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PERMANENT STRUCTURAL CHANGE BRINGING SUSTAINABLE RESULTS...

BRITISH AIRWAYS

2009/10 Annual Report and Accounts

Who we are

British Airways is the UK's largest international scheduled airline. We fly our customers at convenient times to the best located airports across the world.

We are one of the world's leading global premium airlines. Our principal place of business is London with significant presence at Heathrow, Gatwick and London City. Some 20 million people live within commuting distance of these airports, on the doorstep of the City of London, the world's biggest premium travel market. 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 2009/10, we carried nearly 32 million passengers.

We support the UK economy by providing vital arteries for trade and investment, meeting the demand for business travel and leisure travel for holidays and family reunion In 2009/10, we earned £8 billion in revenue, down 11 per cent on the previous year. Passenger traffic accounted for 87 per cent of this revenue, while 7 per cent came from cargo and 6 per cent from other activities. We carried 760,000 tonnes of cargo to destinations in Europe, the Americas and throughout the world. At the end of March 2010 we had 238 aircraft in service.

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The Directors present their Report and Accounts for the year ended 31 March 2010 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 (DTRs) of the UK Listing Authority and the corporate governance statements The financial statements are set out on pages 68 to 127

British Airways at a glance...

Americas: 41 • UK: 9 • Europe: 67 • Africa: 16

Principal activities statement

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 (summer 2010) is illustrated above.

These maps are a graphic representation only Please visit www ba com for a full list of where we fly to one of the world's leading global premium airlines

Middle East and South Asia: 15 • Asia Pacific: 7

19 Boeing 737s	**2** Airbus A318s	**2** Avro RJ85s	**7** Embraer – E-jets
49 Boeing 747s	**33** Airbus A319s	**1** Avro RJ100s	
9 Boeing 757s	**38** Airbus A320s		
21 Boeing 767s	**11** Airbus A321s		
46 Boeing 777s			

Fleet in service as at 31 March 2010

Financial and operational highlights

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

£7,994m

Revenue
Group Revenue for 2009/10 was £7,994 million, compared with £8,992 million in the previous year

£531m

Loss before tax
Group loss before tax for 2009/10 was £531 million, compared with a loss before tax of £401 million in the previous year

£231m

Operating loss
Group operating loss for 2009/10 was £231 million, compared with a loss of £220 million in the previous year

38.5p

Basic loss per share
Group loss per share for 2009/10 was 38 5 pence, compared with loss per share of 32 6 pence in the previous year

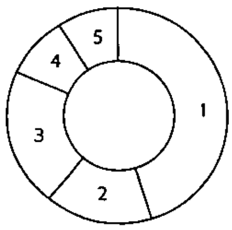
59%

Ready to Go
Network-wide Ready to Go performance of 59 per cent, compared with 53 per cent in the previous year

24.2 bags

Shortlanded baggage performance
Shortlanded baggage at Heathrow for 2009/10 was 24 2 bags per 1,000 passengers, compared to 28 0 in the previous year

Geographical segments by area of original sale



2009/10
£ million

1 UK	3 636
2 Continental Europe	1,255
3 The Americas	1,651
4 Africa Middle East, and Indian sub-continent	731
5 Far East and Australasia	721

Chairman's statement

QUICK TO REACT AND READY TO GO WITH THE UPTURN

At the start of the year we faced a series of daunting challenges on top of the most severe global downturn for more than 60 years We've made swift and significant progress in overcoming those challenges. As recovery picks up, we are now far better placed to grow and to achieve our long-term goal of returning British Airways into a profitable global premium airline

Chairman's statement

The economic conditions that prevailed throughout 2009/10 were the most severe we have ever encountered. As a result of the worst recession for 60 years, our industry has faced a series of permanent structural changes that have drastically reduced our revenues in the short term and have permanently changed the economics of running a premium airline.

Loss before tax, £531 million for the year

Revenue down £1 billion

These problems are in themselves formidable But, in addition, British Airways faced a list of daunting challenges of its own These included the need to

- Raise finance at a time of continuing crisis in the debt markets,
- Radically reduce our historic cost base,
- Change working practices,
- Complete our planned merger with Iberia,
- Win an acceptable anti-trust agreement to cooperate with American Airlines and Iberia on North Atlantic routes, and
- Tackle our £3 7 billion pensions deficit successfully

Twelve months on, we can feel satisfied that on every one of these issues, we have either tackled or made significant progress in overcoming the challenges we faced

Permanent change

We entered the recession financially strong and with our fleet replacement plans fully financed to 2013 In August 2009, we successfully raised £350 million through a convertible bond issue, providing us with the finance to keep investing in our business and maintain our focus on excellent service as the recession runs its course

Over the year we reduced our unit costs by 6 5 per cent Our fuel bill fell by nearly £600 million, accounting for a large element of this decrease Unit costs excluding fuel also fell by 1 8 per cent This was truly a remarkable achievement It is hard enough to cut costs when capacity is rising, to do so when capacity is in sharp decline is very difficult indeed Our cost base is now far more competitive, meaning we are well placed to achieve more profitable growth in the future

We successfully carried the majority of our workforce with us in making changes to working practices, including our pilots and engineers A number of staff have left the Company on voluntary terms

We have succeeded in introducing permanent cost reductions across the airline, including reductions in crew complements Regrettably, these changes were met by unjustified strike action by Unite's cabin crew branch BASSA misrepresented the Company's position to its members, failed to represent the views of the majority of cabin crew and has been intent on a confrontation with the airline The vast majority of our employees recognise the need for permanent change and have shown great commitment to British Airways during this difficult year

Our relationship with Iberia is very strong and we have now signed a merger agreement that we know will bring real benefits to our respective customers and shareholders and protect the brands of the two airlines If remaining technicalities are successfully dealt with, as we fully expect, the merger should be concluded by the end of 2010

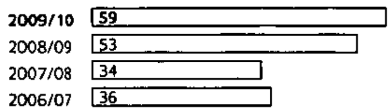
Similarly, all the signs are that we can win anti-trust immunity from the US Department of Transportation along with regulatory approval from the EU competition authorities, to operate a joint business with American Airlines and Iberia over the North Atlantic When in place we will be able to operate on equal terms with Skyteam and Star Alliance that already enjoy immunity Our agreement will mean more competition not less, and greater choice for travellers on these busy routes

Finally, we are progressing with negotiations to agree a way to fund our £3 7 billion pension deficits that satisfies the Trustees and meets our requirement that we will not have to increase our contribution to the schemes in the short term Whilst the valuation has been agreed with the Trustees, it is currently under review by the Pensions Regulator If we can keep the schemes open for existing members it will be a significant

Consolidation will be a growing theme for our industry for the foreseeable future and we are pleased with our own progress in building new partnerships and alliances

overview

Ready To Go
network punctuality %



achievement – and one that has eluded many other businesses in recent years

I hope you can see how huge an agenda of change we have tackled In that sense, 2009/10 was a year of great achievement.

Financial results
Our progress is all the more remarkable at a time when all our principal business customers changed their travel policies at the same time, turning their back on premium shorthaul travel and reducing our revenues by £1 billion

Against that backdrop, we recorded another year of heavy losses in our business We recorded our biggest ever half year loss of £292 million Early and far-reaching action on costs began to show through in the second half of the year and we were even able to post a small operating profit in the third quarter For the year as a whole our pre-tax losses stood at £531 million compared with a loss of £401 million in the preceding year

We cannot afford to lose sight of the scale of our losses in the last two years, even though they came on the back of record profits in 2007/08 Our business simply will not survive long term unless we stop losing money on this scale

Dividends and executive pay
The programme of change we are pursuing in the business is all about making sure we have the resources to deliver outstanding service to our customers, secure and rewarding employment to our staff and strong returns to our shareholders

Given the state of our market we have frozen pay across the airline for two years We have once again decided it would be inappropriate to pay a dividend or executive or staff cash bonuses

Customer focus
Our primary focus must remain on our customers no matter how severe the economic conditions we face The customer is at the very heart of our plans to build an efficient global premium airline and to achieve lasting and sustainable profitability for this business

During the year, we continued to outperform in our punctuality scores, not just at Terminal 5, but across the network Maintaining that record has involved some magnificent work by people right across the business and we take immense pride in their achievements Our customer service scores remain strong despite significant operational disruption

An industry in transition
Consolidation will be a growing theme for our industry for the foreseeable future and we are pleased with our own progress in building new partnerships and alliances

But progress on liberalising the global industry remains painfully slow, nowhere more so than in the recent protracted Open Skies negotiations between the US and Europe

We had hoped that the conclusion of the EU-US second stage negotiations would have resulted in the immediate removal of US restrictions on ownership and control and the protectionist 'Fly America' policy

Unfortunately, instead of the ambitious agreement that had been promised by both sides that would have acted as a template for further global liberalisation across other trading blocs, we have ended up with an agreement that fails to deliver a truly open market for aviation This represents a missed opportunity to create a healthier and more efficient industry for the future

Indeed, the only hope for progress may lie in moving the issue to a more powerful arena such as the Trans Atlantic Economic Council where Europe could offer wider trade concessions, in sectors such as agriculture, in return for progress on air transport.

Chairman's statement continued

I am convinced that the work we have done over the last 18 months to restructure our cost base and the progress we have made on the challenges we faced at the start of 2009/10, mean we are a far more resilient business today

Unit costs down 6.5 per cent

These restrictive ownership and control requirements that prevent cross-border airline mergers, need to be consigned to the history books – and fast Only then will we see the true benefits that 'normalisation' of the industry can achieve – as is already the case with other sectors of the global economy

Climate change

As a company we have led the way in searching for real and radical ways to tackle climate change Not only have we set ourselves industry-leading targets to cut our own emissions, we are also strong advocates of carbon trading and believe aviation should be part of a global emissions trading scheme

The Climate Change Summit in Copenhagen in December presented the industry with an ideal opportunity to come together and make this a reality For many reasons the outcome from the summit was disappointing not least as no reference was made to the airline industry However, it is clear the governments of the world recognise the airline industry is taking a responsible position and is indeed ahead of its regulators in wanting to tackle climate change The industry continues to work closely together to develop and promote its position It's now down to the regulators and Governments to show commitment to the industry and to allow us to play our full part in contributing to the global reduction in greenhouse gas emissions

Economic outlook

The worst of the recession seems to be over Unemployment in the UK, for example, seems to have peaked and at lower levels than had been feared In our own business, February saw us record the first increase in premium traffic since August 2008

But recovery is precarious and it would be foolish to assume we are out of the woods yet The new UK Government will be forced to make some very unpopular decisions in the weeks and months ahead

Tackling the deficit remains the biggest priority The new coalition Government plans to make immediate cuts in the deficit, we believe this threatens real dangers, not least that increased taxes and hasty spending cuts could throttle consumer confidence and trigger a double dip recession

It is vital that the UK develops a credible, measured plan to reduce the deficit, spelling out the reductions that are needed and the timescale in which they will be achieved With election grandstanding now out of the way, this must be a priority for the new administration

A tremendous effort

It's been an immensely difficult year for my colleagues across the business and I want to thank them for the tremendous work they have done The spirit they've shown in supporting the business through one of its most difficult periods has been unbelievable It's involved a lot of hard work and considerable personal sacrifices

Our prospects

Our own recovery depends very much on how fast the general economy returns to growth We remain cautious on that We expect the climb out of recession to be a relatively slow one

However, I am convinced that the work we have done over the last 18 months to restructure our cost base and the progress we have made on the challenges we faced at the start of 2009/10, mean we are a far more resilient business today

That means we can be confident about surviving through further economic uncertainty

More importantly, it means we will be in a position to achieve higher levels of sustainable profitability when conditions improve That is very good news for our customers, our staff and our shareholders

Martin Broughton Chairman

Chief Executive's statement

CONSOLIDATION IN THE MARKETPLACE

The airline industry is consolidating at an accelerating pace We are determined to be a leader in the restructuring of our industry Our proposed merger with Iberia, and our planned joint business with American Airlines and Iberia are examples of how we are shaping our own destiny in a new era for international commercial aviation These deals are not about getting bigger They are about getting better, for the benefit of our customers

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Chief Executive's statement
WILLIE WALSH

Chief Executive Officer (CEO), Willie Walsh, answers some of the questions most frequently asked by shareholders about our performance in 2009/10. He explains why we need radical change to create a secure and sustainable future for our business and why consolidation is so high on our agenda.

Q

The economic downturn presented you with significant challenges to overcome and meant you obviously needed to cut costs What actions did British Airways take?

A

The airline industry is facing three powerful challenges The first is recession What we have been living through in the last two years is the deepest downturn this industry has ever faced The International Air Transport Association (IATA) is forecasting revenues for the industry as a whole will fall by 15 per cent or $85 billion in 2009 and it expects total losses to amount to $9 4 billion Our own revenues have declined by 11 per cent or £1 billion and we have recorded losses for the second year running

Traditionally, airlines have been quite good at cutting costs to counteract economic recession But they tend to lose discipline when markets improve That's why our industry has lived through repeated cycles of boom and bust In fact, in the last decade, airlines have enjoyed only two years of profitability This in itself is not sustainable for a business like British Airways and we must change if we are to achieve the sort of returns our shareholders deserve

The industry is now facing structural as well as cyclical change and this has increased the jeopardy we face

The oil price has risen from an average of $48 to $83 a barrel The fact that it's done that during a recession tells you one thing and one thing alone – high oil prices are now a fact of life

Secondly, we've seen what we think is a permanent shift in business travel, with corporations now no longer willing to pay premium prices for their staff to make short trips of under three hours

Thirdly, access to financing – readily and cheaply available two years ago – has got much tighter in the wake of the banking crisis We think it will stay that way for some time to come

This adds up to the deepest crisis our industry has ever faced We saw no option but to take swift action to counteract the downturn and to make long-term structural changes to match the permanent structural changes imposed on us Our approach will not just equip us to deal with cyclical economic changes but will give us a more efficient base from which to achieve much higher levels of profitability when conditions improve

Q

You were very quick to call the downturn and to begin your cost drive Some believe you were over pessimistic? Have you been over zealous?

A

We did call the recession before most people And yes some people accused us of over-egging the pudding and, even, of talking down British Airways The truth is we called it exactly as we saw it.

We began our cost drive in October 2008 with our decision to reduce our management staff by a third Some people thought we were mad to move so fast and so far But history has taught us that, because of our reliance on premium traffic, we would be among the first to feel the effect of recession and that we'd feel it very hard We had to move quickly with our plans – making savings, raising over £700 million of new finance last summer, including £350 million through the convertible bond and $540 million (approximately £330 million) of bank guarantees released back to us from our pension Trustees – and matching our capacity to rapidly declining demand to make sure we survived

It's clear that we made the right judgement. I'm proud that we have demonstrated that we can face up to a crisis But the fact that we've done it in a way that will bring long-term, permanent benefits to the business, is the real satisfaction

Q

Yet the results are still pretty bleak aren't they?

A

Yes they are, despite a positive trend in the second half of the year As Keith explains in the next chapter, these results are so much better than they would have been if we had just sat back and tried to ride the economic storm It's a hard message to get across to investors when for the second year running you are not able to pay a dividend, but our reduction in unit costs this year has actually been outstanding

Achieving these results has been down to some fantastic work by people across the airline who have worked very hard and in much smarter ways They've also made personal sacrifices – with nearly 7,000 applying to work part-time, take unpaid leave, or work without pay It's been a really fantastic effort.

Q

You talk about British Airways making a cost driven recovery What does this mean?

A

In the short term and with our revenues in such sharp decline, we've relied on the deep cuts we've made in our costs with savings of some £390 million, and a £597 million reduction in our fuel bill, to begin to turn round our performance

You saw our underlying profitability improve in the third and fourth quarter because we moved extremely quickly to take cost out of the business – far faster in fact than most commentators thought possible This is the first phase of our recovery and it has been down to costs

But this is not just about one-off, emergency cost reductions The changes we have made are long term They are about improving the underlying efficiency of the business on a permanent basis When our revenues recover – and they will – we will be in a position to access growth in a much more profitable way and that makes us very well placed for recovery

Q

There must be a limit to the cuts you can make without hurting customer service Have you reached that limit?

A

The search for further efficiency has to continue and it will Of course, it becomes harder as time goes on But we are trying to instil a discipline into this business and it is all about looking for and building on our efficiency gains continuously, in good times as well as bad We need to keep examining all the costs we control and asking if it is a cost that is genuinely bringing value to our customers?

Chief Executive's statement continued

When you look at cutting cost in this way it is a positive thing, because it is all about eliminating waste

It's not about cutting service We have to keep delivering outstanding service at the same time to meet our customers' rising expectations Efficiency and outstanding service are the two main foundations of the global premium airline we are trying to build

Q

So operationally, service remains a real focus for you?

A

Absolutely and I'm delighted that our punctuality performance scores continued to rise throughout the year and our customer service scores remained robust, despite the severe challenges we faced Terminal 5 is playing a big role in that. It's allowing us to provide customers with a completely new level of service in a highly efficient way Those important gains have fed through elsewhere at Heathrow, Gatwick and across the entire network

We've also continued with important strategic investments in our fleet. The £100 million programme to modernise our **First** cabin is now under way and feedback is excellent Customers like the fact that we have given them what they wanted most – a more comfortable bed, more space, greater privacy and understated British style, rather than gadgets and gimmicks

Our longhaul fleet replacement programme is fully financed up to 2013 The new Boeing 787 and Airbus A380 aircraft joining our fleet from 2012/13 will give us the scope to improve the in-flight experience for all our customers as well as offering important environmental benefits On the ground we continue to invest in our terminals and lounges, drawing on the many lessons we have learnt at Terminal 5, which is a fantastic asset

And we are continuing to come up with new ideas It was a brave decision to launch a premium-only direct service from London City to New York in current market conditions But this is a real piece of innovation, offering customers incredible comfort and convenience, and truly is one of the most exciting ventures we have done Introduced in September, it's been one of those quiet successes Seat factors in the first three months averaged 70 per cent, hit 74 per cent in December, and 60 per cent for the six months to the end of March Customers are urging us to expand We may well add new destinations when the time is right

At the beginning of the year we launched our BAcking Britain campaign to help British businesses beat the recession Working with the UK Trade and Investment and British American Business, we offered £15 million of free flights to stimulate business travel and economic recovery Across the North Atlantic, the Harvard Business Review found that face-to-face meetings are key to building long-term relationships So, we created a Business Opportunities Grant which hundreds of US businessmen have benefited from to kick-start business

We have also focused on a new premium leisure strategy and launched five new routes during the year, including Punta Cana in the Dominican Republic, the Maldives and Las Vegas, which has been a star performing route We increased capacity to the Caribbean by 40 per cent and are now the biggest operator in the region

In its first year of operation our OpenSkies subsidiary serving New York from Paris has also proved successful, for example establishing a 28 per cent share of the Paris/New York market and achieving good load factors and strengthening passenger yields Services from Amsterdam to New York proved less successful and were ended during the year, but, given its otherwise robust performance, we've decided OpenSkies should remain a wholly-owned part of our business A new service from Paris to Washington was launched on 3 May 2010

Q

How do your plans for a merger with Iberia and to run a joint business with American Airlines and Iberia on North Atlantic routes fit with the strategy of permanent structural change?

A

Our planned merger with Iberia is a good deal both for customers and for the long-term sustainability of the business By bringing together two complementary networks – one strongest on the North Atlantic and Asia, the other strongest in Latin America – we will be better placed to cover the globe from our respective hubs in London and Madrid That means far greater choice and convenience for our customers Together we believe we can also realise some €400 million in synergies from the fifth year

We believe our approach leaves the door open for extending the venture in future Bringing the two airlines together is not the end game It's the beginning of what we hope will be an exciting journey on the road to further consolidation

We've waited a long time to win approval to operate a joint business across the North Atlantic with American Airlines and Iberia We've had to be patient because we believe the synergies we can realise by pooling our resources on this highly competitive route will be good for customers, shareholders and the industry overview

1 In September, we launched our innovative all-business-class service from London City to New York This was an instant success with customers

2 Terminal 5 allows us to provide customers with a completely new level of service in a highly efficient way Self-service check-in at Terminal 5 enhances the customer experience

Q

What happens to the British Airways brand if you merge with Iberia?

A

We've structured the deal carefully to protect both the British Airways and Iberia brands Both are very strong and have a particular resonance in the market We saw our own brand rise up the Superbrands league last year from 30th to fourth place That tells you how valuable our brand now is and we would be foolish to put that value at risk

That's why we've concentrated in our merger plans, on building one over-arching economic entity known as International Airlines Group, sitting above two operating companies with their own distinct brands remaining in place, just as they are today

A simple analogy for what we are proposing can be found in the hotel industry Take the InterContinental Hotels Group (IHG), for example IHG owns brands as diverse as Holiday Inn, Crown Plaza and InterContinental People know exactly what to expect from each of these distinct brands They know they are not the same hotels, yet they are owned, managed and operated by the same company

You'll see us take a similar path in our merger with Iberia and stay on that path if, at a later stage, we look to bring other brands into the venture As the pace of consolidation picks up in the industry, we will need to become increasingly expert at the business of managing brands across the globe

Q

What is the latest position on the alleged price fixing between British Airways and Virgin Atlantic?

A

In 2007, the Office of Fair Trading (OFT) had agreed that it would be prepared to resolve its investigations into alleged price fixing between British Airways and Virgin Atlantic under the Competition Act 1998 if certain conditions were met. Given the collapse of the criminal trial on 10 May 2010, the aquittal of the four defendants and in light of potential new evidence, we are considering whether the settlement offer made by the OFT, including the as yet unpaid fine of £121 5 million, remain appropriate

Q

The dispute with the Unite union over changes you have made to cabin crew working practices caused huge disruption for your customers Why is it so hard to find a resolution?

A

Firstly, we regret the disruption and uncertainty this dispute has caused to our customers We did everything in our power to negotiate a settlement with Unite over the course of a year Three times we successfully argued our case through the courts, first to stop a planned 12 day strike over Christmas and when our decision to introduce changes to cabin crew work arrangements in November was challenged

When strikes were eventually called in March we drew up very thorough contingency plans For the seven days of strikes, the airline operated 79 per cent of longhaul flights and 58 per cent shorthaul Though some customers were understandably unhappy to face unnecessary disruption, many let me know that they understood our position and many urged us to see our planned changes through

Secondly, I regret that we found ourselves at loggerheads with very valued members of staff at a critical time When we have had the chance to explain our proposals directly, many

Chief Executive's statement continued

understand what our agenda is really about to secure jobs in the airline and put the business on a footing where it can achieve the growth it needs to survive long term They understand that, without change, British Airways will just shrink and shrink and shrink Because of the legacy structures we have in this business, we are increasingly unable to serve some popular destinations in our network, such as Sydney, profitably We need profitable growth to make this business sustainable

Q

Some observers believe both sides were set on confrontation over this issue Is that fair?

A

I genuinely believe it is unfair to say we looked for confrontation We negotiated these changes over the course of a year and tried repeatedly to answer concerns raised by our staff

There are very few, if any, FTSE CEOs who have spent as much time at the Trades Union Congress (TUC) I would not do that if I did not believe we could find a solution

Our position is clear We've done some excellent work with the unions over the years and we're happy to work with them But we can't let them stand in the way of the progress that's needed to make our airline's future more secure

Q

You saw no merit in Unite's own cost saving proposals?

A

Their proposals – which included a substantial pay cut for our crews – would not have resulted in the savings they were claiming The numbers didn't add up In fact, their plans would have sought pay cuts from Gatwick crew – who already work with reduced crew numbers – to pay for extra crew at Heathrow That is wrong Our own proposals – which involve no reduction in pay for existing staff and no compulsory redundancies – would save £62 5 million a year They are fully and carefully costed

They do mean that people will have to work harder But we know just how hard people are prepared to work to secure our future – they've shown it in every part of the business, in the air and on the ground, in the current downturn

This is the true culture and spirit of British Airways We want to make sure we use that spirit externally not internally – to compete against other airlines rather than amongst ourselves

Q

Have the difficulties of the last year forced you to rethink your commitments on corporate responsibility (CR)?

A

Our commitment on these issues is all part of our long-term strategy to create a sustainable global business, as I hope this report and our separate CR report demonstrate But the real test is in what we are doing, not just what we are saying

This year our main priority has been managing change and making sure wherever possible we support our staff through that change We've had to push through a very big redundancy programme – achieved entirely on a voluntary basis By and large I think we have communicated the need for change well and responsibly and the majority of our staff have supported us in unbelievable ways Of course, the dispute with Unite shows that we still have lessons to learn

Q

And on the environment?

A

As Martin has made clear in his introductory remarks, we have continued to argue for an effective global emissions trading scheme that includes our industry We have established an industry lead in emissions trading by taking part in the UK scheme and we know that it works We are also pushing our industry to adopt a coherent set of carbon reduction targets, not least a commitment to halve (2005) carbon emissions by 2050 – a target we set ourselves in 2008

We're ready to invest in new ways to meet our targets That's why we are so excited about our venture with the US Energy group, Solena, to turn London's rubbish into bio-kerosene at a new plant in East London, set to go on stream in 2014

The process sounds like alchemy but in fact uses existing technology that is being combined for the first time The projections are that this more environmentally friendly 'drop in fuel' which we can use without modifying our aircraft and engines, will be certified for use in an unblended form by the time it is produced in 2014 We have committed to buying the complete output of the plant, which, once at full tilt, will produce enough fuel to power more than twice our entire London City operation

We're delighted the project will also create 1,000 jobs during construction and 200 permanent posts at the new plant

Q

So is the business well set for the future?

A

We think our market will recover, but recovery is likely to be gradual The important thing is that we are ready for it

We've genuinely changed the cost base of our business in a structural way It's not perfect yet and there's more to do I'm delighted we've been able to do that important work while maintaining a strong operational performance and delivering outstanding customer service

The fact that we've done that should give all our stakeholders confidence that we can continue to do so in the future

Willie Walsh Chief Executive

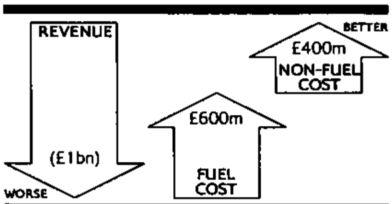
Chief Financial Officer's statement

A COST DRIVEN RECOVERY LEADING TO LONG-TERM PROFITABLE GROWTH

With the recession and structural market change leading to a sharp decline in our revenues, we have responded quickly by making significant and permanent reductions in our cost base We have gone further and faster than predicted So far our recovery has been cost driven, but crucially, we now have a more efficient base from which to achieve higher levels of profitability in the future

Chief Financial Officer's statement

The financial performance of our business is linked to the general strength of the economies in the UK and across the world. We have had to cope with the deepest downturn in the global economy in 60 years.



	2009/10 £m	2008/09 £m
Basic operating result	**(146)**	*(142)*
Restructuring	**(85)**	*(78)*
Operating result	**(231)**	*(220)*

With the recession and structural market change leading to a sharp decline in our revenues, we have responded quickly by making significant and permanent reductions in our cost base We have gone further and faster than predicted The result is that although still loss making, we have been able to stabilise the financial performance of the Company and have been able to beat most analyst expectations for the business

So far, our recovery has been cost driven, but crucially, we now have a more efficient base from which to bring the business back to profitability as the economic recovery gathers pace

The impact of the recession is being compounded by important structural changes to our business The first is the impact of high oil prices which have increased our fuel cost to the point of being our single largest cost and, secondly, changes in shorthaul business travel have had some impact on our revenues

The impact of the recession has been to reduce our revenue by 11 1 per cent to £7,994 million

We anticipated the sharp decline in revenue and adapted our costs accordingly As a consequence, we reported an operating loss which was almost flat year on year – a loss of £231 million including £85 million for restructuring the business

As a result of increased interest and pension costs, our pre-tax loss increased from £401 million to £531 million

Revenue decline

Passenger revenue for the year was down by £856 million, a decline of 10 9 per cent. The first half of the year saw the most dramatic decline in revenue, as premium revenues were affected by the sudden and severe drop in demand as a result of the changing economic outlook Revenue started to recover in the second half of the year, as capacity was better matched to demand and yields started to recover

We were quick to manage capacity to this greatly reduced demand, cutting overall flying by 4 9 per cent.

