

# Group consolidated income statement

For the year ended March 31, 2008

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

# Balance sheets

At March 31, 2008

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

Willie Walsh  
Keith Williams  
May 15, 2008

# Cash flow statements

For the year ended March 31, 2008

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

# Statements of changes in equity

For the year ended March 31, 2008

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

For the year ended March 31, 2007

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

For the year ended March 31, 2008

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

For the year ended March 31, 2007

£ million	Company				Total equity
	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	
At April 1, 2006	283	888		653	1,824
Profit for the period				18	18
Share-based payments				10	10
Tax effect of share-based payments				18	18
Net movement on cash flow hedges				(4)	(4)
Total income and expense for the period				42	42
Exercise of share options			2	(12)	(10)
Issue of shares	5	45			50
Purchase of own shares			(12)		(12)
<b>At March 31, 2007</b>	<b>288</b>	<b>933</b>	<b>(10)</b>	<b>683</b>	<b>1,894</b>

# Notes to the accounts

## 1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended March 31, 2008 were authorised for issue by the Board of Directors on May 15, 2008 and the balance sheets were signed on the Board's behalf by Willie Walsh and Keith Williams. British Airways Plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs)\* as adopted by the European Union (EU). IFRSs as adopted by the EU differ in certain respects from IFRSs as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRSs as issued by the IASB. References to 'IFRS' hereafter should be construed as references to IFRSs as adopted by the EU. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

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

## 2 Summary of significant accounting policies

### Basis of presentation

The basis of presentation and accounting policies set out in this Report and Accounts have been prepared in accordance with the recognition and measurement criteria of IFRS, which also include International Accounting Standards (IAS), as issued by the IASB and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

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

These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The Group's and Company's financial statements are presented in pounds sterling and all values are rounded to the nearest million pounds (£m), except where indicated otherwise.

### Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, each made up to March 31, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform with the Group's accounting policies.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power either directly or indirectly to govern the financial and operating policies of the entity so as to obtain benefit from its activities. Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group account balances, including intra-group profits, have been eliminated in preparing the consolidated financial statements. Minority interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated balance sheet.

### Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends. Other revenue is recognised at the time the service is provided. Commission costs are recognised at the same time as the revenue to which they relate and are charged to cost of sales.

### Revenue recognition – mileage programmes

The Group operates two principal loyalty programmes. The airline frequent flyer programme operates through the airline's 'Executive Club' and allows frequent travellers to accumulate 'BA Miles' mileage credits that entitle them to a choice of various awards, primarily free travel. The estimated direct incremental cost of providing free redemption services, including British Airways' flights, in exchange for redemption of miles earned by members of the Group's 'Executive Club' is accrued as members of the scheme accumulate mileage. These costs are charged to cost of sales.

In addition, 'BA Miles' are sold to commercial partners to use in promotional activity. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of providing free redemption services is recognised when the miles are redeemed.

The Group also operates the AIRMILES scheme, operated by the Company's wholly-owned subsidiary Airmiles Travel Promotions Limited. The scheme allows companies to purchase miles for use in their own promotional activities. Miles can be redeemed for a range of benefits, including flights on British Airways and other carriers. The fair value of the miles sold is deferred and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The cost of providing free redemption services is recognised when the miles are redeemed.

### Segmental reporting

The Group's primary reporting segments comprise business segments and the secondary format is based on geographic segments. Business segments are based on the internal management structure and system of internal financial reporting. They reflect components of the Group with distinguishable revenues, costs and assets and are subject to risks

different from those of other reportable segments due either to the products they provide or the markets in which they operate. The nature of the primary business segments is set out below.

#### a Business segments

The airline business segment comprises the Group's main scheduled passenger and cargo operations and revenues ancillary to the provision of those services. The airline business utilises the Group's aircraft assets flexibly across the worldwide route network.

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

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

Transfer prices between business segments are set on an arm's-length basis.

#### b Geographical segments

- i) Turnover by origin: The analysis of turnover by origin is derived by allocating revenue to the area in which the sale was made.
- ii) Geographical analysis of net assets: The major revenue-earning asset of the Group is the aircraft fleet, the majority of which are registered in the UK. Since the Group's aircraft fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

### Intangible assets

#### a Goodwill

Where the cost of a business combination exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable. Prior to the adoption of IFRS 3, which was applied prospectively from April 1, 1999 any goodwill that had been recognised on acquisition was amortised over a period not exceeding 20 years. Prior to March 31, 1998 goodwill was set off against reserves on the acquisition of a business or an equity interest in an associate. Such goodwill is not recognised on transition to IFRS. Any goodwill arising on the acquisition of equity-accounted entities is included within the cost of those entities.

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

#### b Landing rights

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

#### c Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding four years on a straight-line basis.

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

#### Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less estimated residual value, on a straight-line basis, over the useful life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis.

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

#### a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other significant assets under construction is capitalised and added to the cost of the asset concerned.

#### b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance lease or hire purchase arrangements, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'power-by-the-hour' contracts) are charged to the income statement on consumption or as incurred respectively.

#### c Property and equipment

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

# Notes to the accounts continued

## 2 Summary of significant accounting policies continued

### d Leased and hire purchase assets

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in borrowings. The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the income statement. Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period (normally 10 years), without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on pre-determined terms; such leases are described as extendable operating leases.

### Inventories

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

### Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in investment in associates in the consolidated balance sheet and its interest in their results is included in the income statement, below operating profit. Certain associates make up their annual audited accounts to dates other than March 31. In the case of Iberia, published results up to the year ended December 31 are included. In other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

### Other current interest-bearing deposits

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

### Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short dated nature of these assets. A provision for impairment of trade receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

### Available-for-sale financial assets

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

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

### Employee benefits

Employee benefits, including pensions and other post-retirement benefits (principally post-retirement healthcare benefits) are presented in these financial statements in accordance with IAS 19 'Employee Benefits'. For the Group's defined benefit plans, post-retirement obligations are measured at discounted present value whilst plan assets are measured at fair value at the balance sheet date. The cost of current service costs are recognised in the income statement so as to recognise the cost of providing the benefit on a straight-line basis over the service lives of the employees using the projected unit credit method. Past service costs are recognised when the benefit has been given. The financing cost and expected return on plan assets are recognised within financing costs in the periods in which they arise. The accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains and losses) that are less than 10 per cent of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10 per cent the excess amount is recognised in the income statement over the estimated average remaining service period.

Amounts paid to defined contribution post-retirement schemes are recognised within the income statement when the payments fall due.

Other employee benefits are recognised when the obligation exists for the future liability.

### Share-based payments

The fair value of employee share option plans is measured at the date of grant of the option using an appropriate valuation model. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entry in equity.

## Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

## Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used the increase in the provision due to unwinding the discount is recognised as a finance cost.

## Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All other profits or losses arising on translation are dealt with through the income statement except where hedge accounting is applied.

The net assets of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into sterling at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold when the relevant portion of the cumulative exchange is recognised in income.

## Derivatives and financial instruments

Under IAS 39 'Financial Instruments – Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each year end except for those financial instruments measured at fair value through the income statement.

Other investments (other than interests in associates) are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold when the cumulative amount recognised in equity is recognised in income. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in equity is included in the income statement. Exchange gains and losses on monetary items are taken to income unless the item has been designated and is assessed as an effective hedging instrument in accordance with the requirement of IAS 39. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold when the cumulative amount recognised in equity is recognised in income.

Long-term borrowings are recorded at amortised cost. Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

Derivative financial instruments; comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are measured at fair value on the Group balance sheet.

## Cash flow hedges

Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument, unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period, are taken to equity in accordance with the requirements of IAS 39. Gains and losses taken to equity are reflected in the income statement when either the hedged cash flow impacts income or its occurrence ceases to be probable.

Certain loan repayment instalments denominated in US dollars and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence ceases to be probable.

## Impairment in financial assets

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

# Notes to the accounts continued

## 2 Summary of significant accounting policies continued

### Investment in own shares

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

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

### Derecognition of financial assets and liabilities

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

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

### Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence. Such items are included on the income statement under a caption to which they relate, and are separately disclosed in the notes to the consolidated financial statements. Certain exceptional items have been classified as non-recurring items and they are included on the face of the consolidated income statement.

### Discontinued operations

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

### Key accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### a) Impairment of non-financial assets

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

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

#### b) Share-based payments

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

#### c) Pensions and other post-retirement benefits

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

#### d) Impairment of available-for-sale financial assets

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

#### e) Passenger revenue recognition

Passenger revenue is recognised when the transportation is provided. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

### Impact of new International Financial Reporting Standards

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

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

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

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

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

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

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

### **New standards, amendments and interpretations not yet effective**

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

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

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

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

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

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

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

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

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

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

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

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

## Notes to the accounts continued

## 3 Segment information

## a Business segments

For the year ended March 31, 2008

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

\* As disclosed in note 5, BA Connect, which previously comprised the majority of the 'Regional airline business' segment, was disposed of in March 2007. The results of operations for BA Connect are now presented as discontinued operations.

