experience adjustments arising on plan assets	(1,964)	(25)	(1,989)	(723)	(9)	(732)
As at March 31, 2008 (Restated)						
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)
(Deficit)/surplus in the scheme	(357)	(163)	(520)	1,236	6	1,242
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

37 Contingent liabilities

There were contingent liabilities at March 31, 2009, 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, 2009, amounted to £185 million (2008: £173 million) and £498 million (2008: £448 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.

38 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	
	2009	2008	2009	2008
Associates:				
Sales to associates	41	43	41	43
Purchases from associates	53	54	53	54
Amounts owed by associates	1	4	1	4
Amounts owed to associates	2		2	
Subsidiaries:				
Sales to subsidiaries			26	36
Purchases from subsidiaries			131	126
Amounts owed by subsidiaries			169	116
Amounts owed to subsidiaries			2,106	1,982

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 £3.8 million in relation to the costs of the Pension Protection Fund levy (2008: £3.6 million).

Associates

a Iberia, Líneas Aéreas de España, S.A. (Iberia)

The Group has a 13.15 per cent investment in Iberia. 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, 2009, the net trading balance owed to Iberia by the Group amounted to £1 million (2008: £3 million owed by Iberia).

b Other associates

The remaining net trading balance of £1 million as at March 31, 2009, was due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited.

38 Related party transactions continued

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, 2009, 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 that 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, 2009, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2008: £nil).

Compensation of key management personnel (including directors):

£ million	Group		Company	
	2009	2008	2009	2008
Short-term employee benefits	4	4	4	4
Share-based payments	1	2	1	2
Termination benefits	1		1	
At March 31	6	6	6	6

39 Foreign currency translation rates

£1 equals	At March 31		Annual average	
	2009	2008	2009	2008
Euro	1.07	1.26	1.21	1.43
US dollar	1.43	1.99	1.75	2.01
Japanese yen	140	197	177	231

Operating and financial statistics

For the five years ended March 31, 2009

Total Group operations (note 1)

		2009	2008*	2007	2006**	2005***
Traffic and capacity						
Revenue passenger km (RPK)	m	114,346	118,395	112,851	109,713	107,892
Available seat km (ASK)	m	148,504	149,576	148,321	144,194	144,189
Passenger load factor	%	77.0	79.1	76.1	76.1	74.8
Cargo tonne km (CTK)	m	4,638	4,892	4,695	4,929	4,954
Total revenue tonne km (RTK)	m	16,054	16,797	16,112	15,909	15,731
Total available tonne km (ATK)	m	22,293	22,872	22,882	22,719	22,565
Overall load factor	%	72.0	73.4	70.4	70.0	69.7
Passengers carried	'000	33,117	34,613	33,068	32,432	35,717
Tonnes of cargo carried	'000	777	805	762	795	877
Revenue aircraft km	m	644	644	637	614	661
Revenue flights	'000	279	281	276	280	378
Operations						
Average manpower equivalent (MPE)		41,473	41,745	42,683	43,814	47,472
RTKs per MPE		387.1	402.4	377.5	363.1	331.4
ATKs per MPE		537.5	547.9	536.1	518.5	475.3
Aircraft in service at year end		245	245	242	284	290
Aircraft utilisation (average hours per aircraft per day)		10.68	10.91	10.82	10.29	9.83
Unduplicated route km	'000	621	629	589	574	623
Punctuality – within 15 minutes	%	77	63	67	75	76
Regularity	%	98.6	98.2	98.5	98.8	98.8
Financial						
Passenger revenue per RPK	p	6.85	6.42	6.44	6.31	6.02
Passenger revenue per ASK	p	5.28	5.08	4.90	4.80	4.51
Cargo revenue per CTK	p	14.51	12.57	12.74	12.94	9.73
Average fuel price before hedging (US cents/US gallon)		284.06	245.26	209.60	188.22	136.44
Interest cover (note 2)	times	(3.6)	15.4	16.7	6.0	3.8
Dividend cover	times	(5.2)	n/a	n/a	n/a	n/a
Operating margin (note 3)	%	(2.4)	10.0	7.1	8.5	7.2
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	645	1,780	1,549	1,666	1,552
Net debt/total capital ratio (note 4)	%	56.3	28.7	29.1	44.2	67.7
Net debt/total capital ratio including operating leases	%	62.8	38.2	39.6	53.0	72.4
Total traffic revenue per RTK	p	53.00	48.91	48.79	47.53	44.4
Total traffic revenue per ATK	p	38.17	35.92	34.35	33.28	30.94
Total operating expenditure per RTK (note 5)	p	57.38	46.91	49.26	47.26	40.85
Total operating expenditure per ATK (note 5)	p	41.32	34.45	34.68	33.10	28.48