In responding to the extent of the downturn, particularly in the UK, we were quick to take advantage of the stronger euro to offer more seats for sale in european markets than was previously the case for this typically lower yielding traffic As a result, our transfer volumes grew in the first half of the year, and then eased off again as the point-to-point business started to recover This contributed to the strong seat factors reported all year

Seat load factor – the percentage of seats actually filled – rose by 1 5 points, to 78 5 per cent. This compares very well with some of our main competitors who have reported significant declines in load factors

Geographically, we saw the steepest decline in traffic on our asian routes, while on the North Atlantic, a major part of our business, traffic held up remarkably well and showed promising signs of improvement towards the end of the year, which bodes well for our recovery

Our cargo business, like our passenger business, experienced a sharp decline in the first half of the year but began to recover quite strongly as the year closed

Global freight markets were impacted materially by the economic downturn, reaching a low point in early 2009, more than 20 per cent lower than the previous year British Airways World Cargo (BAWC) volumes, measured in cargo tonne kilometres (CTKs), were down 8 1 per cent for the first half of the year Since November 2009, both the market and British Airways have

Returning our business to profitability requires permanent structural change in our cost base So far our recovery has been cost driven, but crucially, we now have a more efficient base from which to achieve higher levels of profitability in the future as economic improvement continues

Total revenue £ million

2009/10	**7,994**
2008/09	8,992
2007/08*	8,758
2006/07	8,492
2005/06	8,213

*Restated for the adoption of IFRIC 13 & 14

Fuel costs £ million

2009/10	**2,372**
2008/09	2,969
2007/08	2,055
2006/07	1,931
2005/06	1,581

seen a return to positive year on year growth, with overall volumes for the year down only 2 2 per cent against capacity, down 4 6 per cent

Market reductions in capacity lagged and were lower than the demand reduction, impacting market yields by more than 20 per cent Our cargo yield (revenue per CTK) averaged 16 5 per cent lower than the previous year, including the impact of lower fuel surcharges

The overall load factor for the year was 73 3 per cent, up 1 3 points on last year

Creating a competitive cost base

I want to be very clear about the action we have taken on costs during the year and assure you that we are very serious about identifying further efficiencies We remain completely focused on creating a competitive cost base that will underpin our future performance, in good economic times and bad

We benefited from two areas of radically reduced costs during the year With oil prices still high but at lower levels than we saw the year before, our fuel bill was £597 million lower at £2 4 billion

At the same time, we were able to reduce our non-fuel costs by £390 million A large proportion of that reduction was down to much lower employee costs which were down by 8 9 per cent or £195 million on the year at £1,998 million

This reduction was achieved through a number of factors including improved productivity through permanent changes to working practices across the business and the imposition of a two year pay freeze for all our staff Many of the changes in working practices were introduced in the second half of the year For example, our decision to deploy one fewer cabin crew on our longhaul flights was only introduced in November 2009 These permanent structural changes are required to return our business to profitability

Our manpower (MPE) has fallen by nearly 3,800 since March 2009 to 36,832 This reduction comes from productivity improvements and natural attrition combined with voluntary redundancy, decreased overtime, an increase in part-time working and unpaid leave

In the short term, these savings – coupled with a near £600 million reduction in our fuel bill compared with 2008/09, when oil prices spiked to $146 a barrel – meant we could offset the sharp reduction in our revenues

It's been a cost driven recovery so far with some signs of revenue improvement towards the end of the year This gives us some optimism for a return to profitability

I hope you can see from the action we have taken how seriously we saw the need to reduce costs both in the short term and on a permanent basis But the work must continue and the search for further cost savings will go on, as Willie has already made clear Controllable costs are being put under the microscope continuously and pared back wherever we can be sure that our actions will not jeopardise efforts to provide outstanding customer service

We also expect to see long-term cost benefits from consolidation Our planned merger with Iberia and our proposed venture with American Airlines and Iberia to operate a joint business on North Atlantic routes should provide significant synergies, both in terms of savings and improved revenue

We expect total synergies from the merger with Iberia to be in the region of €400 million annually by the fifth year

Chief Financial Officer's statement continued

Operating expenditure

£ million	2009/10	2008/09	Better/ (worse)
Employee costs	**1,998**	*2,193*	8 9%
Restructuring	**85**	*78*	(9 0)%
Depreciation, amortisation and impairment	**732**	*694*	(5 5)%
Aircraft operating lease costs	**69**	*73*	5 5%
Fuel and oil costs	**2,372**	*2,969*	20 1%
Engineering and other aircraft costs	**505**	*510*	1 0%
Landing fees and en route charges	**608**	*603*	(0 8)%
Handling charges, catering and other operating costs	**997**	*1,021*	2 4%
Selling costs	**290**	*369*	21 4%
Currency differences	**(2)**	*117*	nm
Accommodation, ground equipment and IT costs	**571**	*585*	2 4%
Total Group expenditure on operations	**8,225**	*9,212*	10 7%
Total Group expenditure excluding fuel	**5,853**	*6,243*	6 2%

nm = not meaningful.

Pensions financing expense and retranslation expenses
Pensions financing expense was £1 16 million compared to £17 million in the prior year This was mainly due to the fact that we saw a £160 million decrease in the return on assets and a £37 million charge for the amortisation of actuarial losses (mainly associated with the New Airways Pension Scheme (NAPS)) This is partially offset by lower interest costs of £30 million and an immediate recognition of an £85 million gain on the Airways Pension Scheme (APS) due to the effect of the asset ceiling

The retranslation of currency borrowings generated a charge of £14 million, compared with a charge of £59 million the previous year, due to the weakening of sterling, offset by the de-designation of a portion of our yen debt

Taxation
The analysis and explanation of tax on the result for the year is set out in note 11 to the financial statements

Our total tax credit for the year was £106 million (2009 credit £43 million) The tax credit included a one-off deferred tax movement of £13 million credit arising from a change in foreign profits tax legislation which was enacted during the year, and there were adjustments relating to prior years giving rise to a credit of £9 million (2009 £10 million credit) and the effect of pension fund accounting of £45 million (2009 £5 million credit) Excluding these one-off items, the effective tax rate for the Group would have been 24 per cent

Our deferred tax balance at 31 March 2010 was £774 million (2009 £652 million) The year on year movement was primarily related to the tax effect of the retranslation of foreign debt and the marked-to-market movement on fuel and currency hedges and pension funding temporary differences, offset by the reversal of fixed asset temporary differences and further trading losses, which can be utilised against future taxable profits of the Company

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 £636 million (2009 £632 million)

Earnings per share
A basic loss per share of 38 5 pence (2009 loss 32 6 pence) is attributable to shareholders

Other reserves
Other reserves at 31 March 2010 were £692 million, an increase of £262 million from March 2009 This increase is primarily driven by the marked-to-market movement on fuel and cash flow hedges of £587 million offset by the loss for the year The equity portion of the convertible bond raised in August 2009 adds a further £84 million to reserves

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

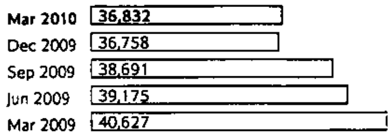
Capital expenditure
Total capital expenditure in the year amounted to £567 million, down £145 million on last year

We reduced our projected capital spend from £725 million in our financial plan to a target of £575 million for the year, but in the end spent even less than projected by cancelling some non-essential programmes and delaying others

1 Our manpower at just under 37,000 includes approximately 5,000 engineering colleagues

2 There were 238 aircraft in service at 31 March 2010 Our new Boeing 777-300 ERs, with their improved fuel efficiency and environmental performance, will begin to arrive in 2010

Group manpower period end MPE



Capital expenditure

£ million	2009/10	*2008/09*
Fleet – aircraft, spares, modifications and refurbishments (net of refund of progress payments)	**518**	*584*
Property and equipment	**36**	*67*
Landing rights and other intangible assets	**13**	*61*
Total	**567**	*712*

Liquidity
Our liquidity position remains strong with £1 7 billion of cash at the end of the year We raised an additional £350 million through a convertible bond issue in August 2009 to boost our reserves and make sure we had sufficient cash and capital to invest in continuing improvements in our business At the same time the Trustees of our defined benefit schemes released bank guarantees of $540 million (approximately £330 million) to the airline These can be drawn in cash at any time until June 2012 Note 24 to the financial statements provides detailed analysis and explanation of our cash flow position Our capital expenditure commitments are outlined in note 15 to the financial statements

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 30 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 24 to 31 of the financial statements

Chief Financial Officer's statement continued

We have also focused on a new premium leisure strategy We launched five new leisure routes during the year and increased capacity to the Caribbean by 40 per cent Many of these routes operate out of Gatwick

Cash balance of £1.7 billion

After making enquiries, our Directors have a reasonable expectation that our Company and the Group has adequate resources to continue operating for the foreseeable future For this reason, the going concern basis has been adopted in preparing the accounts

Outlook

Airlines map GDP When recession hits, premium services tend to fall first and fastest As recovery begins they also tend to be quickest to pick up With our dependence on premium travel, this means we should see our own performance pick up ahead of some of our main competitors

That's been the pattern in the past and it's likely to be repeated The difference this time is that we will be going into recovery in much better shape than in the past, having tackled many of the legacy cost structures that have traditionally held this business back

But the pace of general recovery remains hard to predict We expect it to be slow and we remain vulnerable to the threat of a double-dip recession The oil price presents us with another difficult risk although we remain comfortably hedged to ride further volatility should it return to the market

There are other uncertainties that we must contend with too As you know, much of northern Europe's airspace was shut down for six days in April following the eruption of the volcano in Iceland It's pretty remarkable to think that the disruption caused by this event was far greater than that seen in the aftermath of the 9/11 attacks on New York We estimate it to have cost us around £100 million

Although we were pleased to work with the authorities, aerospace manufacturers and other airlines to reassess the restrictions airlines operate under when volcanic ash is present in the atmosphere, we cannot rule out further disruption in the months ahead

It has been a difficult two years for the airline as we faced economic recession We should see some significant recovery this year as the economy improves

Keith Williams Chief Financial Officer

The markets we operate in

MATCHING CAPACITY TO DEMAND

The longest and deepest recession in living memory has meant we have had to move quickly to match our capacity to a rapid decline in demand In February 2010 we saw the first upturn in demand for premium travel in 18 months With recovery likely to be slow, we will continue to match our flying schedule to demand and to general economic activity as it picks up

MARKET OVERVIEW

"

The global economic and financial crisis coupled with continued high fuel prices has accelerated consolidation in the airline industry Many passenger and cargo carriers have either gone bust or have been absorbed into other airlines and, overall, the global aviation market remains weak

2009 saw the collapse of SkyEurope, Flyglobespan and the merger of Alitalia with Air One, for example In Asia, JAL filed for bankruptcy protection

In Europe, we have announced plans to merge with Iberia Austrian Airlines, Brussels Airlines and bmi have all been taken over by Lufthansa In the US, Northwest has merged with Delta and United Airlines and Continental Airlines have announced a merger to create the world's largest airline

"

The markets we operate in

Whilst a number of major developed economies started to emerge from recession during the first half of our financial year, the UK lagged behind. It eventually endured six consecutive quarters of negative growth, amounting to the longest and deepest recession in living memory, before finally emerging from recession in the final three months of 2009. Momentum appears to have been maintained in early 2010, discounting the impact of the severe winter weather we suffered in January.

Global premium air travel demand in key markets, calendar year 2009

	Premium demand
North Atlantic	-12 2%
Within Europe	-25 1%
Within Far East	-19 8%
Europe – Far East	-15 6%
Europe – Middle East	-5 9%
Total market	**-15 8%**

Source IATA

The economic landscape

Whilst there are now clear causes for optimism for the UK economy, a number of persistent concerns remain and these may still delay a rebound in consumer confidence Recovery in 2010 is, therefore, likely to be slow, although momentum may build in 2011

The US returned to positive growth one quarter earlier than the UK, and we saw economic activity grow at an unprecedented rate in the final three months of 2009 – far faster and stronger than the rebound seen after the downturns of 1991 and 2001

Emerging economies, and particularly those in East Asia, have also bounced back strongly on the back of a recovery in world trade, and massive government support for the Chinese economy Improving domestic demand in these countries, driven by both consumer spending and business investment, should ensure the strong growth witnessed in China in recent years continues

Rising sovereign debt levels, however, pose a new threat to global economic security There are risks that the global financial crisis, from which we are now emerging, will evolve into a global fiscal crisis and that national deficits, which have ballooned during recession, may curtail future growth

We are already seeing the start of the fiscal claw back in the UK, and growth has become sufficiently strong in a number of economies for monetary policy to begin returning to normal But worries about national debt have been exacerbated by recent developments in Dubai and Greece The latter's problems have exposed the fiscal frailties of some other European countries, depressing the outlook for the Eurozone despite its encouraging exit from recession in the second half of 2009

Impact on our industry

Demand for global premium travel finally returned to year on year growth in December 2009, some three months behind an upturn in general global economic activity It was the first such increase in 18 months

Regionally, demand is picking up at very different rates, however, reflecting the differing pace of economic recovery in major economies Emerging markets have seen the strongest rebound in growth The Far East and Middle East markets are now performing well, whilst the North Atlantic market has come very close to recording growth But premium demand within Europe remains depressed, thanks both to recession and significant structural changes in the airline sector

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

Competition

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

Consolidation
The global economic and financial crisis coupled with continued high fuel prices, has accelerated consolidation in the airline industry Many passenger and cargo carriers have either gone bust or have been absorbed into other airlines and, overall, the global aviation market remains weak

2009 saw the collapse of SkyEurope, Flyglobespan and the merger of Alitalia with Air One, for example In Asia, JAL filed for bankruptcy protection

In Europe, we have announced plans to merge with Iberia Austrian Airlines, Brussels Airlines and bmi have all been taken over by Lufthansa In the US, Northwest has merged with Delta and United Airlines and Continental Airlines have announced a merger to create the world's largest airline

Increased competition
Most of the markets in which we operate are highly competitive Levels of competition vary, route by route

The markets we operate in continued

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 wide 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 received tentative approval for our joint business agreement from the US Department of Transportation (DOT) in February 2010 and we hope to receive final approval shortly We have tabled commitments to the European Commission to address competition concerns expressed in its Statement of Objections of September 2009 The commitments include making daily take-off and landing slot pairs available at Heathrow, Gatwick and/or New York JFK to allow other operators to compete with us on transatlantic routes

On a few international routes competition remains limited, with restrictions placed on the number of flights that can be operated and regulations governing the fares that can be charged At the other extreme there is a free market for flights within Europe, allowing any European airline to operate any route it chooses and to set its own fares

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

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, despite being severely disrupted by snow and freezing weather in January, continues to grow and carried 1 2 per cent more passengers in 2009, at a time when demand for flights from London to Brussels and to Paris fell by 14 per cent and 3 per cent, respectively

'No frills' airlines are continuing to grow, but have switched their priorities to growth at continental airports While seat capacity in London fell by 8 per cent for full service airlines during 2009, the 'no frills' carriers cut their seats on London routes by just 3 per cent Competition among these 'no frills' carriers at Gatwick is also expected to intensify

Longhaul market
Deregulation has had a significant impact on our longhaul business The first phase of the EU-US Open Skies agreement, which took effect in summer 2008, has altered the competitive landscape on transatlantic routes, especially at Heathrow

US carriers Delta, Continental and US Airways have all commenced new services from Heathrow and in 2009 offered a total of 102 services per week New entrants and existing carriers from the Middle East, Africa and India have also added capacity at Heathrow Our own OpenSkies subsidiary now operates direct services to the US from Paris

Other important markets are also being liberalised The EU recently signed an 'open skies' deal with Canada Similar agreements are expected to follow with other like-minded countries such

1 We have focused on fuel and emission savings through shutting down one engine on aircraft taxiing to the terminal

2 We have started developing our express airfreight proposition, Prioritise, which will be relaunched during 2010

3 We have a target of 80 per cent of customers departing Heathrow to use either an airport check-in kiosk or ba com

as Australia, New Zealand and Brazil in the coming years

A new generation of wide-body aircraft is also changing the competitive landscape The Airbus A380 is now well established at Heathrow, with three airlines offering a total of 28 departures a week during 2009 and additional services confirmed for 2010

Regulatory controls

The airline industry is highly regulated Almost everything we do – from the routes we fly, to the business partners we cooperate with, the airport slots we use, the fares we set, the infrastructure costs we pay, safety, security and the way we manage our environmental impact – governed or influenced by a web of tight regulations

There were a number of important regulatory developments during the year that 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 **one**world 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 wide 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 received tentative approval for our Joint Business Agreement from the US Department of Transportation (DOT) in February 2010 and we hope to receive final approval shortly We have tabled commitments to the European Commission to address competition concerns expressed in its Statement of Objections of September 2009 The commitments include making daily take-off and landing slot pairs available at Heathrow, Gatwick and/or New York JFK to allow other operators to compete with us on transatlantic routes

On 10 March 2010, the European Commission invited comments from interested parties on these proposals If they confirm that these provide a suitable remedy for any competition concerns, the European Commission is expected to make the commitments legally binding on the parties and close its investigation into the alliance

EU-US second stage talks
The EU and US reached agreement in Brussels in March on a draft second stage Air Transport Agreement. This will be taken to the EU Council of Ministers in June for final agreement No progress was made on any immediate lifting of ownership and control restrictions (O&C) by the US Instead, both sides have committed to continued negotiations aimed at removing market access barriers in the future Both sides will be incentivised to change their laws in respect of Noise (in the case of the EU) and on O&C (in the case of the US), and will be granted additional rights when they do so The suspension clause or 'clawback' that was due to trigger in November 2010 if there was no progress on O&C, has been replaced by a 'freeze' provision that will allow the EU to freeze growth if there is insufficient progress on O&C in the future Some progress was made on 'Fly America', with the US agreeing to give EU carriers access to US government 'contractor' traffic, excluding defence/military traffic

UK airports
The UK DOT and the Civil Aviation Authority (CAA) are conducting

The markets we operate in continued

We want all of our customers to enjoy a premium service at every point of their journey, whenever and wherever they travel with us We monitor our customers' views through our Think Customer Survey This is independent market research involving more than 36,000 customers each month

consultations on a revised framework for the regulation of UK airports It is too early to know what the ultimate shape of the new framework will be or the impact it will have on our business We are contributing actively to the consultations, arguing that regulation should prevent abuse by monopoly airport service providers and offer incentives to airport operators that improve their performance and efficiency

In October 2009, BAA sold Gatwick airport to Global Infrastructure Partners The sale of Stansted airport is on hold, awaiting legal challenges to the Competition Commission's report that called for the airport to be sold

Capacity constraints at Heathrow mean it has fallen behind competing European airports in recent years, threatening its position as one of the world's leading airports The UK Government announced in 2009 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

As expected, the new Conservative/Liberal Democrat coalition Government has confirmed that it will not support a planning application for a third Heathrow runway and has also ruled out approval of new runways at Gatwick or Stansted

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 target to halve our 2005 net CO_2 emissions by 2050 leads the industry in commitment to reducing our carbon emissions

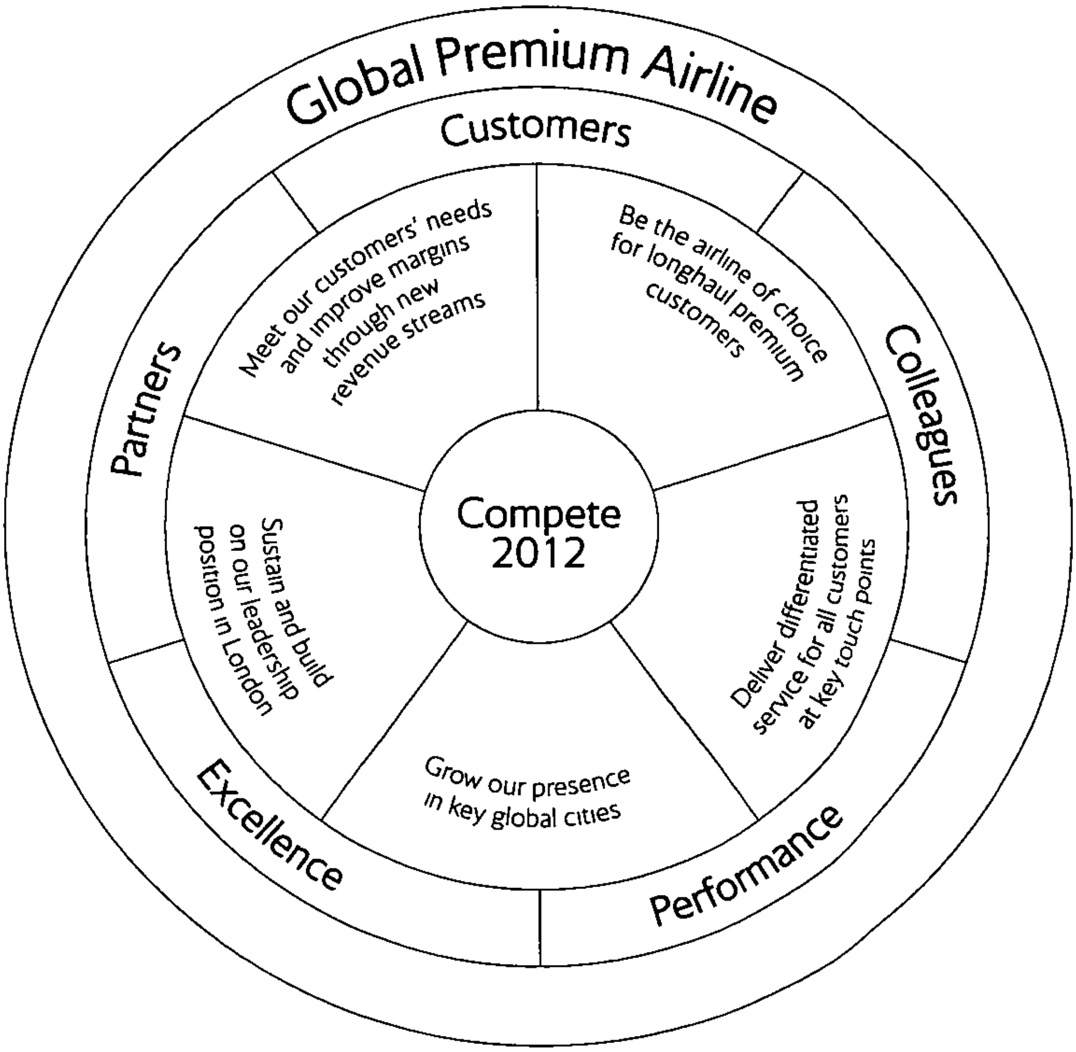
Safety and security

Safety and security are key priorities for us We have a formal safety management system in place to ensure that we comply with all relevant regulations 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 combat the threat of terrorism and control illegal immigration We continue to engage with the European Commission, the UK and other governments to make sure that these measures are effective while causing the minimum possible inconvenience to our 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

Our strategy and objectives



FOCUSED ON OUTSTANDING CUSTOMER SERVICE

Meeting the rising expectations of our customers remains central to our strategy of transforming British Airways into the world's leading global premium airline. Our investment in our staff, our fleet and our facilities are all about making sure we provide the very best in customer service. We want all of our customers to enjoy a premium service at every point of their journey, whenever and wherever they travel with us.

Our strategy and objectives

We have lived through unprecedented market conditions over the last 18 months. Throughout this we have remained focused on our strategy to become the world's leading global premium airline.

The actions we are taking now to make our cost base more efficient and our unstinting focus on outstanding customer service are critical parts of this long-term vision. They will determine how strongly we emerge from the current downturn and will help us to create a sustainable and profitable future for the business, benefiting our customers, colleagues and shareholders.

In this section, we explain the strategy in detail and describe the actions we're taking to pursue it

GLOBAL

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.

PREMIUM

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

AIRLINE

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

OUR FIVE STRATEGIC GOALS

Be the airline of choice for longhaul premium customers	Longhaul premium customers are key to our profitability We will use our deep understanding of what is required to be their airline of choice to drive our design choices on product, network and service We will also maintain a strong presence in the cargo, economy and shorthaul segments, which play a critical supporting role
Deliver an outstanding service for customers at every touch point	Our customer-facing staff have long been passionate about delivering outstanding customer service We want to build on this through a revolution in the way we lead, train and reward, so that all our customers, on all routes and classes, enjoy a premium experience We will invest both in improvements targeted at our premium customers, such as service style training, and in those benefiting all customers, such as Terminal 5 and ba com
Grow our presence in key global cities	We aim to provide the best global connectivity for our customers We will build our presence in the top tier global cities, either directly or through our expanding network of airline partnerships Whilst the established global cities such as London and New York remain critical, we will place a special emphasis on developing our position in the global cities of tomorrow
Build on our leading position in London	London is our home city, the emotional and financial heart of our business It is also the world's biggest and most competitive international air market Ensuring Heathrow remains a world-class hub is vital to give us a strong London base to serve the largest international longhaul markets To support this, we will look to influence government policy decisions, and work with the airport owners on the continued development of the infrastructure
Meet our customers' needs and improve margins through new revenue streams	Airline revenue streams will always be the core of our business However, we will look to augment this by building profitable ancillary services that offer customers great value and re-enforce our brand We will explore how we can develop new products and services which exploit our assets and capabilities, and meet the needs of our core customers and enhance loyalty

Our business plan

Our business plan is built around our Global Premium Airline strategy, and defines in detail both what we need to achieve as a business, and how we need to work together. It encompasses our Compete 2012 change programme. This is linked to our sponsorship of the London 2012 Olympics and Paralympic Games, and is tasked with refreshing our culture. The plan is structured around five key themes – Colleagues, Customer, Performance, Excellence and Partnerships:

BUSINESS PLAN THEME	OUR FOCUS FOR 2010/11
Colleagues what we do to improve how we work together and how we develop our people so that we are a high-performing organisation	Despite the tough economic environment, and challenging industrial relations, we saw huge commitment to the success of British Airways right across the Company, including high levels of volunteering to support the operation through disruption In 2010/11 we will look to build on this in a number of ways We will work to boost the engagement right across the Company, rallying our colleagues with a drive towards ever greater customer service We will continue to make targeted investments to improve the way we manage our talent, with the focus this year on the development of our front-line leaders And we will embed our customer-centric outlook into our reward framework, and increasingly use performance-related pay
Customer what we do to deliver an outstanding experience for all our customers	We will continue to evolve our products, for instance through the roll-out of the restyled **First** cabin, and through the development of products fit for the Boeing 787s and Airbus 380s we have on order We will refine the Terminal 5 experience for premium passengers, as well as making targeted investments in overseas lounges A new in-flight entertainment system is being introduced on our new longhaul aircraft, starting with our Boeing 777-300ERs in 2010 We will continue the targeted development of ba com that has made it such an important part of the way customers interact with us We will work to reaffirm our brand in a changing and fiercely competitive marketplace
Performance what we do to improve the financial performance of the Company and deliver for our shareholders	We will carefully monitor opportunities to adjust capacity as economic conditions allow, and we anticipate less need to reduce flying outside the peak periods We will ensure structural changes in the cost base are maintained by keeping controllable costs flat even as business conditions improve We will continue to compete for new slots We intend to grow our mileage and holiday businesses, and boost revenues from third-party engineering, retailing and the development of non-air partnerships Our new Boeing 777-300ERs, with their improved fuel efficiency and environmental performance, will begin to arrive in 2010
Excellence what we do to maintain and improve our operational performance and the quality of our processes so that we improve continuously	We will build on record-breaking levels of operational performance through continuous improvement of the way we plan and control the operation, including laying the foundations for improvements to a number of our operational systems We will extend the brilliant Terminal 5 experience to more of our services through the development of the second satellite Terminal 5C (opening in 2011), as well as working with the new owners of Gatwick to improve the customer service offering in the North Terminal We will roll out our Airmanship Programme across our ramp and baggage service community raising ground safety And we will continue to develop the skills and environment that encourage Lean Continuous Improvement across the business
Partnerships what we do to work with other airlines, other parts of the airline/travel industry, our key suppliers, and the communities we are based in	Subject to regulatory approval, we will implement a Joint Business Agreement with American Airlines and Iberia, delivering a range of customer benefits The agreement will significantly extend the connections we offer, improve flight schedules, and deliver enhanced frequent flyer benefits, improved customer service and better disruption management We will continue to develop partnerships, such as those announced this year with India's Kingfisher Airlines and the Russian carrier S7, that will improve our position in the global cities of today and tomorrow

ACHIEVEMENTS 2009/10

The start of the year saw us move to a new, leaner organisation, with a third fewer managers, and clearer accountabilities linked to overall Company goals This is underpinned by a new approach to performance management, backed up by leadership training that has achieved great feedback from our managers

Despite the downturn, we continued the tradition of innovating to meet the needs of our premium customers, through the highly successful launch of our new longhaul service from London City to New York JFK, and through the start of the embodiment programme for our new **First** cabin We have completed the roll-out of our award-winning Club World product to all our Boeing 777s and 747s, and continued our investment in premium service training We've carried out comprehensive brand positioning and proposition development work over the last 18 months to ensure we remain a relevant and compelling offer for our global customers in the future In response to customer feedback, we also enhanced the Club Europe seat configuration We've continued to invest in ba com, including in this year's developments the ability to claim refunds online in disruption situations