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

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

### 3 Segment information continued

For the year ended March 31, 2007

£ million	Continuing operations				Discontinued operations*	Total
	Airline business	Non-airline business	Unallocated	Total		
<b>Revenue</b>						
Sales to external customers**	8,294	198		8,492	233	8,725
Inter-segment sales	36	1		37	3	40
Segment revenue	8,330	199		8,529	236	8,765
<b>Segment result</b>	600	2		602	(122)	480
Other non-operating income/(expense)	2			2	(3)	(1)
Profit/(loss) before tax and finance costs	602	2		604	(125)	479
Net finance costs			(45)	(45)	(5)	(50)
(Loss)/profit on sale of assets	(1)	48		47	(28)	19
Share of associates' profit	5			5		5
Income tax (expense)/credit			(173)	(173)	24	(149)
<b>Profit/(loss) after tax</b>	606	50	(218)	438	(134)	304
<b>Assets and liabilities</b>						
Segment assets	11,147	112		11,259		11,259
Investment in associates	125			125		125
<b>Total assets</b>	11,272	112		11,384		11,384
Segment liabilities	4,307	336		4,643		4,643
Unallocated liabilities***			4,330	4,330		4,330
<b>Total liabilities</b>	4,307	336	4,330	8,973		8,973
<b>Other segment information</b>						
Property, plant and equipment – additions	336	1		337	2	339
Intangible assets – additions	41			41		41
Depreciation, amortisation and impairment	712	2		714	120	834
Exceptional items (note 4b)	38			38		38

\* As disclosed in note 5, BA Connect, which previously comprised the majority of the 'Regional airline business' segment, was disposed of in March 2007. The results of operations for BA Connect are now presented as discontinued operations.

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

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

#### b Geographical segments – by area of original sale

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

## Notes to the accounts continued

### 4 Operating profit

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

##### Depreciation, amortisation and impairment of fixed assets

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

##### Operating lease costs

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

##### Cost of inventories

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

#### b Exceptional items

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

During the prior year the Group incurred restructuring costs in relation to organisational changes across the business including costs associated with the reduction in management numbers announced in November 2005.

### 5 Discontinued operations

On November 3, 2006 the Group announced that it had reached an agreement in principle to sell the regional operation of its subsidiary airline BA Connect to the Flybe Group Ltd. The acquisition of BA Connect by the Flybe Group Ltd excluded the London City airport routes and the BA Connect-operated service from Manchester to New York. The disposal was completed on March 5, 2007. The business sold comprised the majority of the 'Regional airline business' segment as disclosed in the financial statements for the year ended March 31, 2006. The Group paid the Flybe Group Ltd £129 million, and took a 15 per cent investment in the Flybe Group Ltd, valued at £49 million at March 31, 2007.

Following the sale of the regional business of BA Connect to the Flybe Group Ltd in March 2007, the Group has agreed contractual terms to transfer its regional ground handling to aviance UK. The restructuring provision included in discontinued operations relates to costs associated with the reduction in staff at the regional airports, whose employment was attributed to the BA Connect operations and third-party flights.

## 5 Discontinued operations continued

Prior to the sale and transfer of the operations to discontinued operations, an impairment review was carried out on the assets, including goodwill, of the BA Connect business, prompted by the ongoing deterioration in trading performance against plan. This resulted in an impairment charge of £106 million, representing goodwill of £32 million and fleet assets of £74 million. The pre-tax impairment charge gave rise to a deferred tax credit of £22 million that has been recognised in the income statement (discontinued operations).

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

### a Results from discontinued operations

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

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

### b Reconciliation of the tax charge relating to discontinued operations

The tax credit for the year on the loss from discontinued operations is less than the notional tax credit on those losses calculated at the UK corporation tax rate of 30 per cent (2006/07: 30 per cent). The differences are explained below:

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

## Notes to the accounts continued

### 5 Discontinued operations continued

#### c Assets and liabilities of the discontinued operations at the date of disposal

The major classes of assets and liabilities of the discontinued operations at the date of disposal were as follows:

£ million	2008	Group 2007
Tangible assets		78
Intangible assets		1
Deferred tax asset (note 11c)		8
Other non-current assets		4
Expendable spares and other inventories		3
Trade receivables		23
Cash and cash equivalents		129
Other provisions		(43)
Other long-term liabilities		(85)
Trade payables		(41)
<b>Total net assets disposed of</b>	<b>–</b>	<b>77</b>
Investment in Flybe Group Ltd (consideration)		49
<b>Loss arising on disposal of net assets</b>	<b>–</b>	<b>(28)</b>
Cash and cash equivalents in BA Connect on disposal		(129)
Settlement of trade receivable with the Company		(17)
Transaction costs		(3)
<b>Cash outflow from disposal of BA Connect</b>	<b>–</b>	<b>(149)</b>

The cash flows relating to the discontinued operations to the date of disposal were as follows:

Operating cash flows	16
Investing cash flows	(2)
Financing cash flows	(20)

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

### 6 Auditors' remuneration

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

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

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

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

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

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

## 7 Employee costs and numbers

### a Staff costs

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

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

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

In addition, included in 'Wages and salaries' is a total expense of share-based payments of £3 million (2006/07: £10 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

Other employee costs include allowances, severance and accommodation for crew.

Employee costs for 2006/07 exclude the £396 million credit arising on changes to NAPS which is disclosed separately on the face of the income statement.

### b Directors' emoluments

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

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

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

## Notes to the accounts continued

## 8 Finance costs and income

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

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

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

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

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

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

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

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

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

## 10 Income and charges relating to financial assets

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

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

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

## 11 Tax

### a Tax on profit on ordinary activities

Tax charged in the income statement relating to continuing operations

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

Tax charged/(credited) directly to equity

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

# Notes to the accounts continued

## 11 Tax continued

### b Reconciliation of the total tax charge

The tax charge for the year on the profit from continuing operations is less than the notional tax charge on those profits calculated at the UK corporation tax rate of 30 per cent (2006/07: 30 per cent).

The differences are explained below:

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

### c Deferred tax

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

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

### Movement in provision

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

### d Factors that may affect future tax charges

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

## 11 Tax continued

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

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

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

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

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

## 12 Earnings per share

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

Basic earnings per share are calculated on a weighted average number of ordinary shares in issue after deducting shares held for the purposes of Employee Share Ownership Plans including the Long Term Incentive Plan.

The Group has granted additional options over shares to employees that were not dilutive during the period but which may be dilutive in the future. Details of the Group's share options can be found in note 33.

## 13 Dividends proposed

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

## Notes to the accounts continued

## 14 Property, plant and equipment

## a Group

£ million	Fleet	Property	Equipment	Group total
<b>Cost</b>				
Balance at April 1, 2006	11,318	1,427	780	13,525
Additions (note 14d)	258	62	19	339
Disposals	(344)	(63)	(66)	(473)
Reclassifications	10		20	30
Reclassifications to assets held for sale (note 16)	(19)	(28)		(47)
Balance at March 31, 2007	11,223	1,398	753	13,374
Additions (note 14d)	428	122	87	637
Disposals	(262)	(12)	(36)	(310)
<b>Balance at March 31, 2008</b>	<b>11,389</b>	<b>1,508</b>	<b>804</b>	<b>13,701</b>
<b>Depreciation and impairment</b>				
Balance at April 1, 2006	4,712	453	478	5,643
Charge for the year	640	87	47	774
Disposals	(267)	(55)	(64)	(386)
Impairment		3		3
Reclassifications	1	1	20	22
Reclassifications to assets held for sale (note 16)	(16)	(23)		(39)
Balance at March 31, 2007	5,070	466	481	6,017
Charge for the year	542	72	47	661
Disposals	(199)	(7)	(34)	(240)
<b>Balance at March 31, 2008</b>	<b>5,413</b>	<b>531</b>	<b>494</b>	<b>6,438</b>
<b>Net book amounts</b>				
<b>March 31, 2008</b>	<b>5,976</b>	<b>977</b>	<b>310</b>	<b>7,263</b>
March 31, 2007	6,153	932	272	7,357
<b>Analysis at March 31, 2008</b>				
Owned	2,572	952	300	3,824
Finance leased	1,728			1,728
Hire purchase arrangements	1,549			1,549
Progress payments	127	25	10	162
	<b>5,976</b>	<b>977</b>	<b>310</b>	<b>7,263</b>
<b>Analysis at March 31, 2007</b>				
Owned	2,533	836	250	3,619
Finance leased	1,699			1,699
Hire purchase arrangements	1,819			1,819
Progress payments	102	96	22	220
	6,153	932	272	7,357

The net book amount of property comprises:

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

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

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

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

## 14 Property, plant and equipment continued

## b Company

£ million	Fleet	Property	Equipment	Company total
<b>Cost</b>				
Balance at April 1, 2006	10,749	1,337	705	12,791
Additions	255	62	19	336
Disposals	(120)	(61)	(55)	(236)
Transfers to subsidiary companies			(1)	(1)
Reclassifications	10		20	30
Reclassifications to assets held for sale (note 16)	(19)	(28)		(47)
Balance at March 31, 2007	10,875	1,310	688	12,873
Additions	427	121	81	629
Disposals	(260)	(10)	(33)	(303)
<b>Balance at March 31, 2008</b>	<b>11,042</b>	<b>1,421</b>	<b>736</b>	<b>13,199</b>
<b>Depreciation and impairment</b>				
Balance at April 1, 2006	4,517	423	413	5,353
Charge for the year	536	84	43	663
Disposals	(120)	(54)	(53)	(227)
Transfers to subsidiary companies			(1)	(1)
Impairment		3		3
Reclassifications	1	1	20	22
Reclassifications to assets held for sale (note 16)	(16)	(23)		(39)
Balance at March 31, 2007	4,918	434	422	5,774
Charge for the year	527	70	45	642
Disposals	(197)	(7)	(32)	(236)
<b>Balance at March 31, 2008</b>	<b>5,248</b>	<b>497</b>	<b>435</b>	<b>6,180</b>
<b>Net book amounts</b>				
<b>March 31, 2008</b>	<b>5,794</b>	<b>924</b>	<b>301</b>	<b>7,019</b>
March 31, 2007	5,957	876	266	7,099
<b>Analysis at March 31, 2008</b>				
Owned	2,394	899	292	3,585
Finance leased	1,728			1,728
Hire purchase arrangements	1,549			1,549
Progress payments	123	25	9	157
	<b>5,794</b>	<b>924</b>	<b>301</b>	<b>7,019</b>
<b>Analysis at March 31, 2007</b>				
Owned	2,338	780	244	3,362
Finance leased	1,698			1,698
Hire purchase arrangements	1,819			1,819
Progress payments	102	96	22	220
	5,957	876	266	7,099

The net book amount of property comprises:

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

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

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

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

## Notes to the accounts continued

### 14 Property, plant and equipment continued

#### c Depreciation

Fleets are generally depreciated over periods ranging from 18 to 25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

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

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

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

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from four to 20 years, according to the type of equipment.

#### d Analysis of Group tangible asset additions

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

### 15 Capital expenditure commitments

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

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

### 16 Assets held for sale

Assets held for sale comprise non-current assets and disposal groups that are held for sale rather than for continuing use within the business. The carrying value represents the estimated sale proceeds less costs to sell.

During the year ended March 31, 2008 aircraft with a fair value (less costs to sell) of £3 million (2007: £3 million) and property with a fair value of £5 million (2007: £nil) were sold.

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

## 17 Intangible assets

## a Group

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

## b Company

£ million	Landing rights	Software	Company total
<b>Cost</b>			
Balance at April 1, 2006	118	135	253
Additions	31	10	41
Reclassifications	16		16
Net transfer from subsidiary companies	10		10
Disposals		(2)	(2)
Balance at March 31, 2007	175	143	318
Additions	28	11	39
Disposals		(1)	(1)
<b>Balance at March 31, 2008</b>	<b>203</b>	<b>153</b>	<b>356</b>
<b>Amortisation</b>			
Balance at April 1, 2006	22	89	111
Reclassifications	2		2
Charge for the year	11	22	33
Net transfer from subsidiary companies	1		1
Disposals		(2)	(2)
Balance at March 31, 2007	36	109	145
Charge for the year	8	23	31
Disposals		(1)	(1)
<b>Balance at March 31, 2008</b>	<b>44</b>	<b>131</b>	<b>175</b>
<b>Net book amounts</b>			
<b>March 31, 2008</b>	<b>159</b>	<b>22</b>	<b>181</b>
March 31, 2007	139	34	173

Landing rights are depreciated over a period of 20 years.

## c Analysis of Group intangible asset additions

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

## Notes to the accounts continued

### 18 Impairment of goodwill

Prior to the disposal of the regional business of BA Connect, goodwill acquired through business combinations was allocated for the purposes of impairment reviews to two cash-generating units with separately identifiable cash inflows and which were reportable business segments. The two segments were the airline cash-generating unit and the regional airline cash-generating unit.

In the quarter ending September 30, 2006, an impairment review was performed on the assets, including goodwill of the regional airline business in accordance with IAS 36, using value in use. This was prompted by the ongoing deterioration in trading performance against plan. This resulted in a goodwill impairment charge of £32 million. This impairment charge was reflected in discontinued operations.

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

£ million	2008	Group 2007
Carrying amount of goodwill	<b>40</b>	<b>40</b>

The recoverable amount of the airline unit has been measured on the basis of its value in use, by applying cash flow projections based on the financial budgets approved by the Board covering a two-year period. Cash flows beyond the two-year period are projected to increase by the long-term growth rate of 2.5 per cent. The pre-tax discount rate applied to the cash flow projections is 8.9 per cent (2007: 8.9 per cent). This discount rate is derived from the Group's post-tax weighted average cost of capital, adjusted for the risks specific to the market.

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

- Operating margin;
- Discount rates; and
- Long-term growth rate.

Operating margins are based on the estimated effects of planned business efficiency and business change programmes, approved and enacted at the balance sheet date. These are adjusted for the volatile trading conditions that have impacted the airline unit over the past three years. The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business. Foreseeable events are unlikely to result in a change in the projections of a significant nature so as to result in the unit's carrying amount exceeding its recoverable amount.

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

### 19 Investments

#### a Group

##### Investments in associates

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

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

## 19 Investments continued

### Market value of listed associates

£ million	Group total	
	2008	2007
	<b>275</b>	<b>256</b>

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

	Percentage of equity owned	Principal activities	Holding	Country of incorporation and principal operations
Iberia, Lineas Aéreas de España, S.A. ('Iberia')*	13.15	Airline operations	Ordinary shares	Spain

\*Held by a subsidiary company.

The Group accounts for its investment in Iberia as an associate although the Group holds less than 20 per cent of the issued share capital as the Group has the ability to exercise significant influence over the investment due to the Group's voting power (both through its equity holding and its representation on key decision-making committees) and the nature of the commercial relationships with Iberia. On November 15, 2006 the Group acquired the minority interest held by American Airlines in BA & AA Holdings Ltd, the subsidiary that holds the interest in Iberia (see note 34).

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

On June 9, 2006 the Group's shareholding in Comair Ltd was reduced from 18.3 per cent to 12.9 per cent. Due to the Group's ability to exercise significant influence, the investment in Comair Ltd was accounted for using the equity method. In September 2006, the Group's shareholding in Comair Ltd decreased to 10.92 per cent and the Group no longer had the ability to exercise significant influence over the investment, at which time the investment was reclassified as an available-for-sale financial asset.

The following summarised financial information of the Group's investment in associates is shown based on the Group's share of results and net assets:

£ million	Group total	
	2008	2007
Non-current assets	<b>218</b>	168
Current assets	<b>414</b>	222
Current liabilities	<b>(234)</b>	(145)
Non-current liabilities	<b>(188)</b>	(128)
<b>Share of net assets</b>	<b>210</b>	117
Goodwill attributable to investments in associates	<b>17</b>	8
Revenues	<b>556</b>	399
Net profit after tax	<b>26</b>	5

## b Company

### Investments in associates and subsidiaries

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

\*The 2007 provision of £289 million includes a provision of £287 million on investments in subsidiaries, which was recorded as a result of the sale of the regional business of BA Connect.

The Company accounts for its investments in subsidiaries and associates using the cost method.

The Group's and Company's principal investments in subsidiaries, associates and other investments are listed on page 130.

## Notes to the accounts continued

### 19 Investments continued

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

### 20 Available-for-sale financial assets

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

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

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

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

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

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

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

### 21 Inventories

£ million	Group		Company	
	2008	2007	2008	2007
Expendables and consumables	<b>112</b>	<b>76</b>	<b>109</b>	<b>74</b>

### 22 Trade receivables

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

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

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

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

## 22 Trade receivables continued

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

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

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

## 23 Other current assets

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

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

### a Cash and cash equivalents

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

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

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

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

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

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

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates. The fair value of cash and cash equivalents is £683 million for the Group (2007: £713 million) and for the Company £433 million (2007: £662 million).

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

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

## Notes to the accounts continued

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

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

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

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

## b Reconciliation of net cash flow to movement in net debt

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

## c Analysis of net debt

£ million	Balance at April 1	Net cash flow	Other non-cash	Disposal of BA Connect	Exchange	Group
						Balance at March 31
Cash and cash equivalents	398	331			(16)	713
Current interest-bearing deposits maturing after three months	2,042	(389)			(11)	1,642
Bank and other loans	(1,116)	97		57	16	(946)
Finance leases and hire purchase arrangements	(2,965)	388	(9)	28	158	(2,400)
Year to March 31, 2007	(1,641)	427	(9)	85	147	(991)
Cash and cash equivalents	713	(1)			(29)	683
Current interest-bearing deposits maturing after three months	1,642	(458)			(3)	1,181
Bank and other loans	(946)	68			2	(876)
Finance leases and hire purchase arrangements	(2,400)	184	(7)		(75)	(2,298)
<b>Year to March 31, 2008</b>	<b>(991)</b>	<b>(207)</b>	<b>(7)</b>		<b>(105)</b>	<b>(1,310)</b>

## 25 Trade and other payables

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

## 26 Other long-term liabilities

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

## 27 Long-term borrowings

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

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

Bank and other loans are repayable up to the year 2019. Bank and other loans of the Group amounting to US\$132 million (2007: US\$155 million), and £410 million (2007: £437 million) and bank loans of the Company amounting to US\$132 million (2007: US\$155 million) and £189 million (2007: £205 million) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or property assets.

