Financial statements

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

We have audited the Group and Parent Company financial statements (the 'financial statements') of British Airways Plc for the year ended March 31, 2009, which comprise the Group consolidated income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes 1 to 39. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report and business review is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report and business review, the unaudited part of the report of the Remuneration Committee, the Chairman's statement, the Chief Executive's review, the Chief Financial Officer's report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at March 31, 2009, and of its loss for the year then ended;
- The Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at March 31, 2009;
- The financial statements and the part of the report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- The information given in the directors' report and business review is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
London
May 21, 2009

Group consolidated income statement

For the year ended March 31, 2009

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

Balance sheets

At March 31, 2009

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

Willie Walsh
Keith Williams
May 21, 2009

Cash flow statements

For the year ended March 31, 2009

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

Statements of changes in equity

For the year ended March 31, 2009

£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 35)	**Total shareholders' equity**	Minority interest	**Total equity**
							Group
At April 1, 2008	288	937	(10)	1,818	**3,033**	200	**3,233**
Adoption of IFRIC 13				(206)	**(206)**		**(206)**
Adoption of IFRIC 14				235	**235**		**235**
At April 1, 2008 (Restated)	288	937	(10)	1,847	**3,062**	200	**3,262**
Loss for the year				(375)	**(375)**	17	**(358)**
Exchange differences and other movements				38	**38**		**38**
Net movement on cash flow hedges				(988)	**(988)**		**(988)**
Exercise of share options			2	(2)			
Cost of share-based payment				1	**1**		**1**
Purchase of own shares			(1)		**(1)**		**(1)**
Share of other movements in reserves of associates				(26)	**(26)**		**(26)**
Held-to-maturity investments marked-to-market				(5)	**(5)**		**(5)**
Available-for-sale financial assets – gains recycled to the income statement				(4)	**(4)**		**(4)**
Total income and expense for the year			1	(1,361)	**(1,360)**	17	**(1,343)**
Net dividends (note 14)				(56)	**(56)**		**(56)**
Distributions made to holders of perpetual securities						(17)	**(17)**
At March 31, 2009	**288**	**937**	**(9)**	**430**	**1,646**	**200**	**1,846**

For the year ended March 31, 2008

£ million	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (note 35)*	*Total shareholders' equity*	*Minority interest*	*Total equity*
							Group
At April 1, 2007	*288*	*933*	*(10)*	*1,000*	*2,211*	*200*	*2,411*
Adoption of IFRIC 13				*(202)*	*(202)*		*(202)*
Adoption of IFRIC 14				*199*	*199*		*199*
At April 1, 2007 (Restated)	*288*	*933*	*(10)*	*997*	*2,208*	*200*	*2,408*
Profit for the year				*712*	*712*	*14*	*726*
Exchange differences and other movements				*24*	*24*		*24*
Net movement on cash flow hedges				*119*	*119*		*119*
Cost of share-based payment				*3*	*3*		*3*
Tax effect of share-based payment				*(7)*	*(7)*		*(7)*
Deferred tax – rate change adjustment				*6*	*6*		*6*
Share of other movements in reserves of associates				*(2)*	*(2)*		*(2)*
Net fair value adjustment on available-for-sale financial assets				*(5)*	*(5)*		*(5)*
Total income and expense for the year				*850*	*850*	*14*	*864*
Issue of shares		*4*			*4*		*4*
Distributions made to holders of perpetual securities						*(14)*	*(14)*
At March 31, 2008 (Restated)	*288*	*937*	*(10)*	*1,847*	*3,062*	*200*	*3,262*

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

For the year ended March 31, 2008

£ million	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (note 35)*	*Total equity*
					Company
At April 1, 2007	*288*	*933*	*(10)*	*683*	*1,894*
Adoption of IFRIC 13				*(136)*	*(136)*
Adoption of IFRIC 14				*199*	*199*
At April 1, 2007 (Restated)	*288*	*933*	*(10)*	*746*	*1,957*
Profit for the year				*577*	*577*
Cost of share-based payment				*3*	*3*
Tax effect of share-based payments				*(7)*	*(7)*
Deferred tax – rate change adjustment				*6*	*6*
Net movement on cash flow hedges				*119*	*119*
Total income and expense for the year				*698*	*698*
Issue of shares		*4*			*4*
At March 31, 2008 (Restated)	*288*	*937*	*(10)*	*1,444*	*2,659*

Notes to the accounts

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended March 31, 2009, were authorised for issue by the Board of