We adjusted our capacity and network to reflect the downturn, parking eight Boeing 747s, beginning the exit of our Boeing 757 fleet, and rescheduling our Airbus A380 deliveries We secured significant structural change in our employee costs While retaining our commitment to providing an excellent value core product, we have delivered savings from standardising shorthaul catering and have delivered additional revenue from changing the economy baggage allowance (to one checked-in bag plus a generous hand baggage allowance), offering customers the option of paying for advance seat reservations whilst still retaining the ability to choose a seat free of charge at check-in, from 24 hours before departure

We've built on last year's strong operational performance, with Terminal 5 delivering excellent punctuality and a far greater resilience to disruption such as the adverse weather seen this winter Taken together with the ongoing strong performance of Gatwick and the regions, we've exceeded our targets and delivered record-breaking performance We've continued to seek continuous improvement through the application of Lean processes, delivering significant productivity gains across the business

We've continued to take a leading role in the development of the **one**world alliance, not only through sponsoring the membership of the Russian carrier S7, and Kingfisher Airlines of India, but also through active participation in the negotiations to retain JAL's membership We've worked closely with our key suppliers to adjust contracts to see us through the downturn We see our One Destination programme (see section on 'Running a responsible business') and the development of our role in the wider community as a key part of this theme

Key Performance Indicators

We track progress against the business plan for the five key themes using a wide range of metrics Only three of these themes are used to set targets for the basis of remuneration The three are customer recommendation, operating margin and network punctuality Progress against all five themes are detailed below

MEASURING PROGRESS

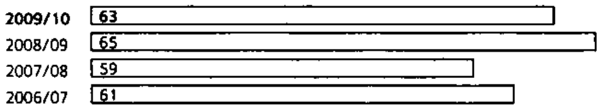
Colleagues

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 We track opinions via an all-employee confidential Speak Up! survey, conducted and hosted by the independent research organisation Ipsos MORI This includes a Colleague Engagement Index, which summarises a basket of more detailed measures We have also built employee responses into the way we measure and manage individual performance

Customer

We monitor our customers' views through our Think Customer Survey This is independent market research involving more than 36,000 customers each month Our headline measure is customer recommendation Apart from being extremely important in its own right, we believe that this measure indicates how the customer experience will affect future profitability We also track customer views on our performance relative to our competitors, as well as general airline customers opinions' of our brand These views help us steer our product investment decisions

KPI Customer recommendation %



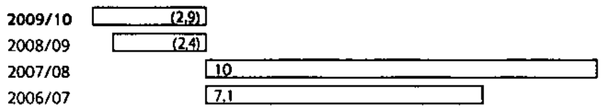
For 2009/10 we set a target level of customer recommendation of 65 per cent Our underlying performance was strong, but we failed to reach the target due to a small reduction in levels of satisfaction in response to the onboard catering changes, and also through some significant operational disruption Our score was also slightly depressed by our move in April 2009 to an onboard survey for shorthaul flights

Performance

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

KPI Operating margin %

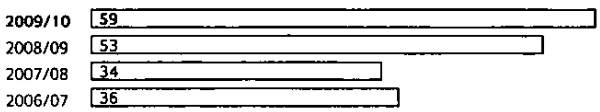


For 2009/10 we set ourselves a target operating result flat with 2008/09 before any restructuring costs Despite the £1 billion drop in revenue during the year, our operating loss was flat against last year excluding restructuring of £85 million, our operating loss was £146 million compared to £142 million (excluding £78 million restructuring in the prior year)

Excellence

Running a robust operation is key to both meeting our customers' expectations, and to delivering 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 measure, as high performance here requires other operational processes to run smoothly, and also because it is a key driver of customer satisfaction Our headline measure of punctuality is 'Ready to Go', which focuses on the aspects of the departure process within our control

KPI Network punctuality %



For 2009/10 we targeted a score of 52 per cent Despite some disruption caused by the severe UK and worldwide winter weather, we significantly exceeded this, demonstrating the step change in operational performance at Heathrow that has been delivered by Terminal 5

Partnerships

We monitor the performance of our partnerships through a variety of success criteria We have set challenging goals for our One Destination programme, which include increases in the proportion of waste we recycle, an improvement in building energy efficiency, as well as a 25 per cent reduction (from 2005 levels) in carbon emissions per RPK by 2025 We also track achievement of implementation milestones for our Joint Business Agreement with American Airlines and Iberia

Principal risks and uncertainties

The operational complexities inherent in our business, together with the highly regulated and commercially competitive environment of the airline industry, leave us exposed to a number of significant risks. We have maintained a focus on mitigating those risks although many remain outside of our control – for example changes in governmental regulation, acts of terrorism, adverse weather, pandemics and the availability of funding from the financial markets.

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

The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible You can find a more detailed summary of our internal control and risk management processes on pages 48 and 49 The sections on 'Our strategy and objectives' and 'Running a responsible business' also include additional information on how we manage and mitigate risk

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

The management team regularly monitors customer satisfaction though the global monthly Think Customer Survey alongside ongoing research and development of the BA product to mitigate this risk

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

Our strong global market positioning, our network and alliances and diverse customer base continue to address this risk

Consolidation/deregulation
As noted above, the airline market is fiercely competitive and will need to rationalise given current market conditions This will involve further airline failures and consolidation Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue

The merger with Iberia and the Joint Business Agreement with American Airlines and Iberia for transatlantic routes, may introduce planning risks such as sub-optimal design and set-up processes and delivery risks such as realising planned benefits The management team have a robust integration and Joint Business Agreement programme which addresses these risks

Some of the 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 that will need to be repaid or refinanced Our ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions Although most of our future capital commitments 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

The Company's Treasury Committee regularly reviews the Group's financial position The results of these reviews are discussed with management and the appropriate action taken

Economic conditions
Our revenue is highly sensitive to economic conditions in the markets in which we operate Deterioration in the global economy may have a material impact on our financial position

Principal risks and uncertainties continued

The Revenue Projection Group regularly reviews the Group's revenue forecast. The results of these reviews are discussed with management and the appropriate action taken

Employee relations
We have a large unionised workforce Collective bargaining takes place on a regular basis and a breakdown in the bargaining process may disrupt operations and adversely affect business performance Our continued effort to manage employment costs increases the risk in this area

Event causing long-term network disruption
Several possible events may cause a long-term network disruption Example scenarios include a significant failure of the public transport system, the complete or partial loss of the use of terminals at Heathrow, adverse weather conditions (such as snow, fog or volcanic ash), war, civil unrest or terrorism A long-term network disruption may result in significant lost revenue and additional cost The management has robust business continuity plans to mitigate these risks to the extent feasible

Failure of a critical IT system
We are dependent on IT systems for most of our principal business processes The failure of a key system may cause significant disruption to our operation and/or lost revenue System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure

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

The Group is exposed to risk to the extent of non-performance to financial contract by counterparties for activities such as fuel and currency hedging Failure of counterparties may result in financial loss

The Company's Treasury Committee regularly reviews the Group's fuel and currency positions The results of these reviews are discussed with management and the appropriate action taken

Fuel supply
The Heathrow jet fuel supply is critical to the operation Biofuel and jet fuel use the same pipeline infrastructure and with increased use of biofuel, the risk of contamination is increased Any contamination of the fuel supply will have a significant operational impact The fuel supply is not released to Heathrow until significant testing is completed

Government intervention
Regulation of the airline industry is increasing and covers many of our activities, including route flying rights, airport slot access, security and environmental controls The airline industry is becoming increasingly regulated Our ability to both comply with and influence any changes in these regulations is key to maintaining our operational and financial performance

Government plans to significantly increase environmental taxes with the introduction of a per flight tax, the European Union Emissions Trading Scheme and the potential for other environmental taxes 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 main runways since it opened over 60 years ago As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate this The 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 The failure of a key supplier to deliver contractual obligations may cause significant disruption to our operation We describe the supplier risk in more detail on page 42

Pandemic
If there is a significant outbreak of Swine Flu or other infectious disease, staff absence will increase which may seriously impact the operation Key corporate clients may discourage travel, significantly impacting sales As part of the recent outbreak of Swine Flu we fully rehearsed our contingency plans

Pensions
Negative movements in pension asset values and financial returns from these assets may increase the size of the pension deficit. Management regularly review the status of the pension funds and remain committed to appropriate action Discussions are ongoing with the Trustees, the Pensions Regulator and other stakeholders to determine a strategy for funding the existing deficit in line with business objectives

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 Our Operations Control Incident Centre responds in a structured way, in the event of an incident.

Running a responsible business

ONE DESTINATION

Our plans to transform British Airways into the leading global premium airline are about securing our future in a sustainable way That's not just about becoming financially stronger It's also about acting as a socially and environmentally responsible business in every aspect of our operation We have created a new Corporate Responsibility (CR) framework for the business to make sure we achieve that goal

Running a responsible business

Our aim is to become the World's Most Responsible Airline. To do this we have created our 'One Destination' programme, a wide-ranging initiative that brings together every element of our corporate responsibility activity under one banner.

Our Corporate Responsibility programme

Our One Destination programme is organised under four streams These are the Environment, Community Investment, Workplace and Marketplace

We believe this is a practical way to make sure that responsibility underpins every aspect of our day-to-day working lives As such, it covers the way we operate our network, how we manage our workplace, how we go about providing outstanding service to our customers, how we tackle the environmental challenges we face, how we deal with our suppliers and how we interact with the many local communities we support around the world

The Corporate Responsibility Board, chaired by our Chief Executive, Willie Walsh, oversees our One Destination programme and ensures that people across the business understand and are fully engaged with this programme Each Directorate in the business has a senior Corporate Responsibility Sponsor and, overall, we have more than 100 Corporate Responsibility Champions We also have a significant network of Diversity Champions

Our full Corporate Responsibility Report is published online at www ba com

Environment

We recognise that by providing air transport services we have an impact on the environment. We are committed to reducing our environmental footprint, including playing our full part in reducing global greenhouse gas emissions.

We believe the airline sector should be included in a global sectoral approach with emissions reductions targets of carbon neutral growth from 2020 and a 50 per cent reduction in net emissions by 2050.

We are also focusing on reducing our absolute carbon emissions. A key element of this strategy is the adoption of sustainable alternative fuels, which is why in February 2009 we established a partnership with Solena to build Europe's first biomass to liquid plant to supply us with biofuel from 2014.

We have also taken steps to improve air quality and noise conditions through investment in improved technology. This shows our ongoing commitment to meet the targets set by the Government linked to the construction of the third runway.

Climate change
Climate change is an issue of huge importance to us and we have a long-term commitment to reduce our emissions.

Our climate change programme is focused in five main areas:

- Securing a global sectoral policy regime with ambitious long-term CO_2 reduction targets,
- Improving our carbon efficiency,
- Developing the potential of low-carbon fuels,
- Promoting our voluntary carbon offset scheme, and
- Supporting scientific research into aviation's climate change impacts.

We continue to play a leading role in the development of a global framework for regulating aviations carbon emissions. We are working closely with the International Air Transport Association (IATA), in promoting the target to reduce net CO_2 emissions by 50 per cent by 2050, relative to 2005. Meeting this target will require investment in new technology, sustainable biofuels and in cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets.

Indeed, we recognise that biofuels will play a critical role in helping the airline sector reduce its carbon emissions. We are working on a number of projects to help accelerate the implementation of biofuels into the airline industry.

From January 2010, monitoring of emissions and traffic data began in preparation for the start of aviation's entry into the EU Emissions Trading System in 2012.

Our carbon efficiency is expressed in grammes of CO_2 per passenger kilometre (gCO_2/pkm). Our target is to improve our fuel efficiency to 83 gCO_2/pkm by 2025.

In 2009, this was 106.1 gCO_2/km. As a comparison, the average for a car is 109 gCO_2/pkm. This represents an improvement on last year reflecting better aircraft utilisation, higher load factors and savings delivered through our carbon efficiency programme.

Our carbon footprint was 16.67 million tonnes of CO_2 in 2009, a reduction of 5.2 per cent over the previous year. This is due both to fuel efficiency improvements and capacity reductions during 2009.

During 2009, more than 126,000 passengers offset their emissions. We are the first airline to meet the UK Government's quality assurance scheme for offsetting. We continue to improve our carbon offset product by offering passengers to offset according to their cabin of travel. The scheme helps to support vital renewable energy projects in China and Brazil.

We are also the only airline and, indeed, one of the first UK companies to complete a Forest Footprint Disclosure (FFD). This is an audit of the impacts of our business on global deforestation.

Noise
We are investing in quieter aircraft and changing the way we fly to reduce noise impact. 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 airports and is one of the key areas where we want to improve. During 2009 at Heathrow, we reduced the number of departure noise infringements by over 30 per cent compared with 2008.

Air quality
We have a number of operating initiatives to improve our air quality performance. We are modifying our Boeing 737 (CFM56-3) engines to deliver a 20 per cent reduction in Nitrogen Oxide (NO_X) emissions. The recently introduced Airbus 318 (CFM56-5B) is a lower NO_X engine.

We use aircraft stands with fixed power and pre-conditioned air so we rely less on using aircraft auxiliary power units and have also developed procedures

Running a responsible business continued

for aircraft to taxi on one less engine after landing. We operate a large fleet of electric vehicles and continue to be a member of the Heathrow Clean Vehicle Programme to further improve the environmental performance of our ground fleet.

Waste

We aim to improve resource efficiency through waste minimisation, increased reuse and recycling and reduced disposal to landfill

We are on track to achieve our target of recycling 50 per cent at our main bases of Heathrow and Gatwick by the end 2010 We achieved 39 per cent recycling throughout 2009

We are also on track to meet our target of zero waste to landfill by the end of 2010 for our main activities Over the last year, the amount of waste managed through our contracts at Heathrow and Gatwick disposed to landfill on an annual basis reduced by 36 per cent from 3,424 tonnes to 2,187 tonnes We have also begun processing our non-recyclable waste at Heathrow and Gatwick through a waste to energy plant which will enable us to meet our zero waste to landfill target

Community Investment

We are committed to supporting communities in countries where we operate through our community investment programme

At present we work with over 120 community and conservation organisations worldwide We also have an extensive education programme for children and young people at our Community Learning Centre at Heathrow, which has welcomed over 58,000 learners since it opened in 1999

Our 16 year partnership with UNICEF came to a close in March 2010 We raised more than £27 million through the generous support of our customers and colleagues through the Change for Good programme Since the partnership began we have funded projects in over 58 countries and all of the projects we have supported leave a valuable legacy for vulnerable children in the communities where both British Airways and UNICEF operate

Summary of environmental data and targets

	Target	2009*	2008*	2007
Carbon efficiency gCO_2/pkm**	83 by 2025	**106**	107	110
CO_2 emission (million tonnes)		**16 67**	17 60	17 7
Average noise per flight	15% reduction by 2015	**On track*** **	On track***	On track***
% Recycling (LHR and LGW)	50% by end 2010	**39 0**	35 1	30 1
Waste to landfill (tonnes LHR and LGW)	zero to landfill by end of 2010	**2,187**	3,424	3,688

* Calendar years.

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

*** Our fleet replacement programme is on track to deliver this target.

1 At Heathrow we use hybrid Linde super electric tugs We operate a large fleet of electric vehicles and continue to be a member of the Heathrow Clean Vehicle Programme to further improve the environmental performance of our ground fleet

2 We have an extensive education programme for children and young people at our Community Learning Centre at Heathrow, which has welcomed over 58,000 learners since it opened in 1999

We are delighted to announce that our new global charity partner will be Comic Relief We believe this move will strengthen our long tradition of raising money to support disadvantaged people in acute need, both at home in the UK and across the world's poorest countries

Measuring our community investment
We continue to be a member of both the London Benchmarking Group (LBG) and Business in the Community (BitC) The LBG's model is used to assess our total contribution to the community

Our partnership with UNICEF, Change for Good, raised £1 3 million from on-board donations in the year to 31 March 2010

Some 3,330 retired and current employees donated over £600,000 directly from their payroll to their chosen charities through our Giving Scheme during the year

BitC reported our total direct and in-kind donations for 2009/10 at £5 million (2008/09 £5 4 million) Of these, direct charitable donations amounted to £190,000 (2008/09 £444,000)

London 2012 Olympics and Paralympic Games
During the year, we continued to build on our sponsorship strategy for London 2012 Olympic hero Sir Chris Hoy launched our Great Britons Programme which offers free flights to help British talent realise their potential We flew the British and Irish Lions to South Africa for the Lions Rugby Tour and we are proud to be backing the bid to stage the FIFA World Cup in England in 2018

The workplace

We are continuing to make big changes to the way we run our business so that we can achieve our strategy of becoming the leading global premium airline

Our main aim is to develop a customer focused, high performing culture that offers rewards for great individual performance but also recognises different people in the business have different needs in terms of benefits, training and development

At the year end our manpower equivalent was a total of 36,832 across our operations This is a reduction of some 3,800 since March 2009, all on voluntary terms

We completed the restructuring of our management staff at the beginning of 2009 We now have a leaner, more agile organisation, but we have also improved governance and accountability in the business

Having the right leaders with the right support and motivation is essential if we are to create a high performance culture High performance leadership means that our managers can engage with and involve their people in achieving world-class levels of productivity

We are now exploring new ways to boost efficiency and achieve greater value for customers across the rest of the business, with a particular focus on further improving employee engagement. Colleague surveys will now run quarterly and include an engagement index that managers are expected to track and take action on

The latest survey showed that 60 per cent of our people feel generally well informed about the Company, with more than 90 per cent aware of the financial situation Face-to-face communication has been more important than ever this year, we run regular briefings across the Company so that as many people as possible can meet, question and share ideas

Running a responsible business continued

with senior and line managers Live online forums have also played their part in encouraging wider dialogue and understanding Other communication channels include a personalised intranet, mobile SMS messaging, video and a range of Company-wide and local newsletters

Employee relations

The challenging financial and operating environment we faced during the year meant we had to make some fundamental changes to the way we work to manage our way through recession Many thousands of colleagues responded fantastically to this challenge, including working temporarily for no pay, working part-time or taking unpaid leave

We continue to work towards resolving the cabin crew dispute and, longer term, we want to work with the unions to create a new and modern framework for industrial relations within British Airways

We tabled proposed changes to some of our key employment policies during the year We will continue to work with our colleagues and their representatives to introduce these changes as soon as possible

Reward

We recognise how important reward is in making British Airways a great business to work for We are committed to creating an environment where our colleagues feel valued and are recognised fairly for the individual contribution they make

One of our key aims is to provide total reward packages which encourage high performance and outstanding customer service throughout the business To support this aim, we continually look for better ways to communicate with colleagues about the rewards we offer We want to offer them real flexibility and the ability to choose benefits that suit them, including in their pension arrangements

Training and development

We carried out 173,000 days of training during the year This included some 9,000 days of training for cabin crew – twice as many as in 2008/09 – designed to make sure they have the skills to offer our customers the very highest levels of service

Our training team also put huge resources into training volunteer cabin crew to CAA standards during the year as we prepared for the threat of industrial action The large number of courses we ran meant we were able to keep a high proportion of our customers flying during the cabin crew strike, a remarkable achievement

Our Leadership and Talent strategy is a critical part of our efforts to become the leading global premium airline Leadership development continues and is being rolled out more widely in the airline to make sure we embed cultural change and put a real emphasis on the importance of our managers listening and acting on feedback

There is no 'one-size-fits-all' where training and development is concerned Different people have different needs During the year we therefore began developing a new approach Our aim is to create a learning culture where individuals have the right support, resources and motivation to take responsibility for their own personal development.

We continue to attract and develop talent at all levels Last year this included taking 100 people on to new Engineering Apprenticeship programmes and hiring 20 graduates to our Graduate Recruitment programme which now totals 50 in the business

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

2 We introduced our stylish new **First** cabin during the year, offering our customers a sophisticated environment in which to work, sleep, eat and be entertained

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

We continue to focus 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 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

All frontline employees are trained in disability awareness to increase their knowledge about disabled customers and employees

Overall, our Dignity at Work strategy involves training, communications and workshops across the business All departments have targets to achieve and all employees must complete the online 'Expect Respect' training course

The marketplace

Customer
We listen carefully to our customers because it is our best guarantee that we will invest in the products and services they value most Their feedback and opinions have a huge bearing on our strategy to become the leading global premium airline with a sustainable future

But it's also vital that we listen to their wider concerns They expect us to be a highly responsible business with an active CR programme For that reason, we are embedding our One Destination programme into every aspect of our products in a visible and high profile way

Premium service
We aim to provide a premium service to all our customers at every touch point, providing comfort, convenience and reliability Our people play a crucial role in delivering the upgraded customer experience we want everyone who travels with us to enjoy In keeping with the best companies in the hospitality sector, we are investing in an extensive training programme for our customer-facing colleagues to support this

The service we provide on the ground at our main hub, Heathrow, is highly valued by our customers In 2009 we consolidated our Heathrow operations by completing the final moves out of Terminal 4 into Terminal 3 and Terminal 5, thereby offering a smoother travel experience, extensive facilities and consistently high levels of punctuality Our new premium lounges at Terminal 3, which we share with our **oneworld** partners, are proving as popular as those in Terminal 5

On-board experience
Our long-term commitment to offering premium products valued by our customers saw two important launches

Running a responsible business continued

During the year we continued to build on our sponsorship strategy for London 2012

during the year The innovative, all-business class service from London City to New York was launched in September and was an instant success with customers

We also introduced our stylish new **First** cabin, offering our customers a sophisticated environment in which to work, sleep, eat and be entertained

ba.com

Our website has become a significant and integrated part of the British Airways travel experience We are constantly improving our online offering to make it easier for customers to find the best offers, make the right travel choices and purchase more extensive travel packages in one seamless booking

Nearly one-third of our bookings are made through ba com, accounting for 20 per cent of our revenue ba com has also become an invaluable medium for communication with our customers, becoming their first point of call for up-to-date information especially during periods of disruption

In 2009, improvements included the introduction of the value calculator, allowing customers to see the extra value they receive when they choose to fly with British Airways rather than with one of our competitors

Cargo

BAWC has a reputation for tremendous innovation During the year we once again led the field by introducing the next generation of cool chain airfreight logistics products, under the brand name Constant Climate We have also started developing our express airfreight proposition, Prioritise, which will be relaunched during 2010

Our Boeing 747 freighter programme, operating cargo-only flights to 16 destinations on key global trade lanes, continues to be successful and we have now reaffirmed our strategic commitment to this market.

Our loyalty programme, offering small and medium sized businesses the opportunity to earn loyalty points to use on flights and hotels, has proven its worth in the downturn, winning continued support from this important and valuable customer segment

Overseas branches

We fly to a number of destinations around the world (see pages 2 and 3) 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

Each year we spend some £5 2 billion purchasing goods and services from our suppliers We are determined to build strong and trusted relationships with our supply partners but also to boost the efficiency of our procurement process

Efficient procurement

We procure goods and services through a strategic sourcing process, using benchmarking to make sure we achieve maximum value both at the point of purchase and over the life of a supply contract

During the year, our procurement team reviewed our spending with our top 500 suppliers who account for some 94 per cent of total annual external spend The structure of our commercial deals and the specification of the goods and services being bought were fully investigated, resulting in considerable savings over the year

Corporate responsibility in the supplier base

As we describe in more detail in our annual CR report we have taken a fresh look at our supplier CR strategy Called 'Responsible Procurement', the new multi-faceted approach allows us to understand much more clearly if the CR credentials of our suppliers match up with our own 'One Destination' corporate goals

Supplier risk

We have overhauled our supplier risk assessment and monitoring process in favour of a less subjective approach, using external company data and analytics

Payment performance

We continue to maintain supplier payment performance around our target of 90 per cent of suppliers paid in accordance with mutually agreed terms The number of days' purchases in creditors at 31 March 2010 is calculated in accordance with the provisions of the Companies Act 2006 and was 33 days (2009 32 days)

Corporate governance

A LEANER, MORE EFFICIENT BUSINESS

Today British Airways is a leaner and better managed business That's because as we have reduced our costs we have also taken action to strengthen our governance structures and to increase accountability We will continue to look for opportunities to manage our costs and our operations more efficiently and more effectively

Board of Directors

The names and details of the current Directors are set out below All served during the financial year ended 31 March 2010

Board members as at 20 May 2010

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 2008) Chairman of the Nominations Committee Martin is currently Deputy President of the Confederation of British Industry (CBI) and Chairman of Liverpool Football Club and Athletic Grounds Ltd

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 and Iberia Lineas Aéreas de España S A Keith is a chartered accountant

Non-executive Directors

Maarten van den Bergh

Independent Non-executive Director since July 2002, Senior Independent Director since July 2004 Audit, Nominations and Remuneration Committees

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, member of PricewaterhouseCoopers Advisory Board, Non-executive Director of Horizon plc and Korn/Ferry International

Jim Lawrence

Independent Non-executive Director since November 2006 Chairman of the Remuneration Committee Jim was previously Chief Financial Officer of Unilever

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

Rafael Sánchez-Lozano Turmo

Non-executive Director since December 2009 Safety Review Committee Rafael is Managing Director and Chief Operating Officer of Iberia Lineas Aéreas de España S A

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 advisor to DLA Piper, Rio Tinto plc, 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, Rafael Sánchez-Lozano Turmo will seek election and Jim Lawrence and Alison Reed will retire and seek re-election by shareholders at the Annual General Meeting to be held on 13 July 2010 Biographical notes about the Director seeking election and the Directors seeking re-election are set out in the explanatory notes of the Notice of Annual General Meeting

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 20 May 2010, 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 1 January 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 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 1 January 2009

Silla Maizey
Acting Customer Director 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 1 January 2009, Silla was Head of Corporate Responsibility

Roger Maynard
Director of Investments and Alliances Joined the airline in 1987 as Vice-President Commercial Affairs North America, becoming Director of Corporate Strategy in May 1991 He was appointed Director of Investments and Joint Ventures in December 1995, in late 2000 Alliances was added to his portfolio

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 10 Directors

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

Director	Board meetings attended in the period	Audit Committee meetings attended in the period	Nominations Committee meetings attended in the period	Remuneration Committee meetings attended in the period	Safety Review Committee meetings attended in the period
Total in the period	**10**	**5**	**4**	**6**	**4**
Martin Broughton	10		4		
Willie Walsh	10				
Keith Williams	10				
Maarten van den Bergh	10	4	4	6	
Baroness Kingsmill	10	5	4		4
Jim Lawrence	9			6	
Chumpol NaLamlieng*	2/3	1/2			
Dr Martin Read*	2/3		1/1	3/3	
Alison Reed	10	5		6	
Rafael Sánchez-Lozano Turmo**	2/3				1/1
Ken Smart	8	5			4
Baroness Symons	9	5			4

* Retired from the Board on 14 July 2009
** Joined the Board on 11 December 2009

Details of the Directors' remuneration and share interests are set out in the report of the Remuneration Committee on pages 55 to 64

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 2008 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 provides entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met

As a unitary Board, all Directors are involved in, and responsible for, the development of the Company's strategy The Non-executive Directors review the performance of the Company with the Executive Directors on a regular basis The Board delegates certain of its functions to committees consisting of Non-executive Directors, as detailed within this report The Board of the Company routinely meets seven times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the Company, and for these purposes the Board has drawn up a schedule of matters reserved for Board decision which it reviews at least annually Broadly, the Board has reserved to itself major strategic and financial decisions, including investment and divestment decisions, approval of business and financial plans, approval of significant alliance or codeshare partnerships, significant contracts and capital commitments of greater than £10 million

The Board is led by the Chairman and the executive management of the Company is led by the Chief Executive Their respective roles are more fully described in the terms of reference on the Company's investor relations website, www bashares com The Chairman is responsible for setting the Board agenda and ensuring that it works effectively Working with the Secretary, he ensures that Board members receive accurate, timely and clear information Of the 10 members serving at the year end, excluding the Chairman, two were Executive Directors and seven were Non-executive Directors (of which six are considered independent for Combined Code purposes) All seven Non-executive Directors are drawn from a diverse range of business and other backgrounds, bringing a broad spectrum of views and experiences to Board deliberations This diversity of background and experience is identified by the Board 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, or when such channels would be inappropriate He is also responsible for leading the Board's discussions on the Chairman's performance and would lead the process leading to the appointment of a new Chairman, when appropriate

A statement of the Directors' responsibilities in respect of the financial statements is set out on page 65 and a statement on going concern is given on pages 19 and 20

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 information about the Company so that they can play as full a part as possible in Board meetings Papers for Board and Committee meetings are typically distributed in the week prior to the relevant meeting All Board members have access to the Secretary for any further information they require If any of the Non-executive Directors has any concerns with the running of the Company, they would first discuss these concerns with one of the Executive Directors, the Secretary or the Chairman If their concerns cannot be resolved in this way, then they 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 In December 2009, Rafael Sánchez-Lozano Turmo joined the Board following the signing of the Memorandum of Understanding with Iberia Although the Committee is currently satisfied with the composition of the Board, it has been conducting a search for an additional independent Non-executive Director following the retirement of two Non-executives from the Board at the Annual General Meeting in July 2009

The Secretary ensures that the Board members receive an appropriate induction and further training as necessary The Board receives briefings on changes in regulation or law, as circumstances require This has included training in relation to the implications of the Companies Act 2006 as various sections of it came into force More recently the Board has reviewed and responded to the Consultation on the revised UK Corporate Governance Code

The appointment and removal of the Secretary is a matter for the Board as a whole

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

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, which are published on bashares com A Standing Committee, consisting of the Chairman or Senior Independent 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

At the end of the financial year, the Secretary met privately with each member of the Board to review the performance of the Board, its Committees and the individual Directors, the results of which were presented to, and considered by, the Board In addition, the Chairman and Non-executive Directors typically meet without any executives present at least twice each financial year At least once a year, the Non-executive Directors meet under the chairmanship of the Senior Independent Director to review the performance of the Chairman, taking account of the views of the Executive Directors

Relations with shareholders

The Company maintains regular contact with its major 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 The annual Investor Day scheduled for March 2010 was postponed until May 2010, as it would not have been appropriate to hold this event prior to the signing of the Merger Agreement with Iberia

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

Due to the illness of one of the Board members, only 10 of the 11 Board members serving at the time attended the 2009 Annual General Meeting The 2010 Annual General Meeting will be held on Tuesday 13 July at 11 00 am at The Queen Elizabeth II Conference Centre, London The ordinary business of the meeting will be the receipt and adoption of the annual report and accounts, approval of the remuneration report, the election and 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, and the ability of the Company to hold general meetings at 14 days' notice Full details can be found in the Notice of Meeting available on our website, www bashares 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 12 resolutions put to shareholders at the 2009 Annual General Meeting were passed, with a minimum vote of 98 86 per cent The Chairman's and Chief Executive's speeches were made available on the website after the meeting

On 6 August 2009, a General Meeting of shareholders approved the issue of £350 million 5 8 per cent Convertible Bonds due 2014

Directors' conflicts

With effect from 1 October 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 1 October 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 of Association 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)

A register of authorised interests is maintained by the Secretary and updated by the Board as needed from time to time, it was last updated in February 2010

Throughout the year, the Company has complied with all relevant provisions set out in Section 1 of the Combined Code (June 2008)

Directors' and Officers' liability insurance

The Company has purchased insurance against Directors' and Officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and Officers of the Company and its subsidiaries

Corporate governance statement continued

The Company has granted rolling indemnities to the Chairman, Executive and Non-executive Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as officers of companies within the Group These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs You can see a specimen indemnity on the Company's investor relations website, www 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 the Board has no present intention of using it In the event that any political donation is made or political expenditure incurred, the Company would seek further shareholder approval

The Company does not make political donations or incur political expenditure within the ordinary meaning of those words and has no intention of doing so The amount of political donations made and political expenditure incurred in the year to 31 March 2010 was £nil (2009 £nil)

Post-balance sheet events
There were no adjusting material post-balance sheet events occurring after 31 March 2010

Internal control and risk management

Internal control
The Directors are responsible for maintaining, and for reviewing the effectiveness of, the Company's system of internal control including internal financial control This 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

Internal control over financial reporting
The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated accounts These systems are described above and in more detail under the headings 'Internal control framework' and 'Risk management'

During the financial year, no changes in risk management and internal control systems over financial reporting have occurred that have materially affected, or are reasonably likely to have materially affected, the Group's financial reporting.