### c Bank and other loans

Bank and other loans comprise the following:

£ million	Group		Company	
	2008	2007	2008	2007
£250 million fixed rate 8.75 per cent eurobonds 2016	248	248	248	248
£100 million fixed rate 10.875 per cent eurobonds 2008	61	61	61	61
Floating rate sterling mortgage loans secured on aircraft	201	213	153	162
Floating rate US dollar mortgage loans secured on aircraft	67	79	67	79
Fixed rate sterling mortgage loans secured on aircraft	209	224	36	42
Floating rate US dollar mortgage loans not secured on aircraft	40	45	40	45
European investment bank loans	51	76	51	77
	877	946	656	714
Less: current instalments due on bank loans	113	68	102	57
	764	878	554	657

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

£100 million fixed rate 10.875 per cent unsecured eurobonds 2008 are repayable in one instalment on June 15, 2008.

Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.53 per cent and 0.59 per cent above LIBOR. The loans are repayable between 2015 and 2019.

Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.40 per cent and 0.99 per cent above LIBOR. The loans are repayable between 2009 and 2016.

Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 6.14 per cent to 7.35 per cent. The loans are repayable between 2012 and 2016.

Floating rate US dollar mortgage loans are unsecured and bear interest of 0.09 per cent above LIBOR. The loans are repayable in 2014.

European investment bank loans are secured on certain property assets of the Group and bear interest of between 0.20 per cent below LIBOR and LIBOR. The loans are repayable between 2014 and 2017.

## Notes to the accounts continued

## 27 Long-term borrowings continued

## d Total loans, finance leases and hire purchase arrangements

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

## e Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts principally to acquire aircraft. These leases have both renewal options and purchase options. These are at the option of the Group. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

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

## 28 Operating lease commitments

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

### a Fleet

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

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

### b Property and equipment

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

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

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

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

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

## Notes to the accounts continued

## 29 Provisions for liabilities and charges

							Group
£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Severance	Litigation	Other	Total
At April 1, 2007:							
Current		1	16	38	355		410
Non-current	27	26	91			9	153
	27	27	107	38	355	9	563
Arising during the year	8	2	23	6	8	1	48
Utilised		(7)	(11)	(32)	(153)		(203)
Release of unused amounts	(13)	(11)	(9)	(5)			(38)
Unwinding of discount			2		8		10
<b>At March 31, 2008</b>	<b>22</b>	<b>11</b>	<b>112</b>	<b>7</b>	<b>218</b>	<b>10</b>	<b>380</b>
Analysis:							
Current			29	7	134		170
Non-current	22	11	83		84	10	210
	<b>22</b>	<b>11</b>	<b>112</b>	<b>7</b>	<b>218</b>	<b>10</b>	<b>380</b>

  

							Company
£ million	Onerous lease contracts	Restoration and handback provisions	Severance	Litigation	Other	Total	
At April 1, 2007:							
Current		16	34	355		405	
Non-current	18	87			9	114	
	18	103	34	355	9	519	
Arising during the year	2	23	6	8	1	40	
Utilised		(6)	(11)	(30)	(153)	(200)	
Release of unused amounts		(3)	(8)	(5)		(16)	
Unwinding of discount			2	8		10	
<b>At March 31, 2008</b>	<b>11</b>	<b>109</b>	<b>5</b>	<b>218</b>	<b>10</b>	<b>353</b>	
Analysis:							
Current		29	5	134		168	
Non-current	11	80		84	10	185	
	<b>11</b>	<b>109</b>	<b>5</b>	<b>218</b>	<b>10</b>	<b>353</b>	

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

The onerous lease provision relates partly to the sub-lease of five Jetstream 41 aircraft to Eastern Airways and six Avro RJ100 aircraft to Swiss International Air Lines. This provision will be fully utilised by October 2011. In addition, the provision includes amounts relating to properties leased by the Group that are either sub-leased to third parties or are vacant with no immediate intention to utilise the property. This provision will be fully utilised by April 2045.

Restoration and handback costs include provision for the costs to meet the contractual return conditions on aircraft held under operating leases. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are also capitalised. This provision will be utilised by March 2145.

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

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

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

### 30 Financial risk management objectives and policies

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

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

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

#### a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial fall in the price of fuel.

In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives available on the Over The Counter (OTC) markets with approved counterparties and within approved limits.

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

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

#### b Foreign currency risk

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

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

The Group has substantial liabilities denominated in yen and US dollars.

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

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

## Notes to the accounts continued

## 30 Financial risk management objectives and policies continued

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

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

## c Interest rate risk

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

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

March 31, 2008

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

March 31, 2007

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

## d Credit risk

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

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

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

## 30 Financial risk management objectives and policies continued

**e Liquidity risk**

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

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

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

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

## Notes to the accounts continued

## 30 Financial risk management objectives and policies continued

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

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

## f Capital risk management

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

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

The gearing ratios at March 31, 2008 and 2007 were as follows:

£ million (except ratios)	2008	2007
Capital reserves	<b>3,033</b>	2,211
Add minority interests	<b>200</b>	200
Total equity	<b>3,233</b>	2,411
Net debt (a)	<b>1,310</b>	991
Total capital (b)	<b>4,543</b>	3,402
Gearing ratio (a)/(b)	<b>28.8</b>	29.1

The decrease in the gearing ratio during 2008 resulted primarily from increased equity due to higher operating profit. The impact of this on the gearing ratio was partially offset by the increased borrowings relating to the purchase of three Airbus 320s, and lower cash balances as a result of the £610 million cash injection into NAPS together with the \$300 million (£149 million) payment made to the US Department of Justice in respect of anti-competitive activity.

## 31 Financial instruments

### a Fair values of financial assets and financial liabilities

The carrying amounts and fair values of the Group's financial assets and liabilities at March 31, 2008 are set out below:

£ million	Group		Company	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	683	683	433	433
Other liquid deposits maturing over three months	1,181	1,181	399	399
Available-for-sale financial assets	80	80	24	24
Forward currency contracts	8	8	8	8
Fuel derivatives	350	350	350	350
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings:				
Finance lease and hire purchase obligations	2,297	2,324	2,497	2,526
Fixed rate borrowings	518	526	584	586
Floating rate borrowings	359	359	311	311
Cross currency swaps	2	2	2	2
Forward currency contracts	20	20	20	20
Fuel derivatives	68	68	68	68

The fair values of the Group's financial assets and liabilities at March 31, 2007 are set out below:

£ million	Group		Company	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	713	713	662	662
Other liquid deposits maturing over three months	1,642	1,642	1,639	1,639
Available-for-sale financial assets	107	107	41	41
Interest rate swap arrangements	2	2	2	2
Forward currency contracts	1	1	1	1
Fuel derivatives	83	83	83	83
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings:				
Finance lease and hire purchase obligations	2,400	2,406	2,608	2,615
Fixed rate borrowings	553	592	575	605
Floating rate borrowings	393	393	343	343
Forward currency contracts	3	3	3	3
Fuel derivatives	21	21	21	21

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

#### Available-for-sale financial assets and loan notes

- Listed fixed asset investments are stated at market value as at March 31, 2008. For other investments the fair value is estimated by reference to a discounted cash flow that is not expected to reverse.

#### Bank and other loans, finance leases, hire purchase arrangements and the non-Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

- The repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at March 31, 2008.

#### Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

- These amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked-to-market basis and accordingly, a fair value cannot be determined. The carrying value of £569 million (2007: £561 million) has therefore been included as the fair value above.

#### Euro-sterling notes and Euro-sterling bond 2016

- Quoted market value.

## Notes to the accounts continued

## 31 Financial instruments continued

## b Fair values of financial assets and financial liabilities

## Interest rate swaps

- Discounted cash flow analysis, to determine the estimated amount the Group would receive or pay to terminate the agreements.

## Forward currency transactions

- The marked-to-market value of the instruments.

## Over The Counter (OTC) fuel derivatives

- The marked-to-market value of the instruments.

## c Hedges

## i Cash flow hedges

At March 31, 2008 the Group and Company held four principal risk management activities that were designated as hedges of future forecast transactions. These were:

A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk.

A hedge of certain short-term revenue receipts by foreign exchange contracts hedging future foreign exchange risk.

A hedge of certain short-term foreign currency operational payments by forward exchange contracts hedging future foreign exchange risk.