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

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

*** Restated for the adoption of IFRS.

n/a = not applicable

Notes:

- Operating statistics do not include those of associate undertakings and franchisees.
- Interest cover is defined as the number of times (loss)/profit 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	
	2009	2008*
(Loss)/profit before tax	(401)	922
Net interest payable (a)	(87)	(64)
(Loss)/profit adjusted for interest payable (b)	(3.14)	986
Interest cover (b)/(a)	(3.6)	15.4

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

- Operating margin is defined as operating (loss)/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 25 to the financial statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests, and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. Similarly, net debt adjusted to include obligations under operating leases is not a financial measure under IFRS. However, management believes these measures are useful to investors when analysing the extent to which the Group is funded by debt rather than by shareholders' funds. The following table shows a reconciliation of total capital to total shareholders' funds and the net debt/capital ratio for each of the two most recent financial years:

£ million (except ratios)	Year ended March 31	
	2009	2008*
Capital and reserves	1,646	3,062
Add minority interests	200	200
Total shareholders' equity	1,846	3,262
Net debt (a)	2,382	1,310
Total capital (b)	4,228	4,572
Net debt/total capital percentage (a)/(b)	56.3	28.7

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

- 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, namely 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	
	2009	2008*
Total expenditure on operations	9,212	7,880
RTKs	16,054	16,797
ATKs	22,293	22,872
Total expenditure on operations per RTK (p)	57.38	46.91
Total expenditure on operations per ATK (p)	41.32	34.45

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

Principal investments

At March 31, 2009

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 Limited (from April 1, 2009, The Mileage Company Limited)	Airline marketing	England
BA & AA Holdings Limited	Holding Company	England
BA Cash Management Limited Partnership	Investment	England
BA Cityflyer Limited (referred to as CityFlyer)	Airline operations	England
BA European Limited (trading as OpenSkies)	Airline operations	England
BritAir Holdings Limited	Holding Company	England
British Airways 777 Leasing Limited	Aircraft financing	England
British Airways Avionic Engineering Limited	Aircraft maintenance	England
British Airways Holdings Limited	Airline finance	Jersey
British Airways Holidays Limited	Package holidays	England
British Airways Interior Engineering Limited	Aircraft maintenance	England
British Airways Leasing Limited	Aircraft financing	England
British Airways Maintenance Cardiff Limited	Aircraft maintenance	England
Speedbird Cash Management Limited	Investment	Bermuda
Speedbird Insurance Company Limited	Insurance	Bermuda
The Plimsoll Line Limited	Holding Company	England

Investments in associates

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Iberia, Líneas 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
Comair Limited*	10.9	Airline operations	South Africa
Flybe Group Limited*	15.0	Airline operations	England
The Airline Group Limited	16.7	Air traffic control holding company	England

* Not owned directly by British Airways Plc.

Shareholder information

General Information

Financial calendar

Financial year end	March 31, 2009
Annual general meeting	July 14, 2009

Announcement of 2009/10 results

Three-month results to June 30, 2009	July 31, 2009
Six-month results to September 30, 2009	November 6, 2009
Nine-month results to December 31, 2009	February 5, 2010
Preliminary announcement	May 21, 2010
Report and Accounts	June 2010

Registered Office

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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 which 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, CityFlyer, Flyline Tele Sales & Services GmbH and OpenSkies.
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.
Passenger load factor	RPK expressed as a percentage of ASK.
Overall load factor	RTK expressed as a percentage of ATK.
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.
Shortlanded baggage performance	Ratio of number of mislaid or misdirected bags to every 1,000 passengers flown.
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction.
Interest cover	The number of times (loss)/profit before taxation and net interest expense and interest income covers the net interest expense and interest income.
Dividend cover	The number of times (loss)/profit for the year covers the dividends paid and proposed.
Operating margin	Operating (loss)/profit 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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www.bashares.com

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www.bashareholders.com