Standing instructions
In response to The Bribery Act 2010, the Company recently revised and is relaunching its code on business integrity covering matters such as bribery, business conduct and ethics It is one 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 performance management system establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements

Information systems
Information systems are developed to support the Company's long-term objectives and are managed by a professionally staffed Technology Services 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 27 to 32) setting out the agreed targets for financial return and service standards, and identifying and prioritising improvement opportunities to deliver those targets Each year the Board approves the strategy, which is supported by a detailed financial plan for the year ahead Progress against the plan is regularly monitored

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 forecasts are analysed, explained and acted on in a timely manner As well as regular Board discussions, monthly meetings are held by the Management Team to discuss performance with specific projects being discussed when required Throughout 2009/10, 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 2009/10

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, the Head of Corporate Risk and Internal Control and key senior executives 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 This 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 statement on page 19 The Company's 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 2010 Annual General Meeting

Receipts and returns to shareholders

Dividend

The Board has decided not to recommend the payment of a final dividend (2009 nil pence per share)

Share issues, buy-backs and treasury shares

The principle of authorised share capital was no longer applicable after 1 October 2009 by virtue of the Companies Act 2006

During the year, there has been an increase in the issued share capital, details of which 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 14 July 2009 This authority expires on 13 July 2010 and shareholders will be asked to renew this authority at the 2010 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 applicable company law, 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 Company is authorised to conduct share buy-backs of 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 2010 Annual General Meeting

If the Company were to buy-back shares they would be held in treasury They could 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 would be treated as if cancelled so that no dividends would be paid on them and they would have no voting rights No shares were held in treasury during the year ended 31 March 2010 (2009 nil)

Corporate governance statement continued

Shares and shareholders

The number of ordinary shares issued and fully paid as at 31 March 2010 was 1,153,674,000 (31 March 2009 1,153,628,000) The increase over 31 March 2009 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 32 and 33 to the financial statements

Capital structure and shareholder rights

The share capital of the Company is divided into 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

In August 2009 the Company issued £350 million 5 8 per cent Convertible Bonds due 2014 The Bonds are convertible into fully paid ordinary shares of the Company at a price of 189 pence per share and will mature on 14 August 2014

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

In the case of shares held in certificated form, the Directors may, 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

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 that 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 2006, 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 equivalent to 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 31 March 2010, the equivalent of 21 2 million shares were held in ADR form (31 March 2009 21 3 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 6 00 pm on Friday 9 July 2010 in order to be eligible for the 2010 Annual General Meeting If the shares are held in British Airways Investor Services, the Company Nominee, the voting instructions must be received by 11 00 am on Friday 9 July 2010

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 31 March 2010, 41 per cent of the ordinary shares of the Company were held by non-UK nationals (31 March 2009 34 per cent) and 18 per cent of the ordinary shares were held by persons who were not nationals of states comprising the EEA (31 March 2009 20 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 31 March 2010 there were 1,086,001 shares held in the Trust (31 March 2009 2,165,281)

Significant holdings
The Company has been notified pursuant to the DTRs of the following interests of 3 per cent or more of the Company's issued ordinary shares as at 11 May 2010

Name of shareholder	Percentage of holding	Direct %	Indirect %
Black Rock Advisors	13 86		12 60
Iberia Lineas Aéreas de España S A	9 07	9 07	
Standard Life plc	7 34	4 88	2 46
Lloyds Banking Group plc	6 30	0 82	5 48
Janus Capital Management LLC	7 15	7 15	
AXA Investments	4 85	0 75	4 10
INVESCO plc	4 30		4 30
Legal & General Group Plc	3 98	3 98	

Shareholder analysis
As at 31 March 2010, there were 209,129 shareholders (31 March 2009 214,119) An analysis is given below

Size of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	88 12	4 52
1,001 – 5,000	10 51	3 59
5,001 – 10,000	0 81	0 98
10,001 – 50,000	0 32	1 05
50,001 – 100,000	0 04	0 55
100,001 – 250,000	0 07	2 03
250,001 – 500,000	0 04	2 74
500,001 – 750,000	0 01	2 22
750,001 – 1,000,000	0 02	1 93
Over 1,000,000	0 06	80 39
	100 00	**100 00**

Classification of shareholding	Percentage of shareholders	Percentage of shares
Individuals	98 33	9 42
Bank or Nominee	1 38	88 02
Insurance companies	0 01	0 01
Pension trusts	0 01	0 38
Investment trusts	0 02	0 04
Other corporate bodies	0 25	2 13
	100.00	**100 00**

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

- £350 million 5 8 per cent Convertible Bonds due 2014,
- The Joint Business Agreement between (1) American Airlines Inc (2) British Airways Plc, and (3) Iberia Lineas Aereas de España S A dated 14 August 2008,
- Merger agreement between British Airways Plc and Iberia Lineas Aéreas de España S.A. dated 8 April 2010,
- 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 The Directors have determined that if the merger with Iberia proceeds, all options will roll over into International Consolidated Airlines Group S A,
- Joint business agreement with Iberia, which coordinates schedules, marketing, sales, freight, pricing and customer service activities,
- Codeshare agreements with Aer Lingus, American Airlines, bmi, Cathay Pacific, Finnair, Flybe, Iberia, JAL, LAN, Malev, Meridiana Fly, Qantas and Royal Jordanian, and
- Contracts to sell miles to Alaska Airlines, American Airlines, American Express Services Europe Ltd, Chase Bank USA N A , Lloyds TSB plc, Royal Bank of Canada and Tesco Stores Limited

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), Maarten van den Bergh, Baroness Kingsmill, Ken Smart and Baroness Symons

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 five times during the year ended 31 March 2010

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 Other senior management are invited to attend when the business of the Committee requires, in particular areas such as Information Technology 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

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

The key duties of the Committee include to

- Monitor the integrity of the quarterly financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them,
- Review the effectiveness of the Company's internal financial controls, internal control and risk management systems,
- Monitor and review the effectiveness of the Company's internal audit function,
- Make recommendations to the Board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements,
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken, and
- Establish and maintain procedures for processing complaints regarding accounting, internal controls or auditing matters and to review the Company's procedures for the confidential anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters

Items reviewed during the year included

Financial reporting
The Committee reviewed the draft annual and interim management reports before recommending their publication to the Board The Committee discussed with the Chief Executive, Chief Financial Officer and external auditor the significant accounting policies, estimates and judgements applied in preparing these reports The Committee also reviewed the draft interim management statements

Going concern and liquidity risk
The Committee reviewed in detail the Financial Reporting Council's guidance for Directors in relation to going concern and liquidity risk published in October 2009 as well as its paper entitled Challenges for Audit Committees arising from current economic conditions published in November 2009 This year there has been continued strong focus on debt and liquidity management

Internal control and risk management
The Committee reviewed the risk management process and discussed the inherent risks faced by the business Risk management activities take place throughout the organisation to support the Committee in its corporate governance responsibilities, working with the business to proactively and effectively manage risk This, together with the related controls and assurance processes, is designed to identify, evaluate and manage risk and to ensure that the resultant residual risks meet the risk appetite of the Board The principal risks and uncertainties are outlined in the relevant section on pages 33 and 34 The Committee discussed with management how they would continue to deliver high-quality oversight and risk evaluation against the background of the current economic climate

The Committee has an ongoing process for reviewing the effectiveness of the system of internal controls and of the internal audit function During 2009/10, it reviewed and approved the risk-based audit plan and the staffing levels in Internal Control to ensure it had sufficient resources to fulfil the agreed plan It considered reports from the Internal Control team summarising the audit findings and recommendations and describing actions taken by management to address any shortfalls It reviewed the level and nature of outstanding audit weaknesses and invited management to the Committee to further understand progress where it felt it was necessary It also reviewed how the audit function was performing against the relevant standards published by the Institute of Internal Auditors

The business recently introduced an updated anti-fraud policy which provides greater clarity and guidance in respect of British Airway's expectations of its employees This revised code has been supported by a mandatory training course for all management colleagues which will be rolled out further in the organisation in future

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 costs of the external audit The Committee has a clear policy regarding non-audit services that may be provided by the external auditor, which prohibits certain categories of work and controls the overall level of expenditure Pre-authorisation is required for all non-audit work

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 The Committee also received a report for the first time on the work of the Company's network of harassment advisors

Auditor independence
The Committee reviews the work undertaken by the external auditor and each year assesses its independence, objectivity and performance 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 Having reviewed Ernst & Young's performance in 2010, the Committee decided it was in the Group's and shareholders' interest not to tender the external audit in 2010 and recommends the re-appointment of Ernst & Young LLP

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 Board is satisfied that the Committee is operating effectively, and meeting all applicable legal and regulatory requirements

Other issues
Details of the fees paid to the external auditor during 2009/10 can be found in note 6 to the financial statements

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

Report of the Nominations Committee

Members Martin Broughton (Chairman), Maarten van den Bergh 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, www 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 During the year, Rafael Sánchez-Lozano Turmo was appointed as a Non-executive Director pursuant to Clause 9 of the Memorandum of Understanding between Iberia and British Airways dated 12 November 2009, which gave Iberia the right to nominate a Director to the Board of British Airways Rafael Sanchez-Lozano Turmo will seek election by shareholders at the Annual General Meeting to be held on 13 July 2010 Whilst the Committee is satisfied with the current composition and diversity of the Board, it 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 two independent Non-executive Directors for the Board of International Consolidated Airlines Group S A although this is technically outside the terms of reference of the Committee

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 Jim Lawrence and Alison Reed for re-election at the Annual General Meeting to be held on 13 July 2010 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, Baroness Symons and Rafael Sánchez-Lozano Turmo (from December 2009)

The Safety Review Committee meets at least four times a year to consider matters relating to the operational safety of the airline and subsidiary airlines, as well as health and safety issues The full terms of reference are available on the Company's investor relations website, www 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 2009/10, issues raised at the Safety Review Committee included the

- AAIB report into the Boeing 777 short landing at Heathrow on 17 January 2008,
- Circumstances leading to the Certification Authorities requiring modification to the reverse thrust sensing system on the Boeing 747 fleet to ensure safe operation, following an incident on take-off in May 2009 from Johannesburg, and
- Learning points for British Airways from the independent review conducted by Charles Haddon Cave QC into the broader issues surrounding the loss of an RAF Nimrod aircraft in 2006 over Afghanistan

The Chief Executive is the named Accountable Manager for the Company for the purposes of the Air Operators Certificate and EU Ops (EU Ops are prescribed in Annex 111 to EU Regulation No 3922/1991) As the Accountable Manager, he chairs quarterly meetings of the Safety Review Board 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

Report of the Remuneration Committee

Information not subject to audit

Members Jim Lawrence (Chairman), Maarten van den Bergh and Alison Reed

Committee and advisers

At the Annual General Meeting in July 2009, Dr Martin Read retired from the Board and Jim Lawrence was appointed Chairman of the Remuneration Committee in his place

The Company's Remuneration Committee determines on behalf of the Board, within the agreed terms of reference (which were amended during the year and can be found on the Company's website, www bashares com), 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) 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 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 Initial proposals for any new remuneration schemes would be considered 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 Watson 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, however, aware of the risk of an upward ratcheting of remuneration that can result from over reliance on pay surveys

Hewitt is the advisor to the Remuneration Committee and provided advice to the Committee that materially assisted it Its terms of reference are available for inspection on the Company's investor relations website During the year, the Committee put the contract for its advisory work out to tender in a competition which was won by the incumbent, Hewitt

The Chairman, Chief Executive, Chief Financial Officer, Secretary, Director – People and Organisational Effectiveness and Head of Reward, 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 Hay provided no services to the Company other than advice on remuneration matters during 2009/10 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

Towers Watson provides actuarial advice to the Trustees of the British Airways pension schemes

Where appropriate, the Committee consults with major investors about its proposals

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 Company aims to provide remuneration packages which 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 and takes account of pay and employment conditions of employees elsewhere in the Group

The Committee is satisfied that the compensation packages, which are set by reference to market base salary and incentive pay levels and take account of the Company's Key Performance Indicators, do not raise any environmental, social or governance risks by inadvertently motivating undue risk taking.

Report of the Remuneration Committee continued

The Remuneration Committee is well aware of the challenging economic environment and its severe impact on the Company's finances, but it also recognises 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 also continues to need to attract top talent from outside the organisation

The Committee is also aware that the Company's senior management faces a series of key strategic challenges over the next year, including execution of the planned merger with Iberia, the conclusion of the Joint Business Agreement with American Airlines and Iberia, a satisfactory resolution to the pension funding issue and improving employee relations

Against this background, the Committee has considered how best to structure future incentive arrangements, in particular the design of the annual bonus plan for 2010/11 and the nature of the performance criteria that should apply to Performance Share Plan awards scheduled to be granted in 2010 The Committee's policy (which has been discussed with the Association of British Insurers (ABI), Risk Metrics and some major investors) is described below Recognising that there have been some signs of improvement in the economic environment and performance of the Company, the Committee has decided to increase the potential level of annual bonus awards in relation to 2010/11 from 50 per cent of the normal maxima applying before 2009/10 to two-thirds of those maxima and make awards for 2010/11 under the Performance Share Plan at the same percentage level of salary as has been applied since 2008

Remuneration package

The package for the Executive Directors for 2009/10 consisted of a base 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 50 per cent of total target remuneration (excluding pension arrangements) The package for the Executive Directors for 2010/11 will be the same other than in relation to the annual bonus scheme as described below As a result of the increase in bonus potential, the proportion of performance-related variable remuneration, through the bonus scheme and awards under the Performance Share Plan, has risen marginally to approximately 56 per cent of total target remuneration (excluding pension arrangements)

Expected value of the elements of the package

	Chief Executive	Chief Financial Officer
Salary	40 7%	35 9%
On-target bonus	20 3%	14 8%
Expected value of LTIP	33 0%	29 1%
Pension	5 1%	19 3%
Benefits	0 9%	0 9%
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 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

Base salary

The base salary reflects the level of responsibility of the Executive Director, his market value and individual performance The Committee's objective is to position base salaries around the market median level In reviewing base salary, independent external advice is taken on salaries for comparable jobs in similar sized 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 1 July 2008, are

Willie Walsh	£735,000 (2008 £735,000)
Keith Williams	£440,000 (2008 £440,000)

As reported last year, there was no increase in base salary levels for management throughout the organisation By contrast, the five bargaining groups representing non-management grades received incremental salary increases adding a further 1 6 per cent on average to the Company's employee costs Consistent with the drive to cut costs and as widely reported at the time, the Executive Directors voluntarily did not receive their base salary for the month of July 2009 As in 2009/10, the Company does not propose to increase base salary levels for the Executive Directors in 2010/11, this is again in line with the Company-wide objective of no general increases in base salary throughout the organisation

Annual bonus

Reflecting that the Company was anticipated to make a loss for 2009/10, the maximum amount of annual bonus available for distribution to senior executives was reduced by 50 per cent A total maximum annual bonus of 75 per cent of base salary for the Chief Executive and 62 5 per cent of base salary for the Chief Financial Officer was therefore available for maximum performance against the targets (see below), with any award payable in deferred shares vesting after three years (under the British Airways Deferred Share Plan 2005 as detailed on page 59)

The Committee determined that the annual bonus would be based on three measures with one half of the total award based on achievement of the financial plan for the year, one quarter based on customer recommendation and one quarter based on punctuality

The two non-financial measures are two of the Company's Key Performance Indicators and are more fully described on page 32 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 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 began once the financial plan had been achieved with a sliding scale so that full payment required performance significantly better than plan The Committee also retained 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 The Company achieved the target results under the financial plan and accordingly12 5 per cent of the bonus potential was earned The threshold target for the customer recommendation measure was achieved and therefore 5 per cent of bonus potential was earned The stretch target for the punctuality measure was exceeded and therefore 12 5 per cent of bonus potential was earned The Committee determined that in the extremely difficult circumstances encountered during the year, the financial performance of the Company had been satisfactory and therefore awards equating to 30 per cent of the bonus maximum will be made under the British Airways Deferred Share Plan 2005

As described on page 56 and above, for 2010/11, the Committee has determined that it would be appropriate to partially restore the level of annual bonus awards to two-thirds of the 2008/09 maxima The amount of annual bonus available for distribution for 2010/11 will therefore be a maximum limit of 100 per cent of salary for the Chief Executive, 82 5 per cent of salary for the Chief Financial Officer and two-thirds for senior executives generally Any award would only be payable half in cash and half in deferred shares which would vest after three years (under the British Airways Deferred Share Plan 2005 as detailed on page 59)

The Committee has given significant consideration to the performance metrics for the 2010/11 plan Recognising the importance of the key strategic initiatives the Company is undertaking, the Committee considers that it is appropriate to base 30 per cent of the bonus payable to the Executive Directors and certain senior managers on the achievement of strategic targets relating to the Iberia merger, the Joint Business Agreement with American Airlines and Iberia, agreeing a recovery plan in respect of the pension deficits, and an improvement in industrial relations For other managers, 30 per cent of the bonus will be assessed with reference to personal objectives, 40 per cent of the bonus will be based on operating profit, based on achievement of the financial plan, with a sliding scale so that full payment requires performance to be significantly better than plan and no payment will be made if there is an operating loss The threshold for 2010/11 represents a significant improvement on the target for 2009/10 Finally, 15 per cent will be based on customer recommendation and 15 per cent on punctuality For both customer recommendation and punctuality, the Committee has again set a sliding scale around the targets for the year, with significant stretch required above the target to earn full payment.

For all of the metrics, 25 per cent of the potential bonus will be payable for reaching a threshold level of performance, with 50 per cent payable at target and 100 per cent at stretch There will be straight-line vesting between these points

The Committee retains the discretion to prevent any bonus payments if, in its opinion, the financial performance of the Company has not been satisfactory in the circumstances

Assuming that the merger with Iberia is completed on time, the financial year will be shortened to nine months ending 31 December 2010 for consistency with the new holding company's financial year end The bonus targets have been structured so that they could apply to a full financial year or, assuming the merger with Iberia is implemented on time, to a nine month period until 31 December 2010 In the event that the bonus relates to a nine month period, bonus amounts will be prorated down to nine-twelfths, with a new 12 month bonus plan resuming from January 2011

Long-term incentive arrangements

British Airways Performance Share Plan 2005

The British Airways Performance Share Plan 2005 (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

Report of the Remuneration Committee continued

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 Executive Directors were granted this level of award for 2009/10, although in light of the circumstances prevailing at the time of award, Willie Walsh felt it appropriate to decline his award

Other members of the Management Team received awards equivalent to 100 per cent of their respective base salaries The Committee considers that maintaining these award levels is appropriate for the 2010 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 from normal levels and that the overall remuneration packages are not high by market standards The Committee also took into account the rise in the Company's share price over the past year

The awards made annually prior to 2009/10 are 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 1 April prior to the award date The awards do not vest until the third anniversary of the date of award For the awards made in 2009/10, the lack of visibility over the period 2009/10 to 2011/12 made it very difficult to set three year financial targets, so the whole of the award was conditional on the Company's relative TSR performance, with a financial underpin This requires the Remuneration Committee to be 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

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 relating to TSR vest There is then a sliding scale at the top of which all of the shares relating to TSR vest in full if the Company's TSR performance is at or above the upper quintile (top 20 per cent) of the comparator group The comparator group of airlines used in the awards from 2006 to 2009 are shown in the table below

Air Berlin (2008 and 2009 only)	JAL (2009 only)
Air Canada	LAN (2009 only)
Air France	Lufthansa
Air New Zealand	Northwest Airlines (2008 only)
Alitalia (not 2009)	Qantas Airways
All Nippon Airlines	Ryanair
American Airlines	SAS
Cathay Pacific Airways	Singapore Airlines
Continental Airlines	Southwest Airlines (2006 and 2007 only)
Delta Airlines (2008 and 2009 only)	United Airlines
EasyJet	US Airways
Iberia	

It is currently intended that the comparator group for awards that are made in 2010/11 will be broadly the same as that used in 2009/10 In the event that the merger with Iberia proceeds, the TSR performance of the Company will be used up to the merger date and the TSR performance of the new holding company will be used to determine performance for the remaining period over which the awards are tested

For the 50 per cent of the awards made prior to 2009/10 that are subject to the operating margin performance condition, targets are as follows

		Average annual operating margin over performance period		
Award	Performance period	0% vests	25% of shares (ie 12 5% of total award) vest	100% of shares (ie 50% of total award) vest
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 performance criteria for the 2010/11 awards While the Committee believes that it is generally desirable to base part of the award on financial performance, in view of the impending merger with Iberia and the difficulty of setting appropriate financial targets covering three years including this transition period, the Committee has determined that the 2010/11 award should again be conditional solely upon relative TSR performance 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 again will underpin the TSR test with the same requirement relating to financial performance applied to the 2009/10 awards Therefore, irrespective of the outcome on TSR, awards will only vest if the Remuneration Committee is satisfied that underlying financial performance has shown an improvement and that this is satisfactory in the circumstances prevailing over the three year period, bearing in mind the effect of the merger assuming it goes ahead The Remuneration Committee continues to use 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, whether or not the merger goes ahead

British Airways Deferred Share Plan 2005
The British Airways Deferred Share Plan 2005 (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 All of the bonus payable in relation to 2009/10 will be made in the form of deferred shares

For further information regarding these schemes, see pages 62 to 64 which contain details of awards to Executive Directors and in prior years under current and historic share incentive schemes and also see note 33 to the financial statements

Shareholding guideline
A shareholding guideline is operated to further align the interests of executives and shareholders Executives are expected to retain no fewer than 50 per cent of the shares (net of tax) which vest from the DSP and the PSP until they have a personal shareholding equivalent to 100 per cent of base salary

British Airways All-Employee Share Ownership Plan
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 the year end has a rolling contract with a one year notice period As a matter of policy, in the event of new external appointments, the length of service contracts would be determined by the Remuneration Committee in the light of the then prevailing market practice However, the Remuneration Committee recognises that, in some cases, it may be necessary to offer a contract with a notice period in excess of one year in order to attract a new Executive Director In these circumstances, the Remuneration Committee acknowledges that the notice period should reduce to one year after the initial period in accordance with paragraph B 1 6 of the Combined Code

The service contracts for the serving Directors include the following terms

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

Report of the Remuneration Committee continued

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 £22,000 as a Non-executive Director of Transport for London Keith Williams was appointed a Non-executive Director of Iberia Lineas Aereas de España S A (from 17 December 2009), the fees from this appointment are payable to the Company

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 1 April 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 base 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 out on page 61

Non-executive Directors

Policy
The Company's policy is that the Chairman's fee, which is set by the Remuneration Committee, should be in line with the market rate reflecting his time commitment to the Group For Non-executive Directors, the Company's policy is that their remuneration, which is set by the Executive Directors on the recommendation of the Chairman, should be sufficient to attract and retain Non-executive Directors of the highest calibre The Chairman and the Non-executive Directors do not receive performance-related pay and their fees are not pensionable They are, however, eligible for non-contractual travel concessions

Chairman's and Non-executive Directors' fees
The Chairman's fee 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

For the year in question, the Non-executive Directors' fees (which were fixed in October 2006 and reviewed but unchanged in October 2008) were £40,000 per annum, with the chairmen of the Audit, Remuneration and Safety Review Committees and the Senior Independent Non-executive Director each receiving £10,000 per annum in addition to these fees No other fees are paid for attendance at Board Committees Consistent with the Executive Directors, the Chairman and the Non-executive Directors chose not to receive their fees for the month of July 2009

Service agreements
The dates of the Chairman's and Non-executive Directors' appointments are as follows

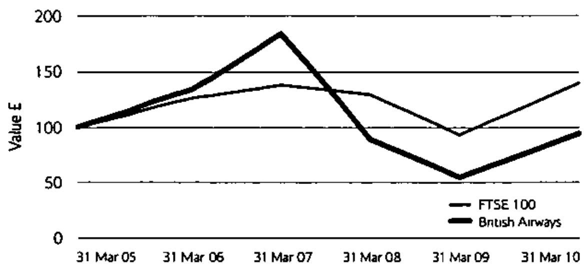
Non-executive	Date of appointment	Date of election/ last re-election	Expiry date
Martin Broughton	12 May 2000	14 July 2009	2012
Maarten van den Bergh	16 July 2002	15 July 2008	2011
Baroness Kingsmill	1 November 2004	15 July 2008	2011
Jim Lawrence	1 November 2006	17 July 2007	2010
Chumpol NaLamlieng*	1 November 2005	18 July 2006	2009
Dr Martin Read*	12 May 2000	18 July 2006	2009
Alison Reed	1 December 2003	17 July 2007	2010
Rafael Sánchez-Lozano Turmo	11 December 2009	13 July 2010	2010
Ken Smart	19 July 2005	15 July 2008	2011
Baroness Symons	19 July 2005	15 July 2008	2011

* Retired from the Board 14 July 2009

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 TSR (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



Source Thomson Financial

Information subject to audit

Directors' remuneration

	Base salary and fees £000	Taxable benefits* £000	Performance-related bonuses: Cash £000	Performance-related bonuses: Value of deferred shares £'000	Total 2009/10 £'000	Excluding the voluntary reduction, the total would have been £'000	*Total 2008/09 £'000*
Executive Directors							
Willie Walsh	674	16		334	**1,024**	1,085	*743*
Keith Williams	403	12		167	**582**	619	*446*
Non-executive Directors							
Martin Broughton	321	30			**351**	380	*381*
Maarten van den Bergh	46				**46**	50	*50*
Baroness Kingsmill	37	1			**38**	41	*41*
Jim Lawrence	43	4			**47**	51	*42*
Chumpol NaLamlieng**	11				**11**	11	*43*
Dr Martin Read**	14				**14**	14	*51*
Alison Reed	46	1			**47**	51	*50*
Rafael Sanchez-Lozano Turmo***	12				**12**	12	
Ken Smart	46				**46**	50	*50*
Baroness Symons	37				**37**	40	*40*
Aggregate emoluments	**1,690**	**64**		**501**	**2,255**	2,404	*1,937*

All Directors chose not to receive base salary/fees for the month of July 2009

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

** Retired from the Board on 14 July 2009

*** Joined the Board on 11 December 2009 his fee is payable to Iberia

The pension entitlements of the Executive Directors were

	Accumulated accrued benefits 31 March 2010 £	Increase in accrued benefits during the year £	Increase before inflation in accrued benefits during the year £	Transfer value* of increase before inflation less Director's contributions £
Keith Williams	**105,950**	8,495	8,495	109,053

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

	31 March 2010 £	31 March 2009 £	Director's contributions during the year £	Movement less Director's contributions* £
Keith Williams	**1,771,254**	1,498,241	36,429	236,584

* Transfer value represents a liability of the Company not a sum paid or due to the individual It is calculated in accordance with 'The Occupational Pension Schemes Transfer Value Regulations (1996)' as subsequently amended

Keith Williams is a member of both the New Airways Pension Scheme (NAPS) and an unfunded unapproved retirement scheme, which, under the terms of his service contract, will provide a total retirement benefit at age 60 equivalent to 1/56th of pensionable pay for each year of service up to 31 March 2007 For service after 1 April 2007, he is entitled to 1/60th of pensionable pay for each year of service, payable at age 65 In line with other NAPS members, Keith Williams is entitled to buy back to 1/56th payable at age 60 should he so elect.