A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity and the periods in which the related cash flows are expected to occur are summarised below:

March 31, 2008

£ million						Group
	0-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Debt repayments to hedge future revenue	(1)	(1)		(5)	(10)	(17)
Forward contracts to hedge future payments	10	1	1			12
Hedges of future fuel purchases	(148)	(94)	(45)	(2)		(289)
	(139)	(94)	(44)	(7)	(10)	(294)
Related deferred tax charge						83
Total amount included within equity						(211)

Notional value of financial instruments used as cash flow hedging instruments:

£ million		
	Group Notional amount	Company Notional amount
To hedge future currency revenues against US dollars	\$143m	\$143m
To hedge future currency revenues against sterling	£235m	£235m
To hedge future operating payments against US dollars	\$440m	\$440m
Hedges of future fuel purchases	\$4,143m	\$4,143m
Debt repayments to hedge future revenue – Japanese yen	¥100,798m	¥100,798m
– US dollars	\$1,307m	\$1,307m

March 31, 2007

£ million						Group
	0-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Debt repayments to hedge future revenue	4	1	5	39	44	93
Forward contracts to hedge future payments	(1)	(1)				(2)
Hedges of future fuel purchases	29	9	2			40
	32	9	7	39	44	131
Related deferred tax charge						(39)
Total amount included within equity						92

## 31 Financial instruments continued

Notional value of financial instruments used as cash flow hedging instruments:

<i>£ million</i>	<i>Group Notional amount</i>	<i>Company Notional amount</i>
To hedge future currency revenues against US dollars	\$73m	\$73m
To hedge future currency revenues against sterling	£144m	£144m
To hedge future operating payments against US dollars	\$261m	\$261m
Hedges of future fuel purchases	\$2,440m	\$2,440m
Debt repayments to hedge future revenue – Japanese yen	¥118,729m	¥118,729m
– US dollars	\$1,140m	\$1,140m

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of £12 million (2006/07: £12 million loss).

### ii Fair value hedges

The Group has no hedges designated as fair value hedges.

### iii Net investments in foreign operations

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

### Company

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

## 32 Share capital

	Group and Company			
	2008		2007	
<i>Ordinary shares of 25 pence each</i>	<i>Number of shares 000s</i>	<i>£ millions</i>	<i>Number of shares 000s</i>	<i>£ millions</i>
<b>Authorised</b>				
At April 1 and March 31	1,512,000	378	1,512,000	378
<b>Allotted, called up and fully paid</b>				
At April 1	1,151,575	288	1,130,882	283
Exercise of options under Employee Share Options Schemes	1,530	–	20,693	5
At March 31	1,153,105	288	1,151,575	288

## 33 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees – these schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets. Details of the performance criteria to be met for each of the schemes, and details of the awards to the directors, are set out in the Remuneration report on pages 65 to 73.

### a Share Option Plan 1999

The British Airways Share Option Plan granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three-year vesting period. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant with the exception of grants made during 2004/05 when there will be a single re-test after a further year which will measure performance of the Group over the four-year period from the date of grant. No further grants of options under the Share Option Plan will be made other than those during 2005/06 in relation to performance during 2004/05 (for which there will be no re-testing).

### b Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) awarded options to senior executives conditional upon the Company's achievement of a performance condition measured over three financial years. If granted, all options are immediately exercisable for seven years and no payment is due upon exercise of the options. No further awards under the Long Term Incentive Plan have been made since June 16, 2004.

## Notes to the accounts continued

## 33 Share options continued

## c Performance Share Plan

From 2005 the Group introduced a Performance Share Plan for senior executives. Options over shares will be awarded conditional on the achievement of a variety of performance conditions and will vest after three years subject to the executive remaining employed by the Group. A further award will be made that will vest based on the achievement of performance conditions over the following three financial years. No payment is due upon exercise of the options. Executives awarded shares under the Performance Share Plan will be expected to retain no fewer than 50 per cent of the shares (net of tax) which vest from the new schemes until they have built up a shareholding equivalent to 100 per cent of basic salary.

## d Deferred Share Plan

In 2006 the Group introduced a Deferred Share Plan (DSP) granted to qualifying employees based on performance and service tests. It will be awarded when a bonus is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant management population will receive a percentage of their bonus in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

## e Share option summary

	Group and Company								
	Deferred Share Plan		Performance Share Plan		LTIPs		Share Option Plan		
	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average exercise price £	Weighted average fair value £
Outstanding at April 1, 2006*			1,789		4,395		42,047	2.57	
Granted in the year	843	4.84	1,101	4.35					
Exercised during the year **/***					(2,336)		(20,689)	2.38	
Expired/cancelled	(13)		(247)		(576)		(2,018)	2.81	
Outstanding at April 1, 2007	830		2,643		1,483		19,340	2.74	
Granted in the year			1,444	2.61					
Exercised during the year **/***					(157)		(1,530)	2.71	
Expired/cancelled	(43)		(191)		(44)		(896)	2.73	
<b>Outstanding at April 1, 2008</b>	<b>787</b>		<b>3,896</b>		<b>1,282</b>		<b>16,914</b>	<b>2.75</b>	
Options exercisable:									
<b>At March 31, 2008</b>	<b>7</b>	<b>4.84</b>			<b>1,282</b>		<b>11,413</b>	<b>2.74</b>	
At March 31, 2007					1,483		7,642	2.82	

## Range of exercise prices at March 31, 2008 for Share Option Plan

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £	Number of shares 000s	Weighted average exercise price £
£1.57 – £2.61	2,784	4.82	1.67	2,784	1.67
£2.62 – £3.20	10,073	6.79	2.70	4,572	2.62
£3.21 – £3.94	4,057	2.40	3.61	4,057	3.61
	16,914	5.41	2.75	11,413	2.74

## Range of exercise prices at March 31, 2007 for Share Option Plan

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £	Number of shares 000s	Weighted average exercise price £
£1.57 – £2.61	3,024	5.84	1.67	3,024	1.67
£2.62 – £3.20	11,848	7.76	2.69	150	2.64
£3.21 – £3.94	4,468	3.42	3.61	4,468	3.61
	19,340	6.46	2.74	7,642	2.82

\* Included within this balance are options over 5,235,228 (2007: 5,708,227) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before November 7, 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

\*\* The weighted average share price at the date of exercise for the options exercised is £4.19 (2007: £5.04).

\*\*\* Part of the exercise of share options during the year met through shares previously held by British Airways Employee Benefits Trust (Jersey) Limited.

For the share options outstanding as at March 31, 2008, the weighted average remaining contractual life is five years (2007: six years). For options granted during the year the weighted average option life was three years (2007: three years).

### 33 Share options continued

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial lattice or Monte-Carlo model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the models for the options granted in the year:

	2008	2007
Expected share price volatility (per cent)	24	28
Historical volatility (per cent)	24	28
Expected comparator group volatility (per cent)	19-96	19-116
Expected comparator correlation (per cent)	28	23
Expected life of options (years)	3	3
Weighted average share price	4.03	4.94

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. Volatility was calculated with reference to the Group's weekly share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The fair value of the Performance Share Plans also takes into account a market condition of total shareholder returns as compared to strategic competitors. No other features of options granted were incorporated into the measurement of fair value.

The share-based payments charge has been recorded in the income statement as follows:

£ million	2008	2007
Employee costs	3	10

### 34 Other reserves and minority interests

#### a Group

£ million	Retained earnings	Unrealised gains and losses	Currency translation	Total	Group Minority interests*
Balance at April 1, 2006	589	100	1	690	213
Profit for the period attributable to shareholders	290			290	
Exchange differences and other movements			(3)	(3)	
Share-based payments	10			10	
Tax effect of share-based payments	18			18	
Fair value of cash flow hedges transferred to passenger revenue		(3)		(3)	
Fair value of cash flow hedges transferred to fuel and oil costs		(61)		(61)	
Fair value of cash flow hedges transferred to currency differences		12		12	
Net change in fair value of cash flow hedges		48		48	
Share of other movements in reserves of associates	8			8	
Purchase of minority interests**					(13)
Net gains on available-for-sale financial assets		3		3	
Total income and expense for the period	326	(1)	(3)	322	(13)
Exercise of share options	(12)			(12)	
Balance at March 31, 2007	903	99	(2)	1,000	200
Profit for the period attributable to shareholders	680			680	
Exchange differences and other movements			24	24	
Share-based payments	3			3	
Tax effect of share-based payments	(7)			(7)	
Deferred tax – rate change adjustment	6			6	
Fair value of cash flow hedges transferred to passenger revenue		(5)		(5)	
Fair value of cash flow hedges transferred to fuel and oil costs		(136)		(136)	
Fair value of cash flow hedges transferred to currency differences		15		15	
Net change in fair value of cash flow hedges		245		245	
Share of other movements in reserves of associates	(2)			(2)	
Net losses on available-for-sale financial assets		(5)		(5)	
Total income and expense for the period	680	114	24	818	
<b>Balance at March 31, 2008</b>	<b>1,583</b>	<b>213</b>	<b>22</b>	<b>1,818</b>	<b>200</b>

\* Included within minority interests are €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Limited, a wholly-owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

\*\* On November 15, 2006 the Group acquired the minority interest held by American Airlines in BA & AA Holdings, the subsidiary that held the Group's interest in Iberia. The consideration paid was £13 million.

