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
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

		Group	
£ million	Note	**2010**	*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	Group 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	Group 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

£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	**Total shareholders' equity**	Non-controlling interests	**Total equity**
							Group
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

£ million	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (note 34)*	*Total shareholders' equity*	*Non-controlling interests*	*Total equity*
							Group
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	Group 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	Group 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	Group 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	Group 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

	31 March	
£ million	**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

	Group	
£ million	**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

	Group	
£ million	**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	Group 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	Group 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:

	Group		Company	
£ million	**2010**	*2009*	**2010**	*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

	Group		Company	
£ million	**2010**	*2009*	**2010**	*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:

	Group	
£ million	**2010**	*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)*

	2010	2009
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 Group's 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	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	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	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	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

				Group
£ million	Goodwill	Landing rights	Software	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**	Group *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	**Total**
			2010
Intangible assets	203	29	**232**
Excess of recoverable amount over carrying amount	1,400	200	**1,600**

£ million	*Network airline*	*OpenSkies*	*Total*
			2009
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.

£ million	Group 2010	Group 2009	Company 2010	Company 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

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

22 Trade receivables

£ million	Group 2010	Group 2009	Company 2010	Company 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:

£ million	Total	Neither past due nor impaired	Past due but not 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	Balance at 31 March
					Group
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)*

financial statements

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.

Group

£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**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)**

Group

£ million	*Within 6 months*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*	*Total 2009*
Cash and cash equivalents	*402*					*402*
Other current interest-bearing deposits	*740*	*248*				*988*
Trade receivables	*530*					*530*
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	*(447)*	*(240)*	*(474)*	*(689)*	*(1,672)*	*(3,522)*
Fixed rate borrowings	*(31)*	*(21)*	*(51)*	*(141)*	*(425)*	*(669)*
Floating rate borrowings	*(20)*	*(40)*	*(60)*	*(171)*	*(156)*	*(447)*
Trade and other payables	*(1,374)*					*(1,374)*
Derivative financial instruments:						
Cross currency swaps			*(1)*	*(2)*	*(4)*	*(7)*
Forward currency contracts	*(13)*	*(2)*	*(3)*			*(18)*
Fuel derivatives	*(252)*	*(204)*	*(111)*	*(2)*		*(569)*
Forward currency contracts	*31*	*9*	*3*			*43*
At 31 March	*(434)*	*(250)*	*(697)*	*(1,005)*	*(2,257)*	*(4,643)*

30 Financial risk management objectives and policies continued

e Liquidity risk continued

						Company
£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**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)**

						Company
£ million	*Within 6 months*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*	*Total 2009*
Cash and cash equivalents	*219*					*219*
Other current interest-bearing deposits	*20*	*24*				*44*
Trade receivables	*517*					*517*
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	*(461)*	*(246)*	*(495)*	*(757)*	*(1,811)*	*(3,770)*
Fixed rate borrowings	*(25)*	*(25)*	*(50)*	*(137)*	*(1,058)*	*(1,295)*
Floating rate borrowings	*(20)*	*(36)*	*(56)*	*(157)*	*(125)*	*(394)*
Trade and other payables	*(2,961)*					*(2,961)*
Derivative financial instruments:						
Cross currency swaps			*(1)*	*(2)*	*(4)*	*(7)*
Forward currency contracts	*(13)*	*(2)*	*(3)*			*(18)*
Fuel derivatives	*(252)*	*(204)*	*(111)*	*(2)*		*(569)*
Forward currency contracts	*31*	*9*	*3*			*43*
At 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

Range of exercise prices	Options outstanding: Number of shares 000s	Options outstanding: Weighted average remaining life (years)	Options outstanding: Weighted average exercise price £	Options exercisable: Number of shares 000s	Options exercisable: 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

Range of exercise prices	*Options outstanding: Number of shares 000s*	*Options outstanding: Weighted average remaining life (years)*	*Options outstanding: Weighted average exercise price £*	*Options exercisable: Number of shares 000s*	*Options exercisable: 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) L.P. in which the general partner is British Airways Holdings Limited, a wholly-owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

Notes to the accounts continued

34 Other reserves and non-controlling interests continued

b Company

£ million	Retained earnings	Unrealised gains and losses	Equity portion of convertible bond	Total
	Company			
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
	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	**Total**	APS	Other schemes	**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
	Employee benefit obligations			*Employee benefit assets*		
£ million	*NAPS*	*Other schemes*	*Total*	*APS*	*Other schemes*	*Total*
Scheme assets at fair value						
Equities	*3,780*	*122*	*3,902*	*898*	*16*	*914*
Bonds	*1,665*	*76*	*1,741*	*4,679*	*12*	*4,691*
Others	*604*	*5*	*609*	*348*		*348*
Fair value of scheme assets	*6,049*	*203*	*6,252*	*5,925*	*28*	*5,953*
Present value of scheme liabilities	*7,216*	*497*	*7,713*	*5,065*	*28*	*5,093*
Net pension (liability)/asset	*(1,167)*	*(294)*	*(1,461)*	*860*	*–*	*860*
Net pension (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	Employee benefit obligations Other schemes	Employee benefit obligations Total	Employee benefit assets APS	Employee benefit assets Other schemes	Employee benefit assets 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*	*Employee benefit obligations Other schemes*	*Employee benefit obligations Total*	*Employee benefit assets APS*	*Employee benefit assets Other schemes*	*Employee benefit assets 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	Employee benefit obligations Other schemes	Employee benefit obligations Total	Employee benefit assets APS	Employee benefit assets Other schemes	Employee benefit assets 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

			2010			2009
Per cent per annum	NAPS	APS	Other schemes	NAPS	APS	Other schemes
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

	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	Total	APS	Other schemes	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			Employee benefit assets		
	NAPS	Other schemes	Total	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			Employee benefit assets		
	NAPS	Other schemes	Total	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*	10.9	Airline operations	South Africa
Flybe Group Limited*	15.0	Airline operations	England
The Airline Group Limited	16.7	Air traffic control holding company	England

* Not owned directly by British Airways Plc.

Shareholder information

General Information

Financial calendar

Financial year end	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.