Willie Walsh is a member of BARP, a defined contribution scheme and the Company paid contributions during the year of £92,242 (2009 £90,678)

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

Report of the Remuneration Committee continued

Directors' beneficial interests in shares

	British Airways Plc ordinary shares 31 March 2010	British Airways Plc ordinary shares *1 April 2009*
Current Board members		
Martin Broughton	**69,090**	*69,090*
Willie Walsh	**150,078**	*121,734*
Keith Williams	**33,016**	*15,693*
Maarten van den Bergh	**2,000**	*2,000*
Baroness Kingsmill	**2,000**	*2,000*
Alison Reed	**10,000**	*10,000*
Rafael Sáchez-Lozano Turmo		
Ken Smart	**2,000**	*2,000*
Baroness Symons		
Total	**268,184**	*222,517*

	British Airways Plc American Depositary Shares* 31 March 2010	British Airways Plc American Depositary Shares* *1 April 2009*
Jim Lawrence	**1,000**	*1,000*

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

	British Airways Plc Convertible Bonds due 2014 31 March 2010	British Airways Plc Convertible Bonds due 2014 *1 April 2009*
Martin Broughton	**2**	*N/A*

Board members who retired during the year	British Airways Plc ordinary shares 14 July 2009*	British Airways Plc ordinary shares *1 April 2009*
Chumpol NaLamlieng	**20,000**	*20,000*
Dr Martin Read	**8,000**	*8,000*
Total	**28,000**	*28,000*

* Date of retirement.

There have been no changes to the shareholdings set out above between 31 March 2010 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 1 April 2009*	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 31 March 2010**
Keith Williams	26 Aug 1999	*30,456*	394p		30,456		26 Aug 2002	26 Aug 2009	**Nil**
	28 June 2000	*26,315*	380p				28 June 2003	28 June 2010	**26,315**
	26 June 2001	*38,940*	321p				26 June 2004	26 June 2011	**38,940**
	1 July 2002	*91,160*	181p				1 July 2005	1 July 2012	**91,160**
	25 June 2003	*114,649*	157p				25 June 2006	25 June 2013	**114,649**
	25 June 2004	*72,480*	262p				25 June 2007	25 June 2014	**72,480**
	23 June 2005	*69,927*	276p				23 June 2008	23 June 2015	**69,927**
Total		*443,927*			**30,456**				**413,471**

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

Directors' conditional awards

The following Directors held conditional awards over ordinary shares of the Company granted under the British Airways Long Term Incentive Plan 1996 (LTIP) and the 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 1 April 2009*	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 31 March 2010**
Willie Walsh*	PSP	24 November 2006	*185,950*			185,950		**Nil**
	PSP	9 August 2007	*254,854*					**254,854**
	PSP	19 August 2008	*430,664*					**430,664**
Total			*871,468*			**185,950**		**685,618**
Keith Williams	LTIP	9 June 2003	*46,631*					**46,631**
	LTIP	16 June 2004	*22,141*					**22,141**
	PSP	24 November 2006	*77,479*			77,479		**Nil**
	PSP	9 August 2007	*125,910*					**125,910**
	PSP	19 August 2008	*257,813*					**257,813**
	PSP	19 March 2010					325,123	**325,123**
Total			*529,974*			**77,479**	**325,123**	**777,618**

* In light of the Company's circumstances at the time Willie Walsh felt it appropriate to decline his 2009 PSP award which would have been made on 19 March 2010

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 are subject to the performance conditions outlined earlier in this report on page 58 In each case, the performance conditions will be measured over a single three year performance period, which begins on 1 April prior to the award date For the awards granted in 2006, 2007 and 2008, 50 per cent of the award was subject to TSR performance measured against a group of airlines, and 50 per cent was subject to average operating margin performance For awards granted in 2009/10, 100 per cent of the award was based on TSR performance, with a financial underpin Awards generally vest on the third anniversary of the award date

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

The award granted in 2007 was tested at the end of 2009/10 As a result, none of the shares will vest as neither the TSR nor the operating margin performance conditions were met. The award therefore lapsed on 7 May 2010

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2009 PSP award (19 March 2010) was 203 pence (2008 256 pence, 2007 412 pence, 2006 484 pence)

Report of the Remuneration Committee continued

Deferred Share Plan

The following Directors held conditional awards over ordinary shares of the Company granted under the DSP

	Relates to bonus earned in respect of performance in	Date of award	*Number of awards as at 1 April 2009*	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	**Number of awards as at 31 March 2010**
Willie Walsh	2005/06	24 November 2006	*27,800*	27,800	30 June 2009			**Nil**
Keith Williams	2005/06	24 November 2006	*16,991*	16,991	30 June 2009			**Nil**
	2007/08	19 August 2008	*26,100*		30 June 2011			**26,100**

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2006 DSP award (24 November 2006) was 484 pence The share price on the date of vesting of this award (30 June 2009) was 124 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 additional shares of 544 and 332 respectively in relation to the dividend equivalent due

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 restrict the issues under the Company's discretionary schemes to 5 per cent in any 10 year period As at 31 March 2010, the headroom available for the all-employee share schemes was 5 31 per cent and 0 34 per cent for the discretionary schemes Whereas it had been the Company's intention to use newly issued shares for the SOP and the PSP and market purchased shares for the LTIP and the DSP, it has been agreed with Iberia as a term of the merger agreement that only market purchased shares will be used to satisfy future awards

The highest and lowest prices of the Company's shares during 2009/10 and the share price at 31 March 2010 (and prior year comparatives) were

	2010	*2009*
At 31 March	**243 00**	*140 80*
Highest in the year	**253 90**	*282 50*
Lowest in the year	**118 00**	*109 90*

Approved by the Board and signed on its behalf by

James A Lawrence Non-executive Director and Chairman of the Remuneration Committee
20 May 2010

Responsibility 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 44 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 418(2) of the Companies Act 2006

Statement of Directors' responsibilities in relation to the financial statements
The Directors as listed on page 44 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 44 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 2006 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 listed on page 44 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 2006 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 management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face

Approved by the Board and signed on its behalf by

Alan Buchanan Company Secretary
20 May 2010

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

We have audited the financial statements of British Airways Plc for the year ended 31 March 2010 which comprise the Group consolidated income statement, the Group statement of other comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes 1 to 38 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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
As explained more fully in the Directors' responsibilities statements set out on page 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2010 and of the Group's loss for the year then ended,
- The Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- The Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- The Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- Certain disclosures of Directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- The Directors' statement, set out on pages 19 and 20, in relation to going concern, and
- The part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Ernst & Young LLP

Ernst & Young LLP
Richard Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory auditor
London
20 May 2010

Financial statements

PUNCTUALITY AND PERFORMANCE

Despite ferocious trading conditions, we achieved new record highs in our operating performance during the year From Terminals 3 and 5 at Heathrow, to Gatwick, London City Airport and elsewhere, we've seen our punctuality scores rise above the high levels achieved the year before It's essential we maintain this fantastic progress as recovery takes hold

Group consolidated income statement

For the year ended 31 March 2010

£ million	Note	Group 2010	Group 2009
Traffic revenue			
Passenger		**6,980**	*7,836*
Cargo		**550**	*673*
		7,530	*8,509*
Other revenue		**464**	*483*
Revenue	3	**7,994**	*8,992*
Employee costs	7	**1,998**	*2,193*
Restructuring	4	**85**	*78*
Depreciation, amortisation and impairment	4	**732**	*694*
Aircraft operating lease costs		**69**	*73*
Fuel and oil costs		**2,372**	*2,969*
Engineering and other aircraft costs		**505**	*510*
Landing fees and en-route charges		**608**	*603*
Handling charges, catering and other operating costs		**997**	*1,021*
Selling costs		**290**	*369*
Currency differences		**(2)**	*117*
Accommodation, ground equipment and IT costs		**571**	*585*
Total expenditure on operations		**8,225**	*9,212*
Operating loss	4	**(231)**	*(220)*
Fuel derivative gains/(losses)		**15**	*(18)*
Finance costs	8	**(157)**	*(182)*
Finance income	8	**20**	*95*
Net financing expense relating to pensions	8	**(116)**	*(17)*
Retranslation charges on currency borrowings	8	**(14)**	*(59)*
(Loss)/profit on sale of property, plant and equipment and investments	9	**(16)**	*8*
Share of post-tax (losses)/profits in associates accounted for using the equity method	19	**(32)**	*4*
Net charge relating to available-for-sale financial assets	10		*(12)*
Loss before tax		**(531)**	*(401)*
Tax	11	**106**	*43*
Loss after tax		**(425)**	*(358)*

Statement of other comprehensive income

For the year ended 31 March 2010

£ million	Group 2010	2009
Net loss for the year	**(425)**	*(358)*
Other comprehensive income		
Exchange (losses)/gains	**(18)**	*38*
Net gains/(losses) on cash flow hedges	**587**	*(988)*
Share of other movements in reserves of associates	**34**	*(26)*
Net gain on available-for-sale financial assets	**17**	
Available-for-sale assets – realisation of fair value gains		*(4)*
Held-to-maturity investments marked-to-market	**5**	*(5)*
Total comprehensive income/(loss) for the year (net of tax)	**200**	*(1,343)*
Attributable to		
Equity holders of the parent	**182**	*(1,360)*
Non-controlling interest	**18**	*17*
	200	*(1,343)*

	Note	Group 2010	2009
Earnings/(loss) per share			
Basic	12	**(38 5)p**	*(32 6)p*
Diluted	12	**(38 5)p**	*(32 6)p*

Balance sheets

At 31 March 2010

£ million	Note	Group 2010	Group 2009	Company 2010	Company 2009
Non-current assets					
Property, plant and equipment					
Fleet	14	**5,739**	*5,996*	**5,523**	*5,805*
Property	14	**920**	*971*	**871**	*920*
Equipment	14	**245**	*266*	**239**	*258*
		6,904	*7,233*	**6,633**	*6,983*
Intangibles					
Goodwill	17	**40**	*40*		
Landing rights	17	**202**	*205*	**163**	*163*
Software	17	**27**	*22*	**27**	*22*
		269	*267*	**190**	*185*
Investments in subsidiaries	19			**2,368**	*2,356*
Investments in associates	19	**197**	*209*		
Available-for-sale financial assets	20	**76**	*65*	**21**	*27*
Employee benefit assets	35	**483**	*340*	**483**	*340*
Derivative financial instruments	31	**27**	*3*	**27**	*3*
Prepayments and accrued income		**17**	*25*	**93**	*9*
Total non-current assets		**7,973**	*8,142*	**9,815**	*9,903*
Non-current assets held for sale	16	**30**	–	**25**	–
Current assets and receivables					
Inventories	21	**98**	*127*	**97**	*125*
Trade receivables	22	**499**	*530*	**486**	*517*
Other current assets	23	**289**	*268*	**376**	*382*
Derivative financial instruments	31	**74**	*40*	**74**	*40*
Other current interest-bearing deposits	24	**928**	*979*	**908**	*43*
Cash and cash equivalents	24	**786**	*402*	**756**	*219*
		1,714	*1,381*	**1,664**	*262*
Total current assets and receivables		**2,674**	*2,346*	**2,697**	*1,326*
Total assets		**10,677**	*10,488*	**12,537**	*11,229*
Shareholders' equity					
Issued share capital	32	**288**	*288*	**288**	*288*
Share premium		**937**	*937*	**937**	*937*
Investment in own shares		**(4)**	*(9)*	**(4)**	*(9)*
Other reserves	34	**692**	*430*	**273**	*10*
Total shareholders' equity		**1,913**	*1,646*	**1,494**	*1,226*
Non-controlling interests	34	**200**	*200*		
Total equity		**2,113**	*1,846*	**1,494**	*1,226*
Non-current liabilities					
Interest-bearing long-term borrowings	27	**3,446**	*3,074*	**3,698**	*3,333*
Employee benefit obligations	35	**208**	*191*	**200**	*182*
Provisions for deferred tax	11	**774**	*652*	**720**	*592*
Other provisions	29	**159**	*256*	**141**	*215*
Derivative financial instruments	31	**5**	*123*	**5**	*123*
Other long-term liabilities	26	**232**	*204*	**194**	*169*
Total non-current liabilities		**4,824**	*4,500*	**4,958**	*4,614*
Current liabilities					
Current portion of long-term borrowings	27	**556**	*689*	**554**	*689*
Trade and other payables	25	**2,910**	*2,796*	**5,256**	*4,045*
Derivative financial instruments	31	**12**	*471*	**13**	*471*
Current tax payable		**2**	*4*	**5**	*4*
Short-term provisions	29	**260**	*182*	**257**	*180*
Total current liabilities		**3,740**	*4,142*	**6,085**	*5,389*
Total equity and liabilities		**10,677**	*10,488*	**12,537**	*11,229*

Willie Walsh
Keith Williams
20 May 2010

Cash flow statements

For the year ended 31 March 2010

		Group		Company	
£ million	Note	2010	2009	2010	2009
Cash flow from operating activities					
Operating loss		**(231)**	*(220)*	**(202)**	*(165)*
Depreciation, amortisation and impairment		**732**	*694*	**709**	*670*
Operating cash flow before working capital changes		**501**	*474*	**507**	*505*
Movement in inventories, trade and other receivables		**(181)**	*32*	**(242)**	*(28)*
Movement in trade and other payables and provisions		**241**	*(132)*	**1,289**	*(128)*
Payments in respect of restructuring		**(81)**	*(64)*	**(81)**	*(62)*
Payments in settlement of competition investigation		**(19)**	*(4)*	**(19)**	*(4)*
Other non-cash movement			*1*		*7*
Cash generated from operations		**461**	*307*	**1,454**	*290*
Interest paid		**(136)**	*(177)*	**(125)**	*(163)*
Taxation		**6**	*3*	**(4)**	*26*
Net cash generated from operating activities		**331**	*133*	**1,325**	*153*
Cash flow from investing activities					
Purchase of property, plant and equipment	14	**(492)**	*(547)*	**(391)**	*(528)*
Purchase of intangible assets	17	**(13)**	*(24)*	**(13)**	*(24)*
Proceeds from sale of other investments			*7*		*7*
Proceeds from sale of property, plant and equipment		**102**	*5*	**60**	*10*
Insurance recoveries for write-off of Boeing 777 aircraft			*12*		*12*
Purchase of subsidiary (net of cash acquired)		**(9)**	*(34)*	**(9)**	*(144)*
Proceeds received from loan notes		**7**		**7**	
Interest received		**17**	*105*	**8**	*53*
Dividends received			*17*	**6**	*6*
Decrease/(increase) in other current interest-bearing deposits		**51**	*202*	**(865)**	*356*
Net cash used in investing activities		**(337)**	*(257)*	**(1,197)**	*(252)*
Cash flow from financing activities					
Proceeds from long-term borrowings		**1,053**	*377*	**1,053**	*377*
Proceeds from equity portion of convertible bond		**84**		**84**	
Repayments of borrowings		**(160)**	*(66)*	**(148)**	*(55)*
Payment of finance lease liabilities		**(609)**	*(402)*	**(616)**	*(411)*
Exercise of share options			*1*		*1*
Dividends paid			*(58)*		*(58)*
Distributions made to holders of perpetual securities		**(18)**	*(17)*		
Net cash flow from financing activities		**350**	*(165)*	**373**	*(146)*
Net increase/(decrease) in cash and cash equivalents		**344**	*(289)*	**501**	*(245)*
Net foreign exchange differences		**40**	*8*	**36**	*31*
Cash and cash equivalents at 1 April		**402**	*683*	**219**	*433*
Cash and cash equivalents at 31 March	24	**786**	*402*	**756**	*219*

Statements of changes in equity

For the year ended 31 March 2010

Group

£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	**Total shareholders' equity**	Non-controlling interests	**Total equity**
At 1 April 2009	288	937	(9)	430	**1,646**	200	**1,846**
Total comprehensive income for the year (net of tax)				182	**182**	18	**200**
Equity portion of convertible bond*				84	**84**		**84**
Cost of share-based payment				1	**1**		**1**
Exercise of share options			5	(5)			
Distributions made to holders of perpetual securities						(18)	**(18)**
At 31 March 2010	**288**	**937**	**(4)**	**692**	**1,913**	**200**	**2,113**

* After deduction of transaction costs of £2 million

For the year ended 31 March 2009

Group

£ million	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (note 34)*	*Total shareholders equity*	*Non-controlling interests*	*Total equity*
At 1 April 2008	*288*	*937*	*(10)*	*1,818*	*3,033*	*200*	*3,233*
Adoption of IFRIC 13				*(206)*	*(206)*		*(206)*
Adoption of IFRIC 14				*235*	*235*		*235*
At 1 April 2008 (restated)	*288*	*937*	*(10)*	*1,847*	*3,062*	*200*	*3,262*
Total comprehensive (loss)/income for the year (net of tax)				*(1,360)*	*(1,360)*	*17*	*(1,343)*
Cost of share-based payment				*1*	*1*		*1*
Exercise of share options			*2*	*(2)*			
Purchase of own shares			*(1)*		*(1)*		*(1)*
Net dividends				*(56)*	*(56)*		*(56)*
Distributions made to holders of perpetual securities						*(17)*	*(17)*
At 31 March 2009	*288*	*937*	*(9)*	*430*	*1,646*	*200*	*1,846*

Statements of changes in equity continued

For the year ended 31 March 2010

£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	**Total equity**
					Company
At 1 April 2009	288	937	(9)	10	**1,226**
Total comprehensive income for the year (net of tax)				179	**179**
Exercise of share options			5	(1)	**4**
Cost of share-based payment				1	**1**
Equity portion of convertible bond*				84	**84**
At 31 March 2010	**288**	**937**	**(4)**	**273**	**1,494**

* After deduction of transaction costs of £2 million

For the year ended 31 March 2009

£ million	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (note 34)*	*Total equity*
					Company
At 1 April 2008	*288*	*937*	*(10)*	*1,344*	*2,559*
Adoption of IFRIC 13				*(135)*	*(135)*
Adoption of IFRIC 14				*235*	*235*
At 1 April 2008 (restated)	*288*	*937*	*(10)*	*1,444*	*2,659*
Total comprehensive income for the year (net of tax)				*(1,377)*	*(1,377)*
Exercise of share options			*2*	*(2)*	
Cost of share-based payment				*1*	*1*
Purchase of own shares			*(1)*		*(1)*
Net dividends				*(56)*	*(56)*
At 31 March 2009	*288*	*937*	*(9)*	*10*	*1,226*

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 31 March 2010 were authorised for issue by the Board of Directors on 20 May 2010 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 408 of the Companies Act 2006 not to publish its individual income statement and related notes

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

2 Summary of significant accounting policies

Basis of 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, which also include IASs, 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 31 March, 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 prior year in line with the adoption of IFRIC 13, 'Customer loyalty programmes' The net impact of the change in accounting policy was a decrease in opening shareholders' equity at 1 April 2008 of £206 million

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 The Mileage Company 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 45 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 Had the Group not revised the economic life for landing rights, the amortisation charge for the prior year would have been £5 million greater than is currently reported Landing rights with indefinite economic lives are reviewed annually for impairment

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 economic 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 rotable 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

Notes to the accounts continued

2 Summary of significant accounting policies continued

d Leased and hire purchase assets
Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease or hire purchase term The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in borrowings

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the income statement

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period (normally 10 years), without further material financial obligations In certain cases the Group is entitled to extend the initial lease period on predetermined terms, such leases are described as extendable operating leases

Non-current assets held for sale
Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use The sale must be considered to be highly probable and to be enacted within 12 months Held for sale assets are carried at the lower of carrying value and fair value less costs to sell

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

Interests in associates
An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence The Group's interest in the net assets of associates is included in investment in associates in the consolidated balance sheet and its interest in their results is included in the income statement, below operating profit Certain associates make up their annual audited accounts to dates other than 31 March In the case of Iberia, published results up to the year ended 31 December 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 Refer to note 19 for details of investments in associates

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

During the prior year, the Group adopted IFRIC 14 'Limit of a defined benefit asset, minimum funding requirements and their interaction' and as a result, 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 The change in accounting policy as a result of the adoption of IFRIC 14 resulted in an increase of £235 million to opening shareholders' equity at 1 April 2008

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 there is deemed to be a present obligation

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.

Notes to the accounts continued

2 Summary of significant accounting policies continued

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
In accordance with 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 the operating result for finance income/cost 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 is no longer expected to occur

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 is no longer expected to occur

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

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 and intangible assets with indefinite economic lives are 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 as disclosed in note 18

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

b Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant

This also requires determining the most appropriate inputs to the valuation model including the expected life of the option and volatility and making assumptions about them The assumptions and models used are disclosed in note 33

c Pensions and other post-retirement benefits

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

d Impairment of available-for-sale financial assets

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

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 prior year, changes in estimates regarding the timing of revenue recognition primarily for unused flexible tickets were made, resulting in increased revenue in the prior year of £109 million The change in estimate reflected 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

IFRS 7 (Amendment), 'Financial instruments – Disclosures' (Amendment), effective for periods beginning on or after 1 January 2009 The amendment requires enhanced disclosures about fair value measurement and liquidity risk In particular, the amendment requires disclosure of fair value measurements by level of hierarchy, refer to note 31

IAS 1 (Revised), 'Presentation of financial statements', effective for periods beginning on or after 1 January 2009 The revised standard prohibits the presentation of items of income and expenses, that are not classified as transactions with owners, in the statement of changes in equity 'Non-owner changes in equity' are to be presented separately from owner changes in equity in a statement of other comprehensive income, which will be produced in addition to the income statement Comparative information has been re-presented so that it conforms to the revised standard, although the Group has chosen not to adopt the revised names for the financial statements

IAS 1 (Amendment), 'Presentation of financial statements', effective for periods beginning on or after 1 January 2010 The amendment provides clarification on the classification between current and non-current liabilities that can potentially be settled through the issue of equity The amendment permits a liability to be classified as non-current provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, even though the entity could be required by the counterparty to settle through the issue of shares at any time

IFRS 2 (Amendment), 'Share-based payments', effective for periods beginning on or after 1 January 2009 The amendment clarifies that vesting conditions can be service and performance conditions only and that other features of share-based payments are not vesting conditions The amendment does not have a material impact on the Group or Company's financial statements

Notes to the accounts continued

2 Summary of significant accounting policies continued

IAS 39 (Amendment), 'Financial instruments Recognition and measurement', effective for periods beginning on or after 1 January 2009 The amendment clarifies that entities should no longer apply hedge accounting for transactions between segments in their separate financial statements The amendment does not have a material impact on the Group or Company's financial statements

IAS 28 (Amendment), 'Investments in associates', effective for periods beginning on or after 1 January 2009 The amendment requires an investment in an associate to be treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment The amendment does not have a material impact on the Group or Company's financial statements

IAS 36 (Amendment), 'Impairment of assets', effective for periods beginning on or after 1 January 2009 The amendment requires disclosures equivalent to those for value-in-use calculations to be made where fair value less costs to sell has been calculated on the basis of discounted cash flows

IAS 38 (Amendment), 'Intangible assets', effective for periods beginning on or after 1 January 2009 The amendment requires expenditure on advertising and promotional activities to be recognised as an expense as soon as the entity has the 'right to access' the goods or has received the services The amendment does not have a material impact on the Group or Company's financial statements

IFRIC 18 'Transfers of assets from customers', effective for transactions occurring on or after 1 July 2009 The interpretation provides guidance on accounting for property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets The amendment does not have a material impact on the Group or Company's financial statements

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 The Group plan to adopt the following standards, interpretations and amendments from 1 April 2010, management have not yet determined the potential effect of the amendments

IFRS 3 (Revised), 'Business Combinations', effective for periods beginning on or after 1 July 2009 The revised standard introduces changes to the accounting for business combinations, including the expensing of acquisition costs through the income statement as they are incurred and permitting a choice, on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree's net assets at fair value or at the non-controlling interest's proportionate share of the net assets of the acquiree Contingent considerations are required to be valued at the date of acquisition, with all subsequent revaluations recorded in the income statement

IAS 27 (Revised), 'Consolidated and separate financial statements', effective for periods beginning on or after 1 July 2009 The revised standard requires that all transactions with non-controlling interests be recorded in equity, provided that these transactions do not result in a change in control and do not result in goodwill or gains and losses The amendment provides additional guidance on the accounting treatment when control is lost

IAS 36 (Amendment), 'Impairment of assets', effective for periods beginning on or after 1 January 2010 The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill can be allocated for the purposes of impairment review, is an operating segment as defined by IFRS 8 'Operating segments'

IAS 7 (Amendment), 'Cash flow statements', effective for periods beginning on or after 1 January 2010 The amendment requires that expenditures that result in the recognition of an asset should be classified as investing activities in the cash flow statement

IAS 39 (Amendment), 'Financial instruments Recognition and measurement', effective for periods beginning on or after 1 January 2010 The amendment makes changes to the scope exemption excluding contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date The amendment adds additional conditions for the exemption to apply

IAS 38 (Revised), 'Intangible assets', effective for periods beginning on or after 1 January 2010 The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and allows the grouping of assets into a single asset if each asset has a similar economic life

IAS 38 (Amendment), 'Intangible assets', effective for periods beginning on or after 1 January 2010 The amendment provides additional guidance on the valuation techniques to be used in measuring the fair value of intangible assets acquired in business combinations that are traded in active markets

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations', effective for periods beginning on or after 1 January 2010 The amendment provides clarification on disclosures required in respect of non-current assets held for sale or discontinued operations, particularly that the IAS 1 'Presentation of Financial Statements' requirements of 'fair presentation' and 'sources of estimation uncertainty' still apply in the case of non-current assets held for sale

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

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, based primarily by reference to passenger economics with limited reference to cargo demand The objective in making resource allocation decisions is to optimise consolidated financial results While the operations of OpenSkies SASU (OpenSkies) and BA Cityflyer Limited (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 The Mileage Company Limited, British Airways Holidays Limited and Speedbird Insurance Company Limited