## Notes to the accounts continued

## 34 Other reserves and minority interests continued

## b Company

£ million	Company		
	Retained earnings	Unrealised gains and losses	Total
Balance at April 1, 2006	557	96	653
Profit for the period attributable to shareholders	18		18
Share-based payments	10		10
Tax effect of share-based payments	18		18
Fair value of cash flow hedges transferred to passenger revenue		(3)	(3)
Fair value of cash flow hedges transferred to fuel and oil costs		(61)	(61)
Fair value of cash flow hedges transferred to currency differences		12	12
Net change in fair value of cash flow hedges		48	48
Total income and expense for the period	46	(4)	42
Exercise of share options	(12)		(12)
Balance at March 31, 2007	591	92	683
Profit for the period attributable to shareholders	540		540
Share-based payments	3		3
Tax effect of share-based payments	(7)		(7)
Deferred tax – rate change adjustment	6		6
Fair value of cash flow hedges transferred to passenger revenue		(5)	(5)
Fair value of cash flow hedges transferred to fuel and oil costs		(136)	(136)
Fair value of cash flow hedges transferred to currency differences		15	15
Net change in fair value of cash flow hedges		245	245
Deferred tax related to fair value movements			
Total income and expense for the period	542	119	661
<b>Balance at March 31, 2008</b>	<b>1,133</b>	<b>211</b>	<b>1,344</b>

The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

Total shareholders' equity also includes the balance classified as share capital that includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 25 pence ordinary shares. Investment in own shares consists of shares held by British Airways Employee Benefits Trust (Jersey) Limited, a wholly-owned subsidiary, for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan. At March 31, 2008 the Group and Company held 2,087,147 shares for the Long Term Incentive Plan and other employee share schemes (2007: 1,994,079 shares). The purchase of shares was financed by the Company granting a loan to British Airways Employee Benefits Trust (Jersey) Limited.

## 35 Pension costs

The Company operates two funded principal defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS) both of which are closed to new members. APS has been closed to new members since March 31, 1984 and NAPS closed to new members on March 31, 2003. From April 1, 2003 the Company commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 18 employed by the Company and certain subsidiary undertakings in the UK may become members. The assets of the scheme are held in separate trustee-administered funds. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index (RPI). Those provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the government's lower earnings limit. NAPS benefits are subject to RPI increases in payment up to a maximum of 5 per cent in any one year.

## 35 Pension costs continued

In February 2007, following consultation with members and agreement with the Trustees, the Group amended NAPS for future service to restrict future increases in pensionable pay to RPI and increase the normal retirement age to 65. The change in scheme rules to restrict future increases in pensionable pay was treated as a curtailment under IAS 19, resulting in a £396 million credit, due to the reduction of the Defined Benefit Obligation for NAPS. In addition, the Group agreed to make a one-off cash injection of £800 million into NAPS, of which £240 million was paid in February 2007, with the remaining balance of £560 million paid in April 2007 and an additional £50 million was paid in March 2008. The Group also agreed to make annual contributions of approximately £280 million a year for the next 10 years, and issued guarantees of up to £100 million over the next two years, subject to financial performance. The Group also issued to APS, guarantees of up to £230 million over the next nine years.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US. The Company participates in a multi-employer defined benefit plan operated in the US by the International Association of Machinists (IAM) and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were £1.9 million (2007: £1.8 million).

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2006 using assumptions and methodologies agreed between the Company and the Trustees of each scheme. At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £6,650 million and £5,832 million respectively. The value of the assets represented 100 per cent (APS) and 74 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations showed that employer contributions at an average rate of 34.6 per cent of pensionable pay for APS and 20.7 per cent of pensionable pay for NAPS were appropriate from April 1, 2007 (from April 1, 2006 to March 31, 2007 the contributions were expressed as a multiple of standard employees' contributions, 3.75 times for APS, 2.8 times for NAPS). For NAPS, the contribution rate to be paid by the employer from April 1, 2007 depends on the normal retirement age chosen by members.

Employer contributions in respect of overseas employees have been determined in accordance with best local practice.

Total employer contributions to defined contribution pension plans both in the UK and overseas for the year were £17 million (2007: £14 million). The Company's contributions to APS and NAPS in the next year as determined by the actuarial review completed in March 2006 and agreement with the Trustees, are expected to be approximately £305 million.

Employee benefit obligations comprise:

£ million	Group	
	2008	2007
Obligations arising under defined benefit pension plans and post-retirement benefits	204	1,021
Obligations arising under post-retirement medical benefit plans	116	109
Total obligations arising under post-retirement benefits	320	1,130
Other employee benefit obligations	10	12
	330	1,142

The assets and liabilities of the schemes at March 31 are:

Year ended March 31, 2008

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
<b>Scheme assets at fair value</b>						
Equities	4,488	147	4,635	1,033	20	1,053
Bonds	1,882	68	1,950	5,079	15	5,094
Others	978	6	984	556		556
Fair value of scheme assets	7,348	221	7,569	6,668	35	6,703
Present value of scheme liabilities	7,705	384	8,089	5,432	29	5,461
	(357)	(163)	(520)	1,236	6	1,242
APS irrecoverable surplus				1,159		1,159
<b>Net pension (liability)/asset</b>	<b>(357)</b>	<b>(163)</b>	<b>(520)</b>	<b>77</b>	<b>6</b>	<b>83</b>
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	(148)	(172)	(320)	77	8	85
Cumulative actuarial (losses)/gains not recognised	(209)	9	(200)		(2)	(2)
	<b>(357)</b>	<b>(163)</b>	<b>(520)</b>	<b>77</b>	<b>6</b>	<b>83</b>

## Notes to the accounts continued

## 35 Pension costs continued

Year ended March 31, 2007

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
<b>Scheme assets at fair value</b>						
Equities	4,359	169	4,528	1,610	20	1,630
Bonds	1,604	67	1,671	4,023	14	4,037
Others	590	2	592	858		858
Fair value of scheme assets	6,553	238	6,791	6,491	34	6,525
Present value of scheme liabilities	8,110	397	8,507	6,076	27	6,103
	(1,557)	(159)	(1,716)	415	7	422
APS irrecoverable surplus				306		306
<b>Net pension (liability)/asset</b>	<b>(1,557)</b>	<b>(159)</b>	<b>(1,716)</b>	<b>109</b>	<b>7</b>	<b>116</b>
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	(964)	(166)	(1,130)	109	7	116
Cumulative actuarial (losses)/gains not recognised	(593)	7	(586)			
	(1,557)	(159)	(1,716)	109	7	116

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

The amounts recognised in the income statement for the year are analysed as follows:

Year ended March 31, 2008

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	170	7	177	20		20
Past service cost	1		1	1		1
<b>Recognised in arriving at operating profit</b>	<b>171</b>	<b>7</b>	<b>178</b>	<b>21</b>		<b>21</b>
Expected return on scheme assets	(495)	(18)	(513)	(341)	(2)	(343)
Immediate recognition of losses and the effect of the asset ceiling				55		55
Interest costs on scheme liabilities	425	23	448	318	1	319
<b>Other finance cost</b>	<b>(70)</b>	<b>5</b>	<b>(65)</b>	<b>32</b>	<b>(1)</b>	<b>31</b>

Year ended March 31, 2007

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	264	7	271	23		23
Past service cost	29		29	10		10
Credit arising on changes to pension scheme	(396)		(396)			
Recognised in arriving at operating profit	(103)	7	(96)	33		33
Expected return on scheme assets	(392)	(18)	(410)	(330)	(2)	(332)
Immediate recognition of losses and the effect of the asset ceiling				64		64
Interest costs on scheme liabilities	388	23	411	284	1	285
Amortisation of actuarial losses in excess of the corridor		1	1			
Other finance cost	(4)	6	2	18	(1)	17

## 35 Pension costs continued

The amount of unrecognised cumulative actuarial gains and losses is as follows:

£ million	Employee benefit obligations			Employee benefit assets	
	NAPS	Other schemes	Total	Other schemes	Total
Amount of unrecognised actuarial losses at April 1, 2006	(483)	(16)	(499)		
Actual return on scheme assets	357	(3)	354	(1)	(1)
Less: Expected return on scheme assets	(392)	(18)	(410)	(2)	(2)
	(35)	(21)	(56)	(3)	(3)
Other actuarial (losses)/gains	(113)	52	(61)	3	3
Settlement of BRAL scheme		(9)	(9)		
Charge arising due to changes to pension scheme	38		38		
Amortisation of actuarial losses in excess of the corridor		1	1		
Cumulative unrecognised actuarial losses at March 31, 2007	(593)	7	(586)		
Actual return on scheme assets	6	(8)	(2)	3	3
Less: Expected return on scheme assets	(495)	(18)	(513)	(2)	(2)
	(489)	(26)	(515)	1	1
Other actuarial gains/(losses)	873	28	901	(3)	(3)
<b>Cumulative unrecognised actuarial losses at March 31, 2008</b>	<b>(209)</b>	<b>9</b>	<b>(200)</b>	<b>(2)</b>	<b>(2)</b>