For the year ended 31 March 2010

£ million	Airline business	All other segments	Unallocated	**Total**
Revenue				
Sales to external customers	7,802	192		**7,994**
Inter-segment sales	52			**52**
Segment revenue	7,854	192		**8,046**
Segment result	(252)	21		**(231)**
Other non-operating income	15			**15**
(Loss)/profit before tax and finance costs	(237)	21		**(216)**
Net finance costs	(96)		(171)	**(267)**
Loss on sale of assets	(16)			**(16)**
Share of associates' losses	(32)			**(32)**
Tax			106	**106**
(Loss)/profit after tax	(381)	21	(65)	**(425)**
Assets and liabilities				
Segment assets	10,364	116		**10,480**
Investment in associates	197			**197**
Total assets	10,561	116		**10,677**
Segment liabilities	3,413	373		**3,786**
Unallocated liabilities*			4,778	**4,778**
Total liabilities	3,413	373	4,778	**8,564**
Other segment information				
Property, plant and equipment – additions (note 14d)	553	1		**554**
Non-current assets held for sale	30			**30**
Intangible assets – additions (note 17c)	13			**13**
Depreciation, amortisation and impairment (note 4a)	731	1		**732**
Exceptional items (note 4b)				
Restructuring	85			**85**

* Unallocated liabilities consist of current taxes of £2 million deferred taxes of £774 million and borrowings of £4 002 million which are managed on a Group basis

Notes to the accounts continued

3 Segment information continued

a Business segments continued
For the year ended 31 March 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	*(240)*	*20*		*(220)*
Other non-operating expense	*(30)*			*(30)*
(Loss)/profit before tax and finance costs	*(270)*	*20*		*(250)*
Net finance income/(costs)*	*78*		*(241)*	*(163)*
Profit on sale of assets	*8*			*8*
Share of associates' profit	*4*			*4*
Tax			*43*	*43*
(Loss)/profit after tax	*(180)*	*20*	*(198)*	*(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 14d)	*643*	*2*		*645*
Intangible assets – additions (excluding L'Avion – note 17c)	*21*			*21*
Purchase of subsidiary (net of cash acquired – note 5c)	*34*			*34*
Depreciation, amortisation and impairment (note 4a)	*693*	*1*		*694*
Impairment of available-for-sale financial asset – Flybe (note 20)	*13*			*13*
Exceptional items (note 4b)				
Restructuring	*78*			*78*
Unused tickets (note 2)	*(109)*			*(109)*
Impairment of OpenSkies goodwill	*5*			*5*

* Reclassified to more accurately reflect the nature of the expense

** Unallocated liabilities consist of current taxes of £4 million deferred taxes of £652 million and borrowings of £3 763 million which are managed on a Group basis

b Geographical segments – by area of original sale

£ million	Group 2010	*2009*
Europe	**4,891**	*5,617*
UK	**3,636**	*4,197*
Continental Europe	**1,255**	*1,420*
The Americas	**1,651**	*1,719*
USA	**1,473**	*1,532*
The rest of the Americas	**178**	*187*
Africa, Middle East and Indian sub-continent	**731**	*875*
Far East and Australasia	**721**	*781*
Revenue	**7,994**	*8,992*

Total of non-current assets excluding available-for-sale financial assets, employee benefit assets, prepayments and accrued income and derivative financial instruments located in the UK is £7,060 million (2009 £7,337 million) and the total of these non-current assets located in other countries is £340 million (2009 £372 million)

4 Operating loss

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

Depreciation, amortisation and impairment of non-current assets

£ million	Group 2010	2009
Owned assets	461	*381*
Finance leased aircraft	144	*131*
Hire purchased aircraft	67	*110*
Other leasehold interests	51	*50*
Impairment charge on goodwill		*5*
Amortisation of intangible assets	9	*17*
	732	*694*

Operating lease costs

£ million	Group 2010	2009
Minimum lease rentals – aircraft	78	*82*
– property	98	*106*
Sub-lease rentals received	(12)	*(10)*
Net onerous lease provision increase/(release)	2	*(1)*
	166	*177*

Cost of inventories

£ million	Group 2010	2009
Cost of inventories recognised as an expense, mainly fuel and other	1,984	*2,078*
Includes write-down of inventories to net realisable value		*2*

b Exceptional items

£ million	Group 2010	2009
Recognised in operating loss		
Restructuring costs	85	*78*
Unused tickets (note 2)		*(109)*
Impairment of goodwill (note 18)		*5*
	85	*(26)*

During the year the Group incurred restructuring costs mainly relating to the reduction in employees announced during the year

Notes to the accounts continued

5 Business combinations

In July 2008, the Group subsidiary, OpenSkies SASU, 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 the date of payment of August 2009) was paid, based on the terms of the Purchase Agreement The retranslation difference of £1 million was charged to currency differences in the income statement in 2008/09 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 intangible assets of the acquired business that are not separately identifiable, and synergies expected to arise after OpenSkies' acquisition of L'Avion As a result of the prior year goodwill impairment review performed as at 31 March 2009, goodwill associated with the acquisition was considered to be impaired, and accordingly an impairment charge of £5 million was recognised in the prior year consolidated income statement. No further charges have arisen as a result of the impairment review performed at 31 March 2010 (note18)

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

	Group	
£ million	**2010**	*2009*
Cash consideration		*54*
Contingent consideration	**9**	
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	**9**	*34*

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 31 March 2009 If the acquisition occurred on 1 April 2008, Group revenues for the prior year 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 1 April 2008, together with the consequential tax effects The amounts calculated were not affected by the Group's prior year 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 30 September 2008 (note 17)

6 Auditor's remuneration

£'000	Group 2010	Group 2009	Company 2010	Company 2009
Group auditors				
Fees payable to the Group's auditor for the audit of the Group's accounts	**1,841**	*1,882*	**1,841**	*1,882*
Fees payable to the Group's auditor and its associates for other services				
Audit of the Group's subsidiaries pursuant to legislation	**310**	*352*		
Other services pursuant to legislation	**48**	*59*	**48**	*43*
Other services relating to taxation	**356**	*360*	**294**	*360*
Services relating to corporate finance transactions*	**1,100**	*1,654*	**1,100**	*1,654*
All other services		*10*		*6*
	3,655	*4,317*	**3,283**	*3,945*

* In the current year this included services in relation to the issue of the convertible bond, the proposed Joint Business Agreement with American Airlines and Iberia and the proposed merger with Iberia

Of the Group fees, £3,425,000 relates to the UK (2009 £3,933,000) and £230,000 relates to overseas (2009 £384,000)

Of the Company fees, £3,121,000 relates to the UK (2009 £3,585,000) and £162,000 relates to overseas (2009 £360,000)

The audit fees payable to Ernst & Young LLP are approved by the Audit Committee having been reviewed in the context of other companies for cost effectiveness

The Committee also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained

7 Employee costs and numbers

a Staff costs

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

Number	Group 2010	Group 2009	Company 2010	Company 2009
UK	**35,920**	*39,137*	**34,911**	*37,041*
Overseas	**5,574**	*5,850*	**4,990**	*5,057*
	41,494	*44,987*	**39,901**	*42,098*

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Wages and salaries	**1,346**	*1,466*	**1,265**	*1,389*
Social security costs	**146**	*158*	**135**	*147*
Costs related to pension scheme benefits	**145**	*175*	**140**	*169*
Other post-retirement benefit costs	**4**	*4*	**3**	*3*
Other employee costs	**357**	*390*	**343**	*372*
Total employee costs excluding restructuring	**1,998**	*2,193*	**1,886**	*2,080*
Restructuring*	**75**	*78*	**75**	*78*
Total employee costs	**2,073**	*2,271*	**1,961**	*2,158*

* Restructuring costs included above excludes £10 million of lease exit costs (2009 £nil)

In addition, included in 'Wages and salaries' is a total expense for share-based payments of £1 million (2009 £1 million) that arises from transactions accounted for as equity-settled share-based payment transactions

Other employee costs include allowances and accommodation for crew

Notes to the accounts continued

7 Employee costs and numbers continued

b Directors' emoluments

£'000	Group 2010	Group 2009
Fees	**649**	*748*
Salary and benefits	**1,105**	*1,189*
Performance-related bonuses	**501**	
	2,255	*1,937*

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 55 to 64

8 Finance costs and income

£ million	Group 2010	Group 2009
a Finance costs		
On bank loans*	**(13)**	*(34)*
On finance leases	**(56)**	*(75)*
On hire purchase arrangements	**(7)**	*(22)*
On other loans*	**(65)**	*(38)*
Interest expense	**(141)**	*(169)*
Unwinding of discounting on provisions**	**(19)**	*(12)*
Capitalised interest***	**1**	*4*
Change in fair value of cross currency swaps	**2**	*(5)*
	(157)	*(182)*

* Total interest expense for financial liabilities not at fair value through the income statement is £78 million (2009 £72 million)

** Unwinding of discount on the competition investigation provision and restoration and handback provisions (note 29)

*** 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 2010	Group 2009
b Finance income		
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	**20**	*95*
	20	*95*
c Financing income and expense relating to pensions		
Net financing expense relating to pensions	**(164)**	*(34)*
Net amortisation of actuarial (losses)/gains on pensions	**(37)**	*17*
Effect of the APS asset ceiling	**85**	
	(116)	*(17)*
d Retranslation charges on currency borrowings	**(14)**	*(59)*

9 (Loss)/profit on sale of property, plant and equipment and investments

£ million	31 March 2010	2009
Net (loss)/profit on sale of property, plant and equipment	(16)	2
Net profit on the disposal of investments		6
(Loss)/profit on sale of property, plant and equipment and investments	**(16)**	8

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

£ million	Group 2010	2009
Income from available-for-sale financial assets*	2	3
Amounts written off investments**	(2)	(15)
	–	(12)

* Includes £1 million (2009 £3 million) attributable to interest earned on loans to The Airline Group Limited, an available-for-sale financial asset.

** Includes £2 million (2009 £2 million) impairment of the Group's investment in Inter-Capital and Regional Rail Limited a loss making entity that manages Eurostar UK Limited until 2010 The prior year charge includes a £13 million impairment of the Group's investment in Flybe (note 20)

11 Tax

a Tax on profit on ordinary activities

Tax charge/(credit) in the income statement

£ million	Group 2010	2009
Current income tax		
UK corporation tax	(4)	(37)
Relief for foreign tax paid		(3)
Advance corporation tax reversal		26
UK tax	(4)	(14)
Foreign tax		2
Adjustments in respect of prior years – UK corporation tax	2	(18)
Adjustments in respect of prior years – advance corporation tax		21
Total current income tax credit	(2)	(9)
Deferred tax		
Property, plant and equipment related temporary differences	(72)	(65)
Effect of abolition of industrial buildings allowances		79
Pension related temporary differences	77	41
Unremitted earnings of associate companies	(26)	11
Advance corporation tax		(26)
Tax losses carried forward	(66)	(56)
Exchange related temporary differences	(4)	(3)
Share option deductions written back		1
Other temporary differences	(2)	(3)
Adjustments in respect of prior years – deferred tax	(11)	8
Adjustments in respect of prior years – advance corporation tax		(21)
Total deferred tax credit	(104)	(34)
Total tax credit in the income statement	**(106)**	(43)

Notes to the accounts continued

11 Tax continued

a Tax on profit on ordinary activities continued

Tax charge/(credit) directly to equity

£ million	Group 2010	2009
Deferred tax relating to items charged/(credited) to statement of other comprehensive income		
Foreign exchange	**34**	*(133)*
Net gains/(losses) on cash flow hedges	**193**	*(251)*
Share of other movements in reserves of associates	**3**	*(6)*
Deferred tax relating to items charged to statement of changes in equity		
Share options in issue	**(4)**	
Total tax charge/(credit) reported directly in statement of other comprehensive income and changes in equity	**226**	*(390)*

b Reconciliation of the total tax credit

The tax credit for the year on the loss is less than the notional tax credit on those losses calculated at the UK corporation tax rate of 28 per cent (2009 28 per cent) The differences are explained below

£ million	Group 2010	2009
Accounting loss before tax	**(531)**	*(401)*
Accounting loss multiplied by standard rate of corporation tax in the UK of 28 per cent (2009 28 per cent)	**(149)**	*(112)*
Effects of		
Tax on associate and subsidiary companies		
Tax on associates' profits and dividends	**9**	
Effect of change in foreign profits legislation	**(13)**	*(2)*
Tax on subsidiary unremitted earnings	**(8)**	
Euro preferred securities		
Euro preferred securities accounted for as non-controlling interests	**(5)**	*(5)*
Tax on revaluation of intra group foreign currency loans	**1**	*(4)*
Changes in accounting standards/tax legislation		
Effect of abolition of industrial buildings allowances		*79*
Deferred tax assets not recognised		
Current year losses not recognised	**9**	*2*
Other		
Non-deductible expenses	**10**	*7*
Effect of pension fund accounting	**45**	*(5)*
Foreign exchange and unwind of discount on competition investigation provisions	**4**	*9*
Share option deductions written back		*1*
Adjustments in respect of prior years	**(9)**	*(10)*
Minor items shown separately in the prior year for which there is no current year equivalent		*(3)*
Tax credit in the income statement	**(106)**	*(43)*

11 Tax continued

c Deferred tax

The deferred tax included in the balance sheet is as follows

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Fixed asset related temporary differences	**1,043**	*1,121*	**957**	*1,034*
Pensions related temporary differences	**62**	*(16)*	**64**	*(13)*
Exchange differences on funding liabilities	**(38)**	*(69)*	**(38)**	*(69)*
Advance corporation tax	**(94)**	*(94)*	**(94)**	*(94)*
Tax losses carried forward	**(181)**	*(109)*	**(181)**	*(109)*
Subsidiary and associate unremitted earnings	**1**	*27*	**1**	*17*
Fair value profits/(losses) recognised on cash flow hedges	**19**	*(174)*	**19**	*(174)*
Share options related temporary differences	**(5)**	*(1)*	**(5)**	*(1)*
Deferred revenue in relation to loyalty reward programmes	**(30)**	*(35)*		
Other temporary differences	**(3)**	*2*	**(3)**	*1*
At 31 March	**774**	*652*	**720**	*592*

Movement in provision

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Balance at 1 April	**652**	*1,075*	**592**	*1,017*
Deferred tax credit relating to income statement	**(104)**	*(34)*	**(95)**	*(41)*
Deferred tax charge/(credit) taken to statement of other comprehensive income	**230**	*(390)*	**227**	*(384)*
Deferred tax credit taken to statement of changes in equity	**(4)**		**(4)**	
Revaluation of foreign currency balances and other movements		*1*		
At 31 March	**774**	*652*	**720**	*592*

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 2010 was as follows

£ million	Group 2010	Group 2009
UK Air Passenger Duty	**323**	*319*
Other ticket taxes	**167**	*155*
Payroll related taxes	**146**	*158*
Total	**636**	*632*

The UK Government has implemented substantial increases in the rates of Air Passenger Duty from 1 November 2009 and further increases are proposed to take effect from 1 November 2010 However, the parties to the new coalition Government have agreed that Air Passenger Duty should be replaced by a per plane duty

Notes to the accounts continued

11 Tax continued

e Factors that may affect future tax charges
The Group has UK capital losses carried forward of £189 million (2009 £141 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 (2009 £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 an unrecognised deferred tax asset of £79 million (2009 £79 million) arising from temporary differences in respect of future capital losses if properties are realised at their residual value

The Group has overseas tax losses of £44 million (2009 £16 million) 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

At 31 March 2009 the Group had temporary differences of £26 million relating to the unremitted earnings of overseas subsidiaries on which no deferred tax liability was recognised because the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future As a result of a change to UK tax legislation which largely exempts UK and overseas dividends received on or after 1 July 2009 from UK tax, and as there are no withholding taxes arising on the payment of such dividends, the temporary difference is now £nil

As a result of the enactment of the dividend exemption in the Finance Act 2009, deferred tax of £10 million provided at 31 March 2009 on the unremitted earnings of subsidiaries and associates has been released A credit of £13 million arising from this release of deferred tax has been taken to the income statement for the year ended 31 March 2010

12 Earnings per share

	Group			
	Loss		Earnings per share	
	2010 £ million	*2009 £ million*	**2010 Pence**	*2009 Pence*
Loss for the year	**(425)**	*(358)*		
Non-controlling interest	**(18)**	*(17)*		
Loss for the year attributable to shareholders and basic earnings per share (EPS)	**(443)**	*(375)*	**(38 5)**	*(32 6)*
Interest expense on convertible bond*	**21**			
Diluted loss for the year attributable to shareholders and diluted EPS	**(422)**	*(375)*	**(38 5)**	*(32 6)*
Weighted average number of shares for basic EPS ('000)			**1,152,088**	*1,151,230*
Dilutive potential ordinary shares				
5 8 per cent convertible capital bonds			**117,199**	
Employee share options ('000)			**4,796**	2,702
Weighted average number of shares for diluted EPS ('000)			**1,274,083**	*1,153,932*

* During the year the Group has issued a £350 million convertible bond convertible into ordinary shares at the option of the holder In addition, the Group has granted additional options over shares to employees Both of the above were not dilutive during the year but may be dilutive in the future Details of the Groups share options and long-term borrowings can be found in notes 33 and 27 respectively

Basic EPS 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

13 Dividends

The Directors recommend that no dividend be declared for the year ended 31 March 2010 (2009 £nil) The Company declared a dividend of 5 pence per share (totalling £58 million) for the year ended 31 March 2008 The dividend was paid in July 2008 and was accounted for as a reduction in shareholders' equity for the year ended 31 March 2009

In the prior year, the Group reversed £2 million of previously declared dividends, relating to historic unclaimed dividends that are no longer expected to be collected

Equity dividends

	Group	
£ million	**2010**	*2009*
Prior year 5 pence dividend per ordinary share paid during the year		*58*
Unclaimed dividends		*(2)*
	-	*56*

Notes to the accounts continued

14 Property, plant and equipment

a Group

£ million	Fleet	Property	Equipment	Group Total
Cost				
Balance at 1 April 2008	*11,389*	*1,508*	*804*	*13,701*
Additions (note 14d)	*584*	*54*	*13*	*651*
Disposals	*(118)*	*(45)*	*(30)*	*(193)*
Reclassifications	*(19)*	*1*	*(1)*	*(19)*
Exchange movements		*(2)*	*(3)*	*(5)*
Balance at 31 March 2009	*11,836*	*1,516*	*783*	*14,135*
Additions (note 14d)	518	10	26	554
Disposals	(231)	(6)	(64)	(301)
Reclassifications	(170)		(1)	(171)
Exchange movements	(1)			(1)
At 31 March 2010	**11,952**	**1,520**	**744**	**14,216**
Depreciation and impairment				
Balance at 1 April 2008	*5,413*	*531*	*494*	*6,438*
Charge for the year	*561*	*59*	*52*	*672*
Disposals	*(116)*	*(45)*	*(29)*	*(190)*
Reclassifications	*(18)*			*(18)*
Balance at 31 March 2009	*5,840*	*545*	*517*	*6,902*
Charge for the year	616	61	46	723
Disposals	(113)	(6)	(64)	(183)
Reclassifications	(130)			(130)
At 31 March 2010	**6,213**	**600**	**499**	**7,312**
Net book amounts				
31 March 2010	**5,739**	**920**	**245**	**6,904**
31 March 2009	*5,996*	*971*	*266*	*7,233*
Analysis at 31 March 2010				
Owned	2,581	904	225	**3,710**
Finance leased	2,196		17	**2,213**
Hire purchase arrangements	770			**770**
Progress payments	71	16	3	**90**
Assets not in current use*	121			**121**
	5,739	**920**	**245**	**6,904**
Analysis at 31 March 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*

£ million	Group 2010	Group 2009
The net book amount of property comprises		
Freehold	**258**	*267*
Long leasehold improvements	**253**	*260*
Short leasehold improvements**	**409**	*444*
At 31 March	**920**	*971*

* During the year, six Boeing 747-400 aircraft were temporarily stood down, bringing the total number of Boeing 747-400 aircraft in temporary storage to eight. The net book value of the aircraft as at 31 March 2010 amounts to £121 million (2009 two aircraft £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.

14 Property, plant and equipment continued

a Group continued

As at 31 March 2010, bank and other loans of the Group are secured on fleet assets with a cost of £1,572 million (2009 £624 million) and letters of credit of £294 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2009 £330 million)

Included in the cost of tangible assets for the Group is £345 million (2009 £349 million) of capitalised interest

Property, plant and equipment with a net book value of £118 million was disposed of by the Group during the year ended 31 March 2010 (2009 £3 million) resulting in a net loss on disposal of £16 million (2009 gain £2 million)

b Company

£ million	Fleet	Property	Equipment	Company Total
Cost				
Balance at 1 April 2008	*11,042*	*1,421*	*736*	*13,199*
Additions	*559*	*54*	*8*	*621*
Disposals	*(118)*	*(45)*	*(30)*	*(193)*
Reclassifications	*(19)*			*(19)*
Balance at 31 March 2009	*11,464*	*1,430*	*714*	*13,608*
Additions	419	10	24	453
Disposals	(149)	(6)	(31)	(186)
Net transfers to subsidiary undertakings	(23)		1	(22)
Reclassifications	(165)		(1)	(166)
At 31 March 2010	**11,546**	**1,434**	**707**	**13,687**
Depreciation and impairment				
Balance at 1 April 2008	*5,248*	*497*	*435*	*6,180*
Charge for the year	*545*	*58*	*50*	*653*
Disposals	*(116)*	*(45)*	*(29)*	*(190)*
Reclassifications	*(18)*			*(18)*
Balance at 31 March 2009	*5,659*	*510*	*456*	*6,625*
Charge for the year	598	59	43	700
Disposals	(86)	(6)	(31)	(123)
Net transfers to subsidiary undertakings	(19)			(19)
Reclassifications	(129)			(129)
At 31 March 2010	**6,023**	**563**	**468**	**7,054**
Net book amounts				
31 March 2010	**5,523**	**871**	**239**	**6,633**
31 March 2009	*5,805*	*920*	*258*	*6,983*
Analysis at 31 March 2010				
Owned	2,472	855	219	**3,546**
Finance leased	2,094		17	**2,111**
Hire purchase arrangements	770			**770**
Progress payments	66	16	3	**85**
Assets not in current use*	121			**121**
	5,523	**871**	**239**	**6,633**
Analysis at 31 March 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*

Notes to the accounts continued

14 Property, plant and equipment continued

b Company continued

£ million	Company 2010	Company 2009
The net book amount of property comprises		
Freehold	**212**	*220*
Long leasehold improvements	**250**	*256*
Short leasehold improvements**	**409**	*444*
At 31 March	**871**	*920*

* During the year, six Boeing 747-400 aircraft were temporarily stood down bringing the total number of Boeing 747-400 aircraft in temporary storage to eight The net book value of the aircraft as at 31 March 2010 amounts to £121 million (2009 two aircraft £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 31 March 2010, bank and other loans of the Company are secured on fleet assets with a cost of £1,500 million (2009 £551 million)

Included in the cost of tangible assets for the Company is £344 million (2009 £347 million) of capitalised interest

Property, plant and equipment with a net book value of £63 million was disposed of by the Company during the year ended 31 March 2010 (2009 £3 million) resulting in a net loss on disposal of £8 million (2009 gain £2 million)

c Depreciation

Fleet is generally depreciated over periods ranging from 18-25 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 2010	Group 2009
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 8*
Airbus A318, A319, A320 and A321	**4.9**	*4 9*
Embraer E170 and E190	**6 4**	

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 54-78 months, according to engine type

During the prior year, 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 was a £1 million decrease to the depreciation charge for the year ended 31 March 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 2010	Group Total 2009
Cash paid	476	7	9	**492**	*547*
Capitalised interest	1			**1**	*4*
Acquired through business combinations					*6*
Reclassification of operating leases to finance leases					*122*
Accrual movements	41	3	17	**61**	*(28)*
At 31 March	**518**	**10**	**26**	**554**	*651*

During the year ended 31 March 2010, the Group acquired property, plant and equipment with a cost of £554 million (2009 £651 million) Prior year additions included £6 million of additions arising from the acquisition of L'Avion (note 5) and £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

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,267 million for the Group commitments (2009 £4,805 million) and £4,201 million for the Company commitments (2009 £4,617 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 £4,253 million for the acquisition of two Boeing 777s (from 2010 to 2012), 24 Boeing 787s (from 2012 to 2016), 12 Airbus A320s (from 2010 to 2014), 12 Airbus A380s (from 2012 to 2014) and four Embraer E-jets (all in 2010)

16 Non-current assets held for sale

The non-current assets held for sale of £30 million (2009 £nil) comprise five Boeing 757 aircraft, these aircraft will exit the business within 12 months of 31 March 2010

The sale of a further six Boeing 757 aircraft has been agreed, these aircraft will exit the business over a 12 month period commencing 1 April 2011 The economic lives and residual values of these aircraft were adjusted in April 2009 to reflect the terms of the sale agreement.

17 Intangible assets

a Group

£ million	Goodwill	Landing rights	Software	Group Total
Cost				
Balance at 1 April 2008	*40*	*203*	*153*	*396*
Additions	*5*	*44*	*12*	*61*
Disposals			*(15)*	*(15)*
Impairment (note 18)	*(5)*			*(5)*
Exchange movements*		*7*		*7*
Balance at 31 March 2009	*40*	*254*	*150*	*444*
Additions			13	13
Reclassifications			1	1
Exchange movements*		(3)		(3)
At 31 March 2010	**40**	**251**	**164**	**455**
Amortisation				
Balance at 1 April 2008	–	*44*	*131*	*175*
Disposals			*(15)*	*(15)*
Charge for the year		*5*	*12*	*17*
Balance at 31 March 2009	–	*49*	*128*	*177*
Charge for the year**			9	9
At 31 March 2010	–	**49**	**137**	**186**
Net book amounts				
31 March 2010	**40**	**202**	**27**	**269**
31 March 2009	*40*	*205*	*22*	*267*

* Landing rights with a carrying value of £39 million (2009 £42 million) are associated with the acquisition of L'Avion, an airline operating services between Paris (Orly) and New York (Newark) airports. These landing rights are denominated in euro.

** As a result of a change in accounting estimate in the prior year, landing rights based within the EU are considered to have an indefinite economic life and are therefore not amortised (note 2) Amortisation on non-EU based landing rights was less than £1 million for the current and prior year

Notes to the accounts continued

17 Intangible assets continued

b Company

£ million	Landing rights	Software	Company Total
Cost			
Balance at 1 April 2008	*203*	*153*	*356*
Additions	*9*	*12*	*21*
Disposals		*(15)*	*(15)*
Balance at 31 March 2009	*212*	*150*	*362*
Additions		13	13
Reclassifications		1	1
At 31 March 2010	**212**	**164**	**376**
Amortisation			
Balance at 1 April 2008	*44*	*131*	*175*
Charge for the year	*5*	*12*	*17*
Disposals		*(15)*	*(15)*
Balance at 31 March 2009	*49*	*128*	*177*
Charge for the year *		9	9
At 31 March 2010	**49**	**137**	**186**
Net book amounts			
31 March 2010	**163**	**27**	**190**
31 March 2009	*163*	*22*	*185*

* As a result of a change in accounting estimate in the prior year landing rights based within the EU are considered to have an indefinite economic life and are therefore not amortised (note 2) Amortisation on non-EU based landing rights was less than £1 million for the current and prior year

c Analysis of Group intangible asset additions (excluding goodwill)

£ million	Software	Group 2010	*2009*
Cash paid	13	**13**	*24*
Acquired through business combinations			*35*
Accrual movements			*(3)*
Total additions	13	**13**	*56*

18 Impairment of intangible assets that have an indefinite economic life

An annual impairment review is conducted on all intangible assets that have an indefinite economic life The impairment review is carried out at the level of a 'cash-generating unit', defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate 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 intangible assets with indefinite economic lives An impairment review was performed on 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

The impairment review involves the comparison of the carrying value of the cash-generating unit to the recoverable amount. If the carrying value exceeds the recoverable amount, an impairment charge is recognised to the extent that the carrying value exceeds the recoverable amount

18 Impairment of intangible assets that have an indefinite economic life continued

a Intangible assets that have an indefinite economic life, analysed by cash-generating units

At 31 March 2010

£ million	Landing rights	Goodwill	Group Total
Network airline operations	163	40	**203**
OpenSkies	29		**29**

At 31 March 2009

£ million	*Landing rights*	*Goodwill*	Group *Total*
Network airline operations	*163*	*40*	*203*
OpenSkies	*30*		*30*

Network airline operations

The recoverable amount of the network airline operations has been measured based on its value in use, using a 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 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 assets

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, using a 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 assets

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 The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business

During the prior year, an impairment charge of £5 million was recognised in the consolidated income statement against the goodwill of OpenSkies as a result of the impairment review performed The impairment review performed at 31 March 2010 did not give rise to any further impairment charges

b Key assumptions used in impairment review

The key assumptions used in the value-in-use calculations are presented below These assumptions apply to the network airline operations and OpenSkies in line with their respective business plans

	2010	*2009*
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*	**(11.4)% - 8 6%**	*(6 6)% - 10 0%*
Fuel price range per barrel	**$74 - $79**	*$60 - $75*

* Although forecast operating margins are more conservative than the prior year, revised forecasts indicate a faster return to profitability thus increasing forecast cash generated

Notes to the accounts continued

18 Impairment of intangible assets that have an indefinite economic life continued

b Key assumptions used in impairment review continued

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

£ million	Network airline	OpenSkies	2010 Total
Intangible assets	203	29	**232**
Excess of recoverable amount over carrying amount	1,400	200	**1,600**

£ million	*Network airline*	*OpenSkies*	*2009 Total*
Intangible assets	*203*	*30*	*233*
Excess of recoverable amount over carrying amount	*400*		*400*

Network airline operations

The recoverable amount of the assets with network operations exceeds the carrying value by £1 4 billion (2009 £400 million) The calculation of the recoverable amount is impacted primarily by changes in the discount rate used and the forecast operating margin If the discount rate were increased by 350 basis points (2009 90 basis points) or the operating margin were to decrease by 25 per cent (2009 2 per cent), the headroom would amount to £nil

OpenSkies

The recoverable amount of the assets within OpenSkies exceeds the carrying value by £200 million (2009 £nil) The calculation of the recoverable amount is impacted primarily by changes in the discount rate and the forecast operating margin Management believe that no reasonably possible change in either of the two key assumptions would cause the carrying value to exceed the recoverable amount.