Scheme assets and liabilities are measured by qualified actuaries. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

Per cent per annum	At March 31, 2008			At March 31, 2007		
	NAPS	APS*	Other schemes	NAPS	APS	Other schemes
Inflation	3.5	3.5	3.0-5.0	3.0	3.0	3.0-4.0
Rate of increase in salaries	3.5	4.0	1.5-5.5	3.5	3.5	3.0-6.0
Rate of increase of pensions in payment	3.4	3.5	1.5-11.0	2.9	2.9	2.0-11.0
Discount rate	6.6	7.0	2.0-6.6	5.3	5.4	2.0-7.0
Expected rate of return on scheme assets	6.9	5.2	4.0-7.6	6.9	5.4	5.5-8.3

\*Rate of increase in salaries is 4.0 per cent per annum for three years, 1.0 per cent in excess of RPI to March 2016 and 1.5 per cent in excess of RPI thereafter (2006/07: Rate of increase in salaries is 4.0 per cent to March 2016 and 4.5 per cent thereafter).

Rate of increase in healthcare costs are based on medical trend rates of 11 per cent grading down to 5 per cent over six years (2006/07: 11 per cent to 5 per cent over six years).

In the UK, mortality rates are calculated using the 00-series standard mortality tables for APS and the PA80 standard mortality tables for NAPS (the two largest Group and Company schemes). The standard mortality tables were selected based on the the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the 1994 GAM Static tables. If the post-retirement mortality tables used for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by approximately £120 million in APS and £150 million in NAPS.

If the discount rate were to be decreased by 0.1 per cent without changing any other assumptions, the defined benefit obligations would increase by approximately £60 million in APS and £130 million in NAPS.

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

£ million	Increase	Decrease
Effect on aggregate service cost and interest cost	(2)	2
Effect on defined benefit obligation	(21)	17

## Notes to the accounts continued

## 35 Pension costs continued

Changes in the present value of the defined benefit pension obligations are analysed as follows:

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 2006	7,902	538	8,440	5,867	30	5,897
Current service cost	264	7	271	23		23
Past service cost	29		29	10		10
Interest cost	388	23	411	284	1	285
Benefits paid	(210)	(15)	(225)	(388)	(1)	(389)
Employee contributions	58		58	8		8
Settlement of BRAL scheme*		(104)	(104)			
Credit arising on changes to pension scheme	(434)		(434)			
Actuarial losses/(gains)	113	(52)	61	272	(3)	269
As at March 31, 2007	8,110	397	8,507	6,076	27	6,103
Current service cost	170	7	177	20		20
Past service cost	1		1	1		1
Interest cost	425	23	448	318	1	319
Benefits paid	(202)	(15)	(217)	(375)	(2)	(377)
Employee contributions	74		74	8		8
Actuarial (gains)/losses	(873)	(28)	(901)	(616)	3	(613)
<b>As at March 31, 2008</b>	<b>7,705</b>	<b>384</b>	<b>8,089</b>	<b>5,432</b>	<b>29</b>	<b>5,461</b>

\*As a result of the sale of BA Connect, the Company issued to the BRAL scheme a guarantee of £50 million over the next two years.

The defined benefit obligation comprises £7 million (2007: £7 million) arising from unfunded plans and £8,082 million (2007: £8,500 million) from plans that are wholly or partly funded.

Changes in the fair value of plan assets are analysed as follows:

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 2006	5,832	318	6,150	6,650	36	6,686
Expected return on plan assets	392	18	410	330	2	332
Employer contributions	508	6	514	29		29
Contributions by employees	58		58	8		8
Benefits paid	(210)	(15)	(225)	(388)	(1)	(389)
Settlement of BRAL scheme		(68)	(68)			
Actuarial losses	(27)	(21)	(48)	(138)	(3)	(141)
As at March 31, 2007	6,553	238	6,791	6,491	34	6,525
Expected return on plan assets	495	18	513	341	2	343
Employer contributions	917	6	923	21		21
Contributions by employees	74		74	8		8
Benefits paid	(202)	(15)	(217)	(375)	(2)	(377)
Actuarial (losses)/gains	(489)	(26)	(515)	182	1	183
<b>As at March 31, 2008</b>	<b>7,348</b>	<b>221</b>	<b>7,569</b>	<b>6,668</b>	<b>35</b>	<b>6,703</b>

## 35 Pension costs continued

History of experience gains and losses:

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
<b>As at March 31, 2008</b>						
Fair value of scheme assets	7,348	221	<b>7,569</b>	6,668	35	<b>6,703</b>
Present value of defined benefit obligation	(7,705)	(384)	<b>(8,089)</b>	(5,432)	(29)	<b>(5,461)</b>
APS irrecoverable surplus				(1,159)		<b>(1,159)</b>
(Deficit)/surplus in the scheme	(357)	(163)	<b>(520)</b>	77	6	<b>83</b>
Experience adjustments arising on plan liabilities	(873)	(28)	<b>(901)</b>	(616)	3	<b>(613)</b>
Experience adjustments arising on plan assets	(489)	(26)	<b>(515)</b>	182	1	<b>183</b>
<b>As at March 31, 2007</b>						
Fair value of scheme assets	6,553	238	<b>6,791</b>	6,491	34	<b>6,525</b>
Present value of defined benefit obligation	(8,110)	(397)	<b>(8,507)</b>	(6,076)	(27)	<b>(6,103)</b>
APS irrecoverable surplus				(306)		<b>(306)</b>
(Deficit)/surplus in the scheme	(1,557)	(159)	<b>(1,716)</b>	109	7	<b>116</b>
Experience adjustments arising on plan liabilities	(113)	52	<b>(61)</b>	(272)	3	<b>(269)</b>
Experience adjustments arising on plan assets	(27)	(21)	<b>(48)</b>	(138)	(3)	<b>(141)</b>
<b>As at March 31, 2006</b>						
Fair value of scheme assets	5,832	318	<b>6,150</b>	6,650	36	<b>6,686</b>
Present value of defined benefit obligation	(7,902)	(538)	<b>(8,440)</b>	(5,867)	(30)	<b>(5,897)</b>
APS irrecoverable surplus				(652)		<b>(652)</b>
(Deficit)/surplus in the scheme	(2,070)	(220)	<b>(2,290)</b>	131	6	<b>137</b>
Experience adjustments arising on plan liabilities	(920)	(25)	<b>(945)</b>	(285)	(5)	<b>(290)</b>
Experience adjustments arising on plan assets	794	35	<b>829</b>	581	5	<b>586</b>
<b>As at March 31, 2005</b>						
Fair value of scheme assets	4,554	266	<b>4,820</b>	6,031	29	<b>6,060</b>
Present value of defined benefit obligation	(6,523)	(488)	<b>(7,011)</b>	(5,603)	(24)	<b>(5,627)</b>
APS irrecoverable surplus				(296)		<b>(296)</b>
(Deficit)/surplus in the scheme	(1,969)	(222)	<b>(2,191)</b>	132	5	<b>137</b>

The directors are unable to determine how much of the pension scheme surplus or deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of those pension schemes.

## Notes to the accounts continued

### 36 Contingent liabilities

There were contingent liabilities at March 31, 2008 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group and the Company have guaranteed certain borrowings, liabilities and commitments which at March 31, 2008 amounted to £173 million (2007: £168 million) and £448 million (2007: £397 million) respectively. For the Company these included guarantees given in respect of the fixed perpetual preferred securities issued by subsidiary undertakings.

The Group is involved in certain claims and litigation related to its operations. In the opinion of management, liabilities, if any, arising from these claims and litigation will not have a material adverse effect on the Group's consolidated financial position or results of operations. The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

### 37 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year under review with related parties.

£ million	Group		Company	
	2008	2007	2008	2007
<b>Associates</b>				
Sales to associates	43	45	43	45
Purchases from associates	54	105	54	105
Amounts owed by associates	4		4	
Amounts owed to associates		1		1
<b>Subsidiaries</b>				
Sales to subsidiaries			36	73
Purchases from subsidiaries			126	121
Amounts owed by subsidiaries			116	99
Amounts owed to subsidiaries			1,982	1,928

In addition, the Company meets certain costs of administering the Group's retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to £3.6 million in relation to the costs of the Pension Protection Fund levy (2006/07: £5.3 million).

#### Associates

##### a Iberia, Lineas Aéreas de España, S.A. (Iberia)

During the year, the Group increased its investment in Iberia from 9.95 per cent to 13.15 per cent. Areas of opportunity for cooperation have been identified, and work continues to pursue and implement these. Sales and purchases between related parties are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms specified by the IATA Clearing House.