19 Investments

a Group

Investment in associates

£ million	Group 2010	*2009*
Balance at 1 April	**209**	*227*
Exchange movements	**(14)**	*27*
Share of attributable results	**(32)**	*4*
Share of movements on other reserves	**34**	*(32)*
Dividends received		*(17)*
At 31 March	**197**	*209*

Market value of listed associates

£ million	Group 2010	*2009*
At 31 March	**287**	*184*

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

	Percentage of equity owned	Principal activities	Holding	Country of incorporation and principal operations
Iberia Lineas Aéreas de España S A ('Iberia')*	13 15	Airline operations	Ordinary shares	Spain

* Held by a subsidiary company

The Group accounts for its investment in Iberia as an associate although the Group holds less than 20 per cent of the issued share capital as the Group has the ability to exercise significant influence over the investment due to the Group's voting power (both through its equity holding and its representation on key decision-making committees) and the nature of its commercial relationships with Iberia

19 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 2010	Group 2009
Non-current assets	**276**	*300*
Current assets	**315**	*392*
Current liabilities	**(207)**	*(284)*
Non-current liabilities	**(203)**	*(216)*
Share of net assets	**181**	*192*
Goodwill attributable to investments in associates*	**16**	*17*
Revenues	**528**	*574*
Net (loss)/profit after tax	**(32)**	*4*

* Goodwill has reduced by £1 million (2009 £nil) as a result of foreign currency exchange movements.

b Company

A summary of the Company's investments is set out below

£ million	Cost	Provisions	Company Total 2010	Company Total 2009
Balance at 1 April	3,386	(1,030)	**2,356**	*2,207*
Exchange movements	(8)		**(8)**	*23*
Additions	9		**9**	*144*
Provision		11	**11**	*(18)*
At 31 March	**3,387**	**(1,019)**	**2,368**	*2,356*

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 130

During the year, the Company invested £9 million (2009 £40 million) in the subsidiary BA European Limited in order to fund the contingent purchase consideration of french airline, L'Avion In the prior year, the Company invested £104 million in the subsidiary CityFlyer in order to fund operations

The £11 million reversal of impairment provision relates to the write-up of the Company's investment in The Plimsoll Line Limited (2009 impairment of £13 million) which holds the Group's investment in Flybe (note 20) The prior year provisions of £18 million also includes a £5 million impairment of the Company's investment in OpenSkies, associated with the goodwill resulting from the acquisition of L'Avion

20 Available-for-sale financial assets

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Available-for-sale financial assets	**76**	*65*	**21**	*27*

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

In the prior year, the Group performed a review of its investment in Flybe at 31 March 2009 Despite a growth in Flybe's revenue and an expected reporting of profits for the year ended 31 March 2009, the review showed a decline in fair value, associated with a 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 was recognised in the income statement.

The Group performed a review of its investment in Flybe at 31 March 2010 The review showed an increase in fair value from £30 million at 31 March 2009, to £41 million at 31 March 2010, as a result of improvements in the Group's expectation of an improvement in Flybe's forecast revenue growth and net debt position at the balance sheet date Accordingly, the Group recognised an £11 million write-up relating to Flybe in the statement of other comprehensive income

Notes to the accounts continued

20 Available-for-sale financial assets continued

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

	Group		Company	
£ million	**2010**	*2009*	**2010**	*2009*
Listed	**14**	*8*		
Unlisted	**62**	*57*	**21**	*27*
At 31 March	**76**	*65*	**21**	*27*

For a summary of the movement in available-for-sale financial assets, refer to note 31

21 Inventories

	Group		Company	
£ million	**2010**	*2009*	**2010**	*2009*
Expendables and consumables	**98**	*127*	**97**	*125*

22 Trade receivables

	Group		Company	
£ million	**2010**	*2009*	**2010**	*2009*
Trade receivables	**509**	*543*	**496**	*530*
Provision for doubtful receivables	**(10)**	*(13)*	**(10)**	*(13)*
Net trade receivables	**499**	*530*	**486**	*517*

Movements in the provision for doubtful trade receivables were as follows

£ million	Group	Company
At 1 April 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 31 March 2009	*13*	*13*
Provision for doubtful receivables	7	7
Receivables written off during the year	(6)	(6)
Unused amounts reversed	(4)	(4)
At 31 March 2010	**10**	**10**

At 31 March, the ageing analysis of trade receivables is as follows

			Past due but not impaired		
£ million	Total	Neither past due nor impaired	< 30 days	30-60 days	> 60 days
Group					
2010	**499**	**473**	**12**	**7**	**7**
2009	*530*	*510*	*14*	*2*	*4*
Company					
2010	**486**	**471**	**5**	**3**	**7**
2009	*517*	*510*	*2*	*1*	*4*

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

23 Other current assets

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Amounts owed by subsidiaries			**137**	*169*
Other debtors	**77**	*88*	**83**	*88*
Prepayments and accrued income	**212**	*180*	**156**	*125*
At 31 March	**289**	*268*	**376**	*382*

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

a Cash and cash equivalents

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Cash at bank and in hand	**562**	*247*	**535**	*219*
Short-term deposits falling due within three months	**224**	*155*	**221**	
Cash and cash equivalents	**786**	*402*	**756**	*219*
Other current interest-bearing deposits maturing after three months	**928**	*979*	**908**	*43*

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 £786 million for the Group (2009 £402 million) and for the Company £756 million (2009 £219 million)

At 31 March 2010, the Group and Company had no outstanding bank overdrafts (2009 £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 2010	Group 2009
Increase/(decrease) in cash and cash equivalents during the year	**344**	*(289)*
Net cash outflow from decrease in debt and lease financing	**769**	*468*
Decrease in other current interest-bearing deposits	**(51)**	*(202)*
New loans and finance leases taken out and hire purchase arrangements made	**(1,053)**	*(377)*
Decrease/(increase) in net debt resulting from cash flow	**9**	*(400)*
Exchange movements and other non-cash movements	**85**	*(672)*
Decrease/(increase) in net debt during the year	**94**	*(1,072)*
Net debt at 1 April	**(2,382)**	*(1,310)*
Net debt at 31 March	**(2,288)**	*(2,382)*

Notes to the accounts continued

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

c Analysis of net debt

£ million	Balance at 1 April	Net cash flow	Other non-cash	Exchange	Group Balance at 31 March
Cash and cash equivalents	*683*	*(289)*		*8*	*402*
Current interest-bearing deposits maturing after three months	*1,181*	*(202)*			*979*
Bank and other loans	*(876)*	*66*		*(38)*	*(848)*
Finance leases and hire purchase arrangements	*(2,298)*	*25*	*(126)*	*(516)*	*(2,915)*
At 31 March 2009	*(1,310)*	*(400)*	*(126)*	*(546)*	*(2,382)*
Cash and cash equivalents	402	344		40	786
Current interest-bearing deposits maturing after three months	979	(51)			928
Bank and other loans	(848)	(625)		(11)	(1,484)
Finance leases and hire purchase arrangements	(2,915)	341	(24)	80	(2,518)
At 31 March 2010	**(2,382)**	**9**	**(24)**	**109**	**(2,288)**

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

25 Trade and other payables

£ million	Group 2010	Group *2009*	Company 2010	Company *2009*
Trade creditors	**623**	*666*	**581**	*624*
Unredeemed frequent flyer liabilities	**2**	*1*	**3**	*1*
Amounts owed to subsidiary companies			**2,737**	*1,639*
Other creditors				
Other creditors	**567**	*669*	**560**	*661*
Other taxation and social security	**29**	*39*	**26**	*37*
	596	*708*	**586**	*698*
Accruals and deferred income				
Sales in advance of carriage	**919**	*769*	**875**	*743*
Accruals and deferred income	**770**	*652*	**474**	*340*
	1,689	*1,421*	**1,349**	*1,083*
At 31 March	**2,910**	*2,796*	**5,256**	*4,045*

26 Other long-term liabilities

£ million	Group 2010	Group *2009*	Company 2010	Company *2009*
Other creditors	**7**	*11*		*4*
Accruals and deferred income	**225**	*193*	**194**	*165*
At 31 March	**232**	*204*	**194**	*169*

27 Long-term borrowings

£ million	Group 2010	Group 2009	Company 2010	Company 2009
a Current				
Bank and other loans*	**139**	*69*	**126**	*57*
Finance leases**	**129**	*103*	**140**	*115*
Hire purchase arrangements	**288**	*517*	**288**	*517*
At 31 March	**556**	*689*	**554**	*689*
b Non-current				
Bank and other loans*	**1,345**	*779*	**1,062**	*582*
Finance leases**	**2,077**	*1,979*	**2,246**	*2,156*
Hire purchase arrangements	**24**	*316*	**24**	*316*
Loans from subsidiaries			**366**	*279*
At 31 March	**3,446**	*3,074*	**3,698**	*3,333*

* Bank and other loans are repayable up to the year 2019 Bank and other loans of the Group amounting to US$231 million (2009 US$108 million) €73 million (2009 €nil) ¥45 474 million (2009 ¥6 915 million) and £350 million (2009 £382 million) and bank loans of the Company amounting to US$81 million (2009 US$108 million) and €73 million (2009 €nil) and ¥45 474 million (2009 ¥6 915 million) and £154 million (2009 £172 million) are secured on aircraft. Euro-sterling notes other loans and loans from subsidiary undertakings are not secured Finance leases and hire purchase arrangements are all secured on aircraft or property plant and equipment

** Included in finance leases for the Company is £180 million (2009 £188 million) of finance leases with other subsidiaries of the Group of which £11 million (2009 £11 million) is classified as current.

c Bank and other loans

Bank and other loans comprise the following

£ million	Group 2010	Group 2009	Company 2010	Company 2009
£350 million fixed rate 5 8 per cent convertible bond 2014 (i)	**269**		**269**	
£250 million fixed rate 8 75 per cent eurobonds 2016 (ii)	**248**	*248*	**248**	*248*
Floating rate sterling mortgage loans secured on aircraft (iii)	**175**	*187*	**132**	*143*
Floating rate US dollar mortgage loans secured on aircraft (iv)	**54**	*76*	**54**	*76*
Fixed rate sterling mortgage loans secured on aircraft (v)	**175**	*194*	**21**	*29*
Floating rate Japanese yen mortgage loans secured on aircraft (vi)	**321**	*49*	**321**	*49*
Floating rate US dollar mortgage loans secured on plant and equipment (vii)	**40**	*49*	**40**	*49*
Fixed rate euro mortgage loans secured on aircraft (viii)	**65**		**65**	
Fixed rate US dollar mortgage loan secured on aircraft (ix)	**99**			
European Investment Bank loans secured on property (x)	**38**	*45*	**38**	*45*
	1,484	*848*	**1,188**	*639*
Less current instalments due on bank loans	**139**	*69*	**126**	*57*
At 31 March	**1,345**	*779*	**1,062**	*582*

(i) £350 million fixed rate 5 8 per cent convertible bond raising cash of £341 million (net of issue costs) convertible into ordinary shares at the option of the holder before or upon maturity in August 2014 Conversion into ordinary shares will occur at a premium of 38 per cent on the Group's share price on the date of issuance The Group hold an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria The equity portion of the convertible bond issue is included in other reserves.

(ii) £250 million fixed rate 8 75 per cent unsecured eurobonds 2016 are repayable in one instalment on 23 August 2016

(iii) 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

(iv) 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 2011 and 2016

(v) 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 2013 and 2016

(vi) 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 between 2014 and 2015

(vii) Floating rate US dollar mortgage loans are secured on certain plant and equipment of the Group and bear interest of 0 75 per cent above LIBOR. The loans are repayable in 2014

(viii) The fixed rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 1 58 per cent. The loan is repayable in 2024

(ix) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group These loans bear an average interest of 4 55 per cent and are repayable in 2021

(x) European Investment Bank loans are secured on certain property assets of the Group and bear interest of between 0 20 per cent below LIBOR. The loans are repayable between 2014 and 2017

Notes to the accounts continued

27 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

£ million	Group 2010	Group 2009	Company 2010	Company 2009
Loans:				
Bank				
US dollar	**$292**	*$178*	**$142**	*$178*
Euro	**€73**		**€73**	
Japanese yen	**¥45,474**	*¥6,915*	**¥45,474**	*¥6,915*
Sterling	**£389**	*£427*	**£192**	*£217*
	£967	*£600*	**£671**	*£391*
Fixed rate bonds				
Sterling	**£517**	*£248*	**£517**	*£248*
Loans from subsidiary undertakings				
US dollar			**$150**	
Euro			**€300**	
			£366	*£279*
Finance leases:				
US dollar	**$1,777**	*$1,518*	**$1,777**	*$1,518*
Euro	**€116**	*€77*	**€116**	*€77*
Japanese yen	**¥2,131**		**¥2,131**	
Sterling	**£915**	*£948*	**£1,095**	*£1,136*
	£2,206	*£2,082*	**£2,386**	*£2,271*
Hire purchase arrangements·				
US dollar	**$55**	*$72*	**$55**	*$72*
Japanese yen	**¥38,997**	*¥101,350*	**¥38,997**	*¥101,350*
Sterling		*£62*		*£62*
	£312	*£833*	**£312**	*£833*
At 31 March	**£4,002**	*£3,763*	**£4,252**	*£4,022*

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 2010	Group 2009	Company 2010	Company 2009
Future minimum payments due				
Within one year	**468**	*687*	**489**	*707*
After more than one year but within five years	**909**	*1,163*	**1,002**	*1,252*
In five years or more	**1,618**	*1,672*	**1,732**	*1,811*
	2,995	*3,522*	**3,223**	*3,770*
Less Finance charges	**477**	*607*	**525**	*666*
Present value of minimum lease payments	**2,518**	*2,915*	**2,698**	*3,104*
The present value of minimum lease payments is analysed as follows				
Within one year	**417**	*620*	**428**	*632*
After more than one year but within five years	**27**	*926*	**15**	*981*
In five years or more	**2,074**	*1,369*	**2,255**	*1,491*
At 31 March	**2,518**	*2,915*	**2,698**	*3,104*

28 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft These leases have durations ranging from two 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 31 March, fall due as follows

	Group		Company	
£ million	2010	*2009*	2010	*2009*
Within one year	**82**	*84*	**72**	*60*
Between one and five years	**348**	*334*	**335**	*309*
Over five years	**444**	*444*	**444**	*444*
At 31 March	**874**	*862*	**851**	*813*

b Property and equipment

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

	Group		Company	
£ million	2010	*2009*	2010	*2009*
Within one year	**98**	*84*	**95**	*80*
Between one and five years	**306**	*249*	**296**	*238*
Over five years, ranging up to the year 2145	**1,585**	*1,562*	**1,581**	*1,557*
At 31 March	**1,989**	*1,895*	**1,972**	*1,875*

c Sub-leasing

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

	Group		Company	
£ million	2010	*2009*	2010	*2009*
Fleet				
Within one year	**6**	*6*	**3**	*4*
Between one and five years	**1**	*8*		*9*
At 31 March	**7**	*14*	**3**	*13*
Property and equipment				
Within one year	**7**	*6*	**7**	*6*
Between one and five years	**25**	*24*	**25**	*24*
Over five years	**4**	*10*	**4**	*10*
At 31 March	**36**	*40*	**36**	*40*

Notes to the accounts continued

29 Provisions for liabilities and charges

Group

£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	**Total**
At 1 April 2009							
Current			*24*	*21*	*137*		*182*
Non-current	*32*	*9*	*87*		*115*	*13*	*256*
	32	*9*	*111*	*21*	*252*	*13*	*438*
Arising during the year		3	14	101	18	21	**157**
Utilised		(2)	(14)	(81)	(27)	(21)	**(145)**
Release of unused amounts	(17)	(1)	(9)	(16)			**(43)**
Exchange	(2)		(2)		(6)		**(10)**
Other movements				3			**3**
Unwinding of discount			1		18		**19**
At 31 March 2010	**13**	**9**	**101**	**28**	**255**	**13**	**419**
Analysis							
Current			10	28	222		**260**
Non-current	13	9	91		33	13	**159**
	13	**9**	**101**	**28**	**255**	**13**	**419**

Company

£ million	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	**Total**
At 1 April 2009						
Current		*22*	*21*	*137*		*180*
Non-current	*4*	*83*		*115*	*13*	*215*
	4	*105*	*21*	*252*	*13*	*395*
Arising during the year	3	12	101	18	21	**155**
Utilised		(11)	(81)	(27)	(21)	**(140)**
Release of unused amounts	(1)	(9)	(16)			**(26)**
Exchange		(2)		(6)		**(8)**
Other movements			3			**3**
Unwinding of discount		1		18		**19**
At 31 March 2010	**6**	**96**	**28**	**255**	**13**	**398**
Analysis						
Current		7	28	222		**257**
Non-current	6	89		33	13	**141**
	6	**96**	**28**	**255**	**13**	**398**

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 to the sub-lease of 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

29 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 Group recognised a restructuring provision of £28 million at 31 March 2010 (2009 £21 million) including targeted voluntary severance schemes announced during the year This provision is 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

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

30 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, 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, 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 use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits

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

					Group						Company
		2010			*2009*			2010			*2009*
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 profit 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 profit before tax £ million*	*Effect on equity £ million*
30	**4**	**432**	*30*	*15*	*301*	**30**	**4**	**432**	*30*	*15*	*301*
(30)	**(11)**	**(420)**	*(30)*	*(4)*	*(337)*	**(30)**	**(11)**	**(420)**	*(30)*	*(4)*	*(337)*

Notes to the accounts continued

30 Financial risk management objectives and policies continued

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 US dollar, euro and Japanese yen (yen) The Group generates a surplus in most currencies in which it does business The US dollar is an exception as capital expenditure, debt repayments and fuel payments denominated in US dollars normally create a deficit

The Group can experience adverse or beneficial effects arising from foreign exchange rate movements The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency Surpluses of convertible currencies are sold, either spot or forward, for US dollars or pounds sterling

The Group has substantial liabilities denominated in US dollar, euro and Japanese yen

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

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

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

Group	Strengthening/ (weakening) in US dollar rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in euro rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in yen rate per cent	Effect on profit before tax £ million	Effect on equity £ million
2010	**20**	**5**	**(185)**	**20**	**1**	**(38)**	**20**	**(19)**	**(104)**
	(20)	**(5)**	**184**	**(20)**	**(1)**	**38**	**(20)**	**19**	**104**
2009	*20*	*(52)*	*(162)*	*20*	*(7)*	*(33)*	*20*	*(8)*	*(138)*
	(20)	*52*	*162*	*(20)*	*6*	*32*	*(20)*	*8*	*138*

Company	Strengthening/ (weakening) in US dollar rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in euro rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in yen rate per cent	Effect on profit before tax £ million	Effect on equity £ million
2010	**20**		**(185)**	**20**		**(38)**	**20**	**(19)**	**(104)**
	(20)		**184**	**(20)**		**38**	**(20)**	**19**	**104**
2009	*20*	*(52)*	*(162)*	*20*	*(7)*	*(33)*	*20*	*(8)*	*(138)*
	(20)	*52*	*162*	*(20)*	*6*	*32*	*(20)*	*8*	*138*

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and cash deposits Had there been a change in interest rates, either an increase of 100 basis points or a decrease of 50 basis points, there would have been a £nil impact on shareholders' equity (2009 £nil) and a £nil impact on the Group and Company current year income statement In the prior year, as a result of higher Group net debt, an increase in interest rates of 100 basis points would have had an unfavourable impact on the Group income statement of £2 million A decrease in interest rates of 50 basis points would have had a favourable impact on the Group income statement of £1 million

In the prior year, cash deposits were primarily held in a subsidiary entity As a result, an increase in interest rates of 100 basis points would have had an unfavourable impact on the Company income statement of £10 million, a decrease in interest rates of 50 basis points would have had a favourable impact on the Company income statement of £5 million

30 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 31

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

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 31 March 2010 assigned by Moody's and Standard and Poor's respectively were B1 and BB- The Moody's rating was reduced from Ba3 in March 2010 and the Company is on credit watch for a further downgrade 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 31 March 2010 the Group and Company had unused overdraft facilities of £10 million (2009 £20 million) and €nil (2009 €4 million (£4 million))

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 March 2010 (2009 £25 million)

The Group and Company had the following undrawn general and committed aircraft financing facilities

	2010	
Million	Currency	£ equivalent
US dollar facility expiring June 2013	**$912**	**602**
US dollar facility expiring September 2016	**$966**	**638**
US dollar facility expiring October 2010	**$114**	**75**
US dollar facility expiring October 2016	**$509**	**336**
US dollar facility expiring December 2010	**$98**	**65**
US dollar facility expiring June 2012	**$750**	**495**
Japanese yen facility expiring January 2011	**¥24,281**	**172**

Notes to the accounts continued

30 Financial risk management objectives and policies continued

e Liquidity risk continued

Million	2009 Currency	2009 £ 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

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

£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Group Total 2010
Cash and cash equivalents	786					**786**
Other current interest-bearing deposits	833	95				**928**
Trade receivables	499					**499**
Interest-bearing loans and borrowings						
Finance lease and hire purchase obligations	(286)	(182)	(201)	(708)	(1,618)	**(2,995)**
Fixed rate borrowings	(47)	(36)	(83)	(485)	(455)	**(1,106)**
Floating rate borrowings	(49)	(71)	(113)	(317)	(174)	**(724)**
Trade and other payables	(1,219)					**(1,219)**
Derivative financial instruments						
Cross currency swaps			(1)	(2)	(2)	**(5)**
Forward currency contracts	17	4				**21**
Fuel derivatives	24	20	27			**71**
Forward currency contracts	(3)					**(3)**
At 31 March	**555**	**(170)**	**(371)**	**(1,512)**	**(2,249)**	**(3,747)**

£ million	*Within 6 months*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*	Group *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 31 March	*(434)*	*(250)*	*(697)*	*(1,005)*	*(2,257)*	*(4,643)*

30 Financial risk management objectives and policies continued

e Liquidity risk continued

£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Company Total 2010
Cash and cash equivalents	756					**756**
Other current interest-bearing deposits	813	95				**908**
Trade receivables	486					**486**
Interest-bearing loans and borrowings						
Finance lease and hire purchase obligations	(301)	(188)	(222)	(780)	(1,732)	**(3,223)**
Fixed rate borrowings	(40)	(40)	(81)	(477)	(1,057)	**(1,695)**
Floating rate borrowings	(49)	(68)	(109)	(303)	(150)	**(679)**
Trade and other payables	(3,904)					**(3,904)**
Derivative financial instruments						
Cross currency swaps			(1)	(2)	(2)	**(5)**
Forward currency contracts	17	4				**21**
Fuel derivatives	24	20	27			**71**
Forward currency contracts	(3)	(1)				**(4)**
At 31 March	**(2,201)**	**(178)**	**(386)**	**(1,562)**	**(2,941)**	**(7,268)**

£ million	*Within 6 months*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*	Company *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 31 March	*(2,945)*	*(480)*	*(713)*	*(1,055)*	*(2,998)*	*(8,191)*

f Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, net debt as a percentage of total capital Net debt is defined as the total borrowings, finance leases and hire purchase liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts See note 24 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interests and net debt.

Notes to the accounts continued

30 Financial risk management objectives and policies continued

f Capital risk management continued

The gearing ratios at 31 March were as follows

£ million (except ratios)	Group 2010	Group *2009*
Capital reserves	**1,913**	*1,646*
Add non-controlling interests	**200**	*200*
Total equity	**2,113**	*1,846*
Net debt (a)	**2,288**	*2,382*
Total capital (b)	**4,401**	*4,228*
Gearing ratio (a)/(b)	**52 0**	*56 3*

31 Financial instruments

a Fair values of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values as follows

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly

Level 3 Inputs for the asset or liability that are not based on observable market data

The carrying amounts and fair values of the Group's financial assets and liabilities at 31 March 2010 are set out below

	Group				
				Fair value	Carrying value
£ million	Level 1	Level 2	Level 3	Total	Total
Financial assets:					
Available-for-sale financial assets	14		62	**76**	**76**
Forward currency contracts*		21		**21**	**21**
Fuel derivatives*		80		**80**	**80**
Financial liabilities.					
Interest-bearing loans and borrowings					
Finance lease and hire purchase obligations		2,599		**2,599**	**2,518**
Fixed rate borrowings	535	443		**978**	**856**
Floating rate borrowings		628		**628**	**628**
Cross currency swaps**		5		**5**	**5**
Forward currency contracts**		3		**3**	**3**
Fuel derivatives**		9		**9**	**9**

* Current portion of derivative financial assets is £74 million

** Current portion of derivative financial liabilities is £12 million.

31 Financial instruments continued

a Fair values of financial assets and financial liabilities continued

The fair values of the Group's financial assets and liabilities at 31 March 2009 are set out below

					Group
				Fair value	*Carrying value*
£ million	*Level 1*	*Level 2*	*Level 3*	*Total*	*Total*
Financial assets:					
Available-for-sale financial assets	*8*		*57*	*65*	*65*
Forward currency contracts*		*43*		*43*	*43*
Financial liabilities:					
Interest-bearing loans and borrowings					
Finance lease and hire purchase obligations		*3,030*		*3,030*	*2,915*
Fixed rate borrowings		*386*		*386*	*442*
Floating rate borrowings		*406*		*406*	*406*
Cross currency swaps**		*7*		*7*	*7*
Forward currency contracts**		*18*		*18*	*18*
Fuel derivatives**		*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 Company's financial assets and liabilities at 31 March 2010 are set out below

					Company
				Fair value	Carrying value
£ million	Level 1	Level 2	Level 3	**Total**	**Total**
Financial assets					
Available-for-sale financial assets			21	**21**	**21**
Forward currency contracts*		21		**21**	**21**
Fuel derivatives*		80		**80**	**80**
Financial liabilities:					
Interest-bearing loans and borrowings					
Finance lease and hire purchase obligations		2,796		**2,796**	**2,698**
Fixed rate borrowings	535	536		**1,071**	**969**
Floating rate borrowings		585		**585**	**585**
Cross currency swaps**		5		**5**	**5**
Forward currency contracts**		4		**4**	**4**
Fuel derivatives**		9		**9**	**9**

* Current portion of derivative financial assets is £74 million

** Current portion of derivative financial liabilities is £13 million

The fair values of the Company's financial assets and liabilities at 31 March 2009 are set out below

					Company
				Fair value	*Carrying value*
£ million	*Level 1*	*Level 2*	*Level 3*	*Total*	*Total*
Financial assets					
Available-for-sale financial assets			*27*	*27*	*27*
Forward currency contracts*		*43*		*43*	*43*
Financial liabilities					
Interest-bearing loans and borrowings					
Finance lease and hire purchase obligations		*3,239*		*3,239*	*3,104*
Fixed rate borrowings		*490*		*490*	*556*
Floating rate borrowings		*362*		*362*	*362*
Cross currency swaps**		*7*		*7*	*7*
Forward currency contracts**		*18*		*18*	*18*
Fuel derivatives**		*569*		*569*	*569*

* Current portion of derivative financial assets is £40 million

** Current portion of derivative financial liabilities is £471 million

Notes to the accounts continued

31 Financial instruments continued

a Fair values of financial assets and financial liabilities continued
The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments

Available-for-sale financial assets and loan notes
Listed fixed asset investments (level 1) are stated at market value as at 31 March 2010 For other investments (level 3) the fair value cannot be measured reliably, as such these assets are stated at historic cost less accumulated impairment losses

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 that the Group is committed to make have been discounted at the relevant market interest rates applicable at 31 March 2010 (level 2)

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 The carrying value of £276 million (2009 £722 million) is determined with reference to the effective interest rate (level 2)

Euro-sterling notes and Euro-sterling bond 2016
These are stated at quoted market value (level 1)

Convertible bond 2014
These are stated at quoted market value (level 1)

Forward currency transactions and over-the-counter (OTC) fuel derivatives
These are stated at the market value of instruments with similar terms and conditions at the balance sheet date (level 2)

b Level 3 financial assets reconciliation
The following table summarises key movements in level 3 financial assets

	Group		Company	
£ million	2010	*2009*	2010	*2009*
At 1 April	**57**	*67*	**27**	*24*
Write-up/(impairment) of available-for-sale financial assets (note 20)	**11**	*(13)*		
Repayment of loan notes (classified as available-for-sale financial assets)	**(7)**		**(7)**	
Interest accrued on loan notes (classified as available-for-sale financial assets)	**1**	*3*	**1**	*3*
At 31 March	**62**	*57*	**21**	*27*

c Hedges

i Cash flow hedges
At 31 March 2010 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

31 Financial instruments continued

c Hedges continued

i Cash flow hedges continued

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	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Group Total 2010
Debt repayments to hedge future revenue	24	22	48	148	92	**334**
Forward contracts to hedge future payments	(15)	(5)				**(20)**
Hedges of future fuel purchases	(8)	(18)	(24)			**(50)**
	1	(1)	24	148	92	**264**
Related deferred tax charge						**(74)**
Total amount included within equity						**190**

Notional value of financial instruments used as cash flow hedging instruments

million	Group Notional amount	Company Notional amount
To hedge future currency revenues against US dollars	$289	$289
To hedge future currency revenues against sterling		£27
To hedge future operating payments against US dollars	$185	$185
To hedge future Brazilian real capital payments against US dollars	$12	$12
Hedges of future fuel purchases	$2,922	$2,922
Debt repayments to hedge future revenue – US dollars	$1,926	$1,926
– euro	€188	€188
– Japanese yen	¥73,568	¥73,568

£ million	*Within 6 months*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*	*Group 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 Notional amount*	*Company 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 against 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 – US dollars	*$1,570*	*$1,570*
– euro	*€77*	*€77*
– Japanese yen	*¥95,358*	*¥95,358*

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a gain of £14 million (2009 £7 million loss) There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases In the current year, £21 million (2009 £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

Notes to the accounts continued

31 Financial instruments continued

c Hedges continued

ii Fair value hedges
The Group has no hedges designated as fair value hedges

iii Net investments in foreign operations
The Group has no hedges designated as hedges of net investments in foreign operations

Company
The Company undertakes hedging activities on behalf of other companies within the Group and performs the treasury activities of the Group centrally As a result, the disclosures above apply to the Company as for the Group

32 Share capital

	Group and Company			
	2010		*2009*	
Ordinary shares of 25 pence each	**Number of shares 000s**	**£ million**	*Number of shares 000s*	*£ million*
Allotted, called up and fully paid				
At 1 April	**1,153,628**	**288**	*1,153,105*	*288*
Exercise of options under employee share option schemes	**46**		*523*	
At 31 March	**1,153,674**	**288**	*1,153,628*	*288*

The concept of authorised share capital was abolished under the Companies Act 2006, with effect from 1 October 2009 and consequential amendments to the Company's Articles of Association were approved by shareholders at the 2009 Annual General Meeting At 31 March 2009, the authorised ordinary share capital of the Company was £378 million divided into 1,512,000,000 ordinary shares of 25 pence each

33 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees – these schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets Details of the performance criteria to be met for each of the schemes, and details of the awards to the Directors, are set out in the Report of the Remuneration Committee on pages 55 to 64

a Share Option Plan
The British Airways Share Option Plan 1999 (SOP) 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 ended 31 March 2005, when there was a single re-test after a further year which measured performance of the Group over the four-year period from the date of grant No further grants of options under the SOP will be made other than those during the year ended 31 March 2006, in relation to performance during the year ended 31 March 2005 (for which there will be no re-testing)

33 Share options continued

b Long Term Incentive Plan

The British Airways Long Term Incentive Plan 1996 (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 16 June 2004

c Performance Share Plan

In 2005 the Group introduced the British Airways Performance Share Plan 2005 (PSP) for key senior executives and in 2009 this was extended to selected members of the wider management team A conditional award of shares is subject to the achievement of a variety of performance conditions which will vest after three years subject to the employee remaining employed by the Group The award made in 2009 will vest based 100 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years (pages 57 to 59) No payment is due upon vesting of the shares Key senior 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 PSP until they have built up a shareholding equivalent to 100 per cent of base salary

d Deferred Share Plan

In 2006 the Group introduced the British Airways Deferred Share Plan 2005 (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

									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 1 April 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 1 April 2009*	*1,041*		*4,539*		*1,099*		*14,080*	*2 74*	
Granted in the year	112	1 33	7,313	1 43	16				
Exercised during the year**/***	(614)				(436)		(46)	1 57	
Expired/cancelled	(40)		(1,150)				(5,155)	2 88	
Outstanding at 1 April 2010	**499**		**10,702**		**679**		**8,879**	**2.66**	
Options exercisable									
At 31 March 2010					**679**		**8,879**	**2 66**	
At 31 March 2009					*1,099*		*14,080*	*2 74*	

* Included within this balance are options over 2 230 907 (2009 3 875 252) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 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 SOP is £2 16 (2009 £2 36).

*** 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

33 Share options continued

e Share option summary continued

Range of exercise prices 2010 for Share Option Plan

	Options outstanding			Options exercisable	
Range of exercise prices	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	1,573	2 87	1 66	1,573	1 66
£2 62 – £3 20	5,665	4 78	2 70	5,665	2 70
£3 21 – £3 80	1,641	0 75	3 50	1,641	3 50
At 31 March 2010	**8,879**	**3.70**	**2.66**	**8,879**	**2.66**

Range of exercise prices 2009 for Share Option Plan

	Options outstanding			*Options exercisable*	
Range of exercise prices	*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 31 March 2009	*14,080*	*4 53*	*2 74*	*14,080*	*2 74*

For all outstanding share option schemes as at 31 March 2010, the weighted average remaining contractual life is three years (2009 four years) For options granted during the year the weighted average option life was three years (2009 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 terms and conditions upon which the options were granted The following table lists the inputs to the models by taking the weighted average for the three PSP options granted in the year

	2010	*2009*
Expected share price volatility (per cent)	**38**	*24*
Historical volatility (per cent)	**54**	*35*
Expected comparator group volatility (per cent)	**24-118**	*21-98*
Expected comparator correlation (per cent)	**37**	*41*
Expected life of options (years)	**3**	*3*
Weighted average share price (£)	**1.85**	*1 88*

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

	2010	*2009*
Employee costs	**1**	*1*

34 Other reserves and non-controlling interests

a Group

£ million	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Total	Group Non-controlling interests*
Balance at 31 March 2008	*1,583*	*213*	*22*		*1,818*	*200*
Adoption of IFRIC 13	*(206)*				*(206)*	
Adoption of IFRIC 14	*235*				*235*	
Balance at 1 April 2008	*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 assets – realisation of fair value gains		*(4)*			*(4)*	
Net dividends	*(56)*				*(56)*	
Total income and expense for the year	*(458)*	*(997)*	*38*		*(1,417)*	
At 31 March 2009	*1,154*	*(784)*	*60*		*430*	*200*
Loss for the year attributable to shareholders	(443)				**(443)**	
Exchange differences and other movements			(18)		**(18)**	
Fair value of cash flow hedges transferred to passenger revenue		27			**27**	
Fair value of cash flow hedges transferred to fuel and oil costs		(235)			**(235)**	
Fair value of cash flow hedges transferred to currency differences		4			**4**	
Net change in fair value of cash flow hedges		791			**791**	
Exercise of share options	(5)				**(5)**	
Cost of share-based payment	1				**1**	
Held-to-maturity investments marked-to-market		5			**5**	
Share of other movements in reserves of associates	34				**34**	
Equity portion of convertible bond				84	**84**	
Net gain on available-for-sale financial assets		17			**17**	
Total income and expense for the year	(413)	609	(18)	84	**262**	
At 31 March 2010	**741**	**(175)**	**42**	**84**	**692**	**200**

* Non-controlling interests comprise €300 million of 6 75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) LP 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

34 Other reserves and non-controlling interests continued

b Company

£ million	Retained earnings	Unrealised gains and losses	Equity portion of convertible bond	Company Total
Balance at 31 March 2008	*1,133*	*211*		*1,344*
Adoption of IFRIC 13	*(135)*			*(135)*
Adoption of IFRIC 14	*235*			*235*
Balance at 1 April 2008	*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 1 April 2009	*787*	*(777)*		*10*
Loss for the year attributable to shareholders	(407)			**(407)**
Cost of share-based payment	1			**1**
Exercise of share options	(1)			**(1)**
Fair value of cash flow hedges transferred to passenger revenue		27		**27**
Fair value of cash flow hedges transferred to fuel and oil costs		(235)		**(235)**
Fair value of cash flow hedges transferred to currency differences		4		**4**
Net change in fair value of cash flow hedges		790		**790**
Equity portion of convertible bond			84	**84**
Total income and expense for the year	(407)	586	84	**263**
At 31 March 2010	**380**	**(191)**	**84**	**273**

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

The equity portion of convertible bond reserve represents the equity portion of the £350 million fixed rate 5 8 per cent convertible bond (note 27) after deduction of transaction costs of £2 million

Total shareholders' equity also includes the balance classified as share capital that includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 25 pence ordinary shares Investment in own shares consists of shares held by British Airways Employee Benefits Trust (Jersey) Limited, a wholly-owned subsidiary, for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan At 31 March 2010 the Group and Company held 1,086,001 shares for the Long Term Incentive Plan and other employee share schemes (2009 2,134,461 shares)

35 Pension costs

The Company operates two funded principal defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are closed to new members APS has been closed to new members since 31 March 1984 and NAPS closed to new members on 31 March 2003 From 1 April 2003 the Company commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 18 employed by the Company and certain subsidiary undertakings in the UK may become members The assets of the scheme are held in separate trustee-administered funds

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index (RPI) Those provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the Government's lower earnings limit NAPS benefits are subject to RPI increases in payment up to a maximum of 5 per cent in any one year

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 Additionally, APS has access to an additional £230 million of collateral in the event of insolvency

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 2 million (2009 £2 1 million) Due to US funding requirements, the Group is forecast to make contributions to the US pensions scheme for £12 million in 2010/11

Pension contributions for APS and NAPS were determined by actuarial valuations made as at 31 March 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 The contribution rate will be reviewed again following the finalisation of the 2009 actuarial valuation, on which it is proposed to make further changes to the NAPS benefit structure

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 31 March 2010 were £22 million (2009 £25 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 £330 million

a Employee benefit schemes recognised on the balance sheet

	Employee benefit obligations		Employee benefit assets	
£ million	**2010**	*2009*	**2010**	*2009*
Arising under defined benefit pension plans and post-retirement benefits	**66**	*57*	**483**	*340*
Arising under post-retirement medical benefit plans	**132**	*123*		
Total arising under post-retirement benefits	**198**	*180*	**483**	*340*
Other employee benefit obligations	**10**	*11*		
At 31 March	**208**	*191*	**483**	*340*

At 31 March 2010, 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 £8 million (2009 £9 million) relating to British Airways Holidays Limited, with the remainder relating to the Company

Notes to the accounts continued

35 Pension costs continued

b Scheme assets and liabilities

2010

£ million	Employee benefit obligations NAPS	Employee benefit obligations Other schemes	Employee benefit obligations Total	Employee benefit assets APS	Employee benefit assets Other schemes	Employee benefit assets Total
Scheme assets at fair value						
Equities	5,245	174	**5,419**	1,082	19	**1,101**
Bonds	1,831	74	**1,905**	4,774	17	**4,791**
Others	948	5	**953**	587		**587**
Fair value of scheme assets	8,024	253	**8,277**	6,443	36	**6,479**
Present value of scheme liabilities	9,969	579	**10,548**	6,247	31	**6,278**
Net pension (liability)/asset	**(1,945)**	**(326)**	**(2,271)**	**196**	**5**	**201**
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	158	(198)	**(40)**	317	8	**325**
Restriction on APS surplus due to the asset ceiling				50		**50**
Cumulative actuarial losses not recognised	(2,103)	(128)	**(2,231)**	(171)	(3)	**(174)**
	(1,945)	**(326)**	**(2,271)**	**196**	**5**	**201**

2009

£ million	*Employee benefit obligations NAPS*	*Employee benefit obligations Other schemes*	*Employee benefit obligations Total*	*Employee benefit assets APS*	*Employee benefit assets Other schemes*	*Employee benefit assets 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 (liability)/asset represented by						
Net pension asset/(liability) recognised	*26*	*(180)*	*(154)*	*304*	*10*	*314*
Restriction on APS surplus due to the asset ceiling				*135*		*135*
Cumulative actuarial (losses)/gains not recognised	*(1,193)*	*(114)*	*(1,307)*	*421*	*(10)*	*411*
	(1,167)	*(294)*	*(1,461)*	*860*	–	*860*

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

35 Pension costs continued

c Amounts recognised in the income statement

2010

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
Current service cost	105	6	**111**	10	1	**11**
Past service cost	1		**1**			
Recognised in arriving at operating profit	**106**	**6**	**112**	**10**	**1**	**11**
Expected return on scheme assets	(418)	(14)	**(432)**	(269)	(1)	**(270)**
Interest costs on scheme liabilities	489	30	**519**	345	2	**347**
Amortisation of actuarial losses in excess of the corridor	31	6	**37**			
Effect of the APS asset ceiling				(85)		**(85)**
Other finance cost	**102**	**22**	**124**	**(9)**	**1**	**(8)**

2009

£ million	*Employee benefit obligations NAPS*	*Other schemes*	*Total*	*Employee benefit assets APS*	*Other schemes*	*Total*
Current service cost	*129*	*7*	*136*	*14*		*14*
Past service cost	*3*		*3*	*1*		*1*
Recognised in arriving at operating profit	*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*

d Unrecognised cumulative actuarial gains and losses

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
Amount of unrecognised actuarial losses at 1 April 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 31 March 2009	*(1,193)*	*(114)*	*(1,307)*	*421*	*(10)*	*411*
Actual return on scheme assets	1,970	61	**2,031**	930	11	**941**
Less Expected return on scheme assets	(418)	(14)	**(432)**	(269)	(1)	**(270)**
	1,552	47	**1,599**	661	10	**671**
Other actuarial losses	(2,493)	(67)	**(2,560)**	(1,253)	(3)	**(1,256)**
Amortisation of actuarial losses in excess of the corridor	31	6	**37**			
Cumulative unrecognised actuarial losses at 31 March 2010	**(2,103)**	**(128)**	**(2,231)**	**(171)**	**(3)**	**(174)**

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

35 Pension costs continued

e Actuarial assumptions

At 31 March

Per cent per annum	NAPS 2010	APS 2010	Other schemes 2010	NAPS 2009	APS 2009	Other schemes 2009
Inflation	3 7	3 6	2 3-5 3	3 0	2 7	2 5-3 0
Rate of increase in pensionable pay*	3 7	3 6	2 0-8 5	3 0	2 7	2 8-8 5
Rate of increase of pensions in payment	3 5	3 6	1 5-9 0	2 9	2 7	1 5-10 0
Discount rate	5 6	5 5	2 0-9 0	6 9	7 1	1 9-7 6
Expected rate of return on scheme assets	7 3	5 2	4 0-9 0	7 1	4 7	5 5-8 5

* Rate of increase in pensionable pay is assumed to be in line with inflation The first increase in pensionable pay is assumed to be February 2011 for NAPS and February 2013 for APS

Rate of increase in healthcare costs are based on medical trend rates of 9 per cent grading down to 5 per cent over eight years (2009 10 per cent grading down to 5 per cent over five years)

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS 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 PPA10 mortality 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 £220 million in APS and approximately £250 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 £80 million in APS and £210 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	(37)	29

f Present value of scheme liabilities

£ million	Employee benefit obligations NAPS	Employee benefit obligations Other schemes	Employee benefit obligations Total	Employee benefit assets APS	Employee benefit assets Other schemes	Employee benefit assets Total
As at 1 April 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)
As at 31 March 2009	7,216	497	7,713	5,065	28	5,093
Current service cost	105	6	**111**	10	1	**11**
Past service cost	1		**1**			
Interest cost	489	30	**519**	345	2	**347**
Benefits paid	(390)	(22)	**(412)**	(429)	(3)	**(432)**
Employee contributions	55	1	**56**	3		**3**
Actuarial losses	2,493	67	**2,560**	1,253	3	**1,256**
At 31 March 2010	**9,969**	**579**	**10,548**	**6,247**	**31**	**6,278**

The defined benefit obligation comprises £220 million (2009 £169 million) arising from unfunded plans and £10,328 million (2009 £7,544 million) from plans that are wholly or partly funded

35 Pension costs continued

g Fair value of scheme assets

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
As at 1 April 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
Employee contributions	78		78	8		8
Benefits paid	(221)	(18)	(239)	(385)	(1)	(386)
Actuarial losses	(1,964)	(25)	(1,989)	(723)	(9)	(732)
As at 31 March 2009	6,049	203	6,252	5,925	28	5,953
Expected return on plan assets	418	14	**432**	269	1	**270**
Employer contributions	340	10	**350**	14		**14**
Employee contributions	55	1	**56**	3		**3**
Benefits paid	(390)	(22)	**(412)**	(429)	(3)	**(432)**
Actuarial gains	1,552	47	**1,599**	661	10	**671**
At 31 March 2010	**8,024**	**253**	**8,277**	**6,443**	**36**	**6,479**

h History of experience gains and losses

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
As at 31 March 2010						
Fair value of scheme assets	8,024	253	**8,277**	6,443	36	**6,479**
Present value of defined benefit obligation	(9,969)	(579)	**(10,548)**	(6,247)	(31)	**(6,278)**
(Deficit)/surplus in the scheme	(1,945)	(326)	**(2,271)**	196	5	**201**
Experience adjustments arising on plan liabilities	2,493	67	**2,560**	1,253	3	**1,256**
Experience adjustments arising on plan assets	1,552	47	**1,599**	661	10	**671**
As at 31 March 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 31 March 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 31 March 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 31 March 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

The Directors are unable to determine how much of the pension scheme surplus or deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of those pension schemes

Notes to the accounts continued

36 Contingent liabilities

There were contingent liabilities at 31 March 2010 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 31 March 2010 amounted to £119 million (2009 £185 million) and £385 million (2009 £498 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 Whilst it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations

37 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year under review with related parties

	Group		Company	
£ million	2010	*2009*	2010	*2009*
Associates				
Sales to associates	**36**	*41*	**36**	*41*
Purchases from associates	**47**	*53*	**47**	*53*
Amounts owed by associates	**1**	*1*	**1**	*1*
Amounts owed to associates	**2**	*2*	**2**	*2*
Subsidiaries				
Sales to subsidiaries			**65**	*26*
Purchases from subsidiaries			**123**	*131*
Amounts owed by subsidiaries			**236**	*169*
Amounts owed to subsidiaries			**3,283**	*2,106*

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 3 million in relation to the costs of the Pension Protection Fund levy (2009 £3 8 million)

Associates

a Iberia Lineas 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

During the year the Company contracted with Iberia to purchase five new Airbus A320 aircraft, the commitment arising has been included in note 15

As at 31 March 2010 the net trading balance owed to Iberia by the Group amounted to £1 million (2009 £1 million)

37 Related party transactions continued

b Other associates

There was a remaining net trading balance under £1 million as at 31 March 2010 due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited (2009 under £1 million)

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 31 March 2010 or arose during the year that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006

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 31 March 2010 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2009 £nil)

Compensation of key management personnel (including Directors)

	Group		Company	
£ million	**2010**	*2009*	**2010**	*2009*
Short-term employee benefits	**4**	*4*	**4**	*4*
Share-based payments	**1**	*1*	**1**	*1*
Termination benefits		*1*		*1*
At 31 March	**5**	*6*	**5**	*6*

38 Foreign currency translation rates

	At 31 March		Annual average	
£1 equals	**2010**	*2009*	**2010**	*2009*
US dollar	**1.51**	*1 43*	**1 60**	*1 75*
Euro	**1 12**	*1 07*	**1.13**	*1 21*
Japanese yen	**141**	*140*	**148**	*177*

Operating and financial statistics

For the five years ended 31 March 2010

Total Group operations (note1)

		2010	2009	2008*	2007	2006**
Traffic and capacity						
Revenue passenger km (RPK)	m	**110,851**	*114,346*	*118,395*	*112,851*	*109,713*
Available seat km (ASK)	m	**141,178**	*148,504*	*149,576*	*148,321*	*144,194*
Passenger load factor	%	**78 5**	*77 0*	*79 1*	*76 1*	*76 1*
Cargo tonne km (CTK)	m	**4,537**	*4,638*	*4,892*	*4,695*	*4,929*
Total revenue tonne km (RTK)	m	**15,588**	*16,054*	*16,797*	*16,112*	*15,909*
Total available tonne km (ATK)	m	**21,278**	*22,293*	*22,872*	*22,882*	*22,719*
Overall load factor	%	**73 3**	*72 0*	*73 4*	*70 4*	*70 0*
Passengers carried	'000	**31,825**	*33,117*	*34,613*	*33,068*	*32,432*
Tonnes of cargo carried	'000	**760**	*777*	*805*	*762*	*795*
Revenue aircraft km	m	**618**	*644*	*644*	*637*	*614*
Revenue flights	'000	**257**	*279*	*281*	*276*	*280*
Operations						
Average manpower equivalent (MPE)		**37,595**	*41,473*	*41,745*	*42,683*	*43,814*
RTKs per MPE		**414.6**	*387 1*	*402 4*	*377 5*	*363 1*
ATKs per MPE		**566 0**	*537 5*	*547 9*	*536 1*	*518 5*
Aircraft in service at year end		**238**	*245*	*245*	*242*	*284*
Aircraft utilisation (average hours per aircraft per day)		**10 43**	*10 68*	*10 91*	*10 82*	*10 29*
Unduplicated route km	'000	**628**	*621*	*629*	*589*	*574*
Punctuality – within 15 minutes	%	**81**	*77*	*63*	*67*	*75*
Regularity	%	**98 0**	*98 6*	*98 2*	*98 5*	*98 8*
Financial						
Passenger revenue per RPK	p	**6 30**	*6 85*	*6 42*	*6 44*	*6 31*
Passenger revenue per ASK	p	**4 94**	*5 28*	*5 08*	*4 90*	*4 80*
Cargo revenue per CTK	p	**12 12**	*14 51*	*12 57*	*12 74*	*12 94*
Average fuel price (US cents/US gallon)		**189 24**	*284 06*	*245 26*	*209 60*	*188 22*
Interest cover (note 2)	times	**(2 9)**	*(3 6)*	*15 4*	*16 7*	*6 0*
Dividend cover	times	**n/a**	*(5 2)*	*n/a*	*n/a*	*n/a*
Operating margin (note 3)	%	**(2 9)**	*(2 4)*	*10 0*	*7 1*	*8 5*
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	**642**	*645*	*1,780*	*1,549*	*1,666*
Net debt/total capital ratio (note 4)	%	**52 0**	*56 3*	*28 7*	*29 1*	*44 2*
Net debt/total capital ratio including operating leases	%	**63 1**	*62 8*	*38 2*	*39 6*	*53 0*
Total traffic revenue per RTK	p	**48 31**	*53 00*	*48 91*	*48 79*	*47 53*
Total traffic revenue per ATK	p	**35.39**	*38 17*	*35 92*	*34 35*	*33 28*
Total operating expenditure per RTK (note 5)	p	**52.76**	*57 38*	*46 91*	*49 26*	*47 26*
Total operating expenditure per ATK (note 5)	p	**38 65**	*41 32*	*34 45*	*34 68*	*33 10*

* 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

n/a = not applicable

Operating and financial statistics continued

For the five years ended 31 March 2010

Notes

1 Operating statistics do not include those of associate undertakings and franchisees

2 Interest cover is defined as the number of times profit/(loss) before tax excluding net interest payable covers the net interest payable Interest cover is not a financial measure under IFRS However, management believes this measure is useful to investors when analysing the Group's ability to meet its interest commitments from current earnings The following table shows a reconciliation of net interest payable for each of the two most recent financial years

£ million (except ratios)	Year ended 31 March 2010	2009
Loss before tax	**(531)**	*(401)*
Net interest payable (a)	**(137)**	*(87)*
Loss adjusted for interest payable (b)	**(394)**	*(314)*
Interest cover (b)/(a)	**(2 9)**	*(3 6)*

3 Operating margin is defined as operating profit as a percentage of revenue Revenue comprises passenger revenue (scheduled services and non scheduled services), cargo services and other revenue

4 Net debt as a percentage of total capital Net debt is defined as the total of loans, finance leases and hire purchase liabilities, net of short-term loans and deposits and cash less overdrafts See note 24 to the financial statements for details of the calculation of net debt Total capital is defined as the total of capital, reserves, non-controlling 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 31 March 2010	2009
Capital and reserves	**1,913**	*1,646*
Add non-controlling interests	**200**	*200*
Total shareholders' equity	**2,113**	*1,846*
Net debt (a)	**2,288**	*2,382*
Total capital (b)	**4,401**	*4,228*
Net debt/total capital percentage (a)/(b)	**52.0**	*56 3*

5 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 31 March 2010	2009
Total expenditure on operations	**8,225**	*9,212*
RTKs	**15,588**	*16,054*
ATKs	**21,278**	*22,293*
Total expenditure on operations per RTKs (p)	**52.76**	*57 38*
Total expenditure on operations per ATKs (p)	**38.65**	*41 32*

Principal investments

At 31 March 2010

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
The Mileage Company Limited (formerly Air Miles Travel Promotions Limited)	Airline marketing	England
BA and AA Holdings Limited	Holding company	England
BA Cash Management Limited Partnership	Investment	England
BA Cityflyer Limited	Airline operations	England
OpenSkies SASU*	Airline operations	France
BritAir Holdings Limited	Holding company	England
British Airways 777 Leasing Limited	Aircraft financing	England
British Airways Avionic Engineering Limited	Aircraft maintenance	England
British Airways E-Jets Leasing Limited*	Aircraft financing	Bermuda
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 Lineas Aéreas de España S A (Iberia)*	13 15	Airline operations	Spain

Available-for-sale investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Comair Limited*	109	Airline operations	South Africa
Flybe Group Limited*	150	Airline operations	England
The Airline Group Limited	167	Air traffic control holding company	England

* Not owned directly by British Airways Plc

Shareholder information

General Information

Financial calendar

Financial year end	31 March 2010
Annual General Meeting	13 July 2010

Announcement of 2010/11 results

Three-month results to 30 June 2010	31 July 2010
Six-month results to 30 September 2010	5 November 2010

The timetable for further announcements is dependent on the merger with Iberia

Registered office
Waterside, PO Box 365, Harmondsworth, UB7 0GB

Registered number – 1777777

Outside advisers
Company Registrars Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY

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, BA Cityflyer Limited, 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
Load factor	The percentage relationship of revenue load carried to capacity available
Passenger load factor	RPK expressed as a percentage of ASK.
Overall load factor	RTK expressed as a percentage of ATK.
Frequent flyer RPKs as a percentage of total RPKs	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year
Revenue per RPK	Passenger revenue divided by RPK.
Total traffic revenue per RTK	Revenue from total traffic divided by RTK.
Total traffic revenue per ATK	Revenue from total traffic divided by ATK.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
Operating margin	Operating profit/(loss) as a percentage of revenue
Net debt	Loans, finance leases and hire purchase arrangements net of other current interest-bearing deposits and cash and cash equivalents less overdrafts
Net debt/total capital ratio (including operating leases)	Net debt as a ratio of total capital, adjusted to include the discounted value of future operating lease commitments
Total capital	Total equity plus net debt.
Net debt/total capital ratio	Net debt as a ratio of total capital
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rentals
n/a	Not applicable

This report has been printed by Pureprint on Revive 100 uncoated which contains 100% recycled and de-inked pulp from post-consumer waste which has been FSC (Forest Stewardship Council) certified at a mill that has been awarded the ISO 14001 certificate for environmental management.

The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF)

Pureprint is a CarbonNeutral® company and its Environmental Management System is certified to ISO 14001 2004

100% of the electricity used is generated from renewable sources, 95% of press chemicals are recycled for further use and on average 98% of any waste associated with this production will be recycled

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