As at March 31, 2008, the net trading balance owed by Iberia to the Group amounted to £3.1 million (2007: £0.4 million owed to Iberia).

##### b Comair Limited (Comair)

Prior to September 30, 2006, the Group's shareholding in Comair was 18.3 per cent and due to the Group's ability to exercise significant influence, the investment in Comair was accounted for using the equity method. On September 30, 2006, the Group's shareholding in Comair decreased to 10.92 per cent and the Group no longer had the ability to exercise significant influence over the investment, at which time the investment was reclassified as an available-for-sale financial asset. Sales and purchases to and from Comair up to September 30, 2006 have been included in the numbers above.

## 37 Related party transactions continued

### c Other associates

The remaining net trading balances are due to transactions between the Group and Dunwoody Airline Services (Holdings) Ltd.

### Subsidiaries

Transactions with subsidiaries are carried out on an arm's-length basis. Outstanding balances that relate to trading balances are placed on inter-company accounts with no specified credit period. Long-term loans owed to and from the Company by subsidiary undertakings bear market rates of interest in accordance with the inter-company loan agreements.

### Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the Company at March 31, 2008 or arose during the year that need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

In addition to the above, the Group and Company also have transactions with related parties which are conducted in the normal course of airline business. These include the provision of airline and related services.

Neither the Group nor Company have provided or benefited from any guarantees for any related party receivables or payables. During the year ended March 31, 2008 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2007: £nil).

### Compensation of key management personnel (including directors)

£ million	Group		Company	
	2008	2007	2008	2007
Short-term employee benefits	4	4	4	4
Share-based payments	2	3	2	3
	6	7	6	7

## 38 Foreign currency translation rates

£1 equals	At March 31		Annual average	
	2008	2007	2008	2007
US dollar	1.99	1.96	2.01	1.89
Japanese yen	197	231	231	220
Euro	1.26	1.47	1.43	1.47

# Operating and financial statistics

For the five years ended March 31, 2008

## Total Group operations

		2008	2007	2006*	2005	2004
<b>Traffic and capacity</b>						
Revenue passenger km (RPK)	million	113,016	112,851	109,713	107,892	103,092
Available seat km (ASK)	million	149,545	148,321	144,194	144,189	141,273
Passenger load factor	per cent	75.6	76.1	76.1	74.8	73.0
Cargo tonne km (CTK)	million	4,891	4,695	4,929	4,954	4,461
Total revenue tonne km (RTK)	million	16,256	16,112	15,909	15,731	14,771
Total available tonne km (ATK)	million	22,829	22,882	22,719	22,565	21,859
Overall load factor	per cent	71.2	70.4	70.0	69.7	67.6
Passengers carried	'000	33,161	33,068	32,432	35,717	36,103
Tonnes of cargo carried	'000	805	762	795	877	796
Frequent flyer RPKs as a percentage of total RPKs (note 2)	per cent	3.9	3.8	3.9	3.2	4.0
Revenue aircraft km	million	644	637	614	661	644
Revenue flights	'000	281	276	280	378	391
Break-even overall load factor	per cent	63.6	65.4	63.6	64.3	63.6
<b>Financial</b>						
Passenger revenue per RPK	pence	6.67	6.44	6.31	6.02	6.30
Passenger revenue per ASK	pence	5.04	4.90	4.80	4.51	4.59
Cargo revenue per CTK	pence	12.59	12.74	12.94	9.73	10.38
Average fuel price (US cents/US gallon)		245.26	209.60	188.22	136.44	94.49
<b>Operations</b>						
Average manpower equivalent (MPE)		42,403	42,683	43,814	47,472	49,072
RTKs per MPE		383.4	377.5	363.1	331.4	301.0
ATKs per MPE		538.4	536.1	518.5	475.3	445.4
Aircraft in service at year end		245	242	284	290	291
Aircraft utilisation (average hours per aircraft per day)		10.91	10.82	10.29	9.83	9.21
Unduplicated route km	'000	629	589	574	623	657
Punctuality – within 15 minutes	per cent	63	67	75	76	81
Regularity	per cent	98.2	98.5	98.8	98.8	98.8
		2008	2007	2006	2005	2004**
<b>Financial**</b>						
Interest cover (note 3)	times	14.8	16.7	6.0	3.8	
Dividend cover	times	n/a	n/a	n/a	n/a	
Operating margin (note 4)	per cent	10.0	7.1	8.5	7.2	
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	million	1,777	1,549	1,666	1,552	
Net debt/total capital ratio (note 5)	per cent	28.8	29.1	44.2	67.7	
Net debt/total capital ratio including operating leases	per cent	38.4	39.6	53.0	72.4	
Total traffic revenue per RTK	pence	50.18	48.79	47.53	44.4	
Total traffic revenue per ATK	pence	35.73	34.35	33.28	30.94	
Total operating expenditure per RTK (note 6)	pence	48.46	49.26	47.26	40.85	
Total operating expenditure per ATK (note 6)	pence	34.51	34.68	33.10	28.48	

\* Restated for the disposal of the regional business of BA connect.

\*\* Financial ratios are only available under comparative IFRS from the Group's transition date of April 1, 2004.

n/a = not applicable

## Notes

- Operating statistics do not include those of associate undertakings (Iberia and Comair) and franchisees (Loganair and Sun Air (Scandinavia)).
- The carriage of passengers on the Frequent Flyer Programme is evaluated on a ticket by ticket basis.
- Interest cover is defined as the number of times profit/(loss) before tax excluding net interest payable covers the net interest payable. Interest cover is not a financial measure under IFRS. However, management believes this measure is useful to investors when analysing the Group's ability to meet its interest commitments from current earnings. The following table shows a reconciliation of net interest payable for each of the two most recent financial years:

(£ million (except ratios))	Year ended March 31	
	2008	2007
Profit before tax	<b>883</b>	611
Net interest payable (a)	<b>(64)</b>	(39)
Profit adjusted for interest payable (b)	<b>947</b>	650
Interest cover (b)/(a)	<b>14.8</b>	16.7

- Operating margin is defined as operating profit as a percentage of revenue. Revenue comprises: passenger revenue (scheduled services and non-scheduled services), cargo services and other revenue.
- Net debt as a percentage of total capital. Net debt is defined as the total of loans, finance leases and hire purchase liabilities, net of short-term loans and deposits and cash less overdrafts. See note 24 to the financial statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests, and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. However, management believe these measures are useful to investors when analysing the extent to which the Group is funded by debt rather than by shareholders' funds. See note 30 to the financial statements for details of the calculation of the net debt/total capital (gearing) ratio.

- Total expenditure on operations, total expenditure on operations per RTK and total expenditure on operations per ATK are not financial measures under IFRS. However, management believes these measures are useful to investors as they provide further analysis of the performance of the Group's main business activity i.e. airline operations. The Board of directors reviews these measures internally on a monthly basis as an indication of management's performance in reducing costs. The following table shows a reconciliation of total expenditure on operations per RTK and total expenditure on operations per ATK for each of the two most recent financial years:

(£ million (except ratios))	Year ended March 31	
	2008	2007
Total expenditure on operations	<b>7,878</b>	7,936
RTKs	<b>16,256</b>	16,112
ATKs	<b>22,829</b>	22,882
Total expenditure on operations per RTK (pence)	<b>48.46</b>	49.26
Total expenditure on operations per ATK (pence)	<b>34.51</b>	34.68

# Principal investments

at March 31, 2008

## Investments in subsidiaries

The following table includes those principal investments which significantly impact the results or assets of the Group.

These subsidiaries are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd	Airline marketing	England
BA & AA Holdings Ltd	Holding Company	England
BA Cash Management LP	Investment Company	England
BA Cityflyer Ltd	Airline operations	England
BA European Ltd (trading as OpenSkies)	Airline operations	England
Britair Holdings Ltd	Holding Company	England
British Airways 777 Leasing Ltd	Aircraft financing	England
British Airways Avionic Engineering Ltd	Aircraft maintenance	England
British Airways Capital Ltd (89 per cent of founders' shares owned)	Airline finance	Jersey
British Airways Holdings Ltd	Airline finance	Jersey
British Airways Holidays Ltd	Package holidays	England
British Airways Interior Engineering Ltd	Aircraft maintenance	England
British Airways Leasing Ltd	Aircraft financing	England
British Airways Maintenance Cardiff Ltd	Aircraft maintenance	England
British Airways Regional Ltd	Air travel services	England
Speedbird Cash Management Ltd	Investment Company	Bermuda
Speedbird Insurance Company Ltd	Insurance	Bermuda
The Plimsoll Line Ltd	Holding Company	England

## Investments in associates

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Iberia, Lineas Aéreas de España, S.A. ('Iberia')*	13.15	Airline operations	Spain

## Available for sale and other investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Airline Group Ltd	16.7	Air traffic control holding company	England
Flybe Group Ltd*	15.0	Airline operations	England
Comair Ltd*	10.9	Airline operations	South Africa

\*Not owned directly by British Airways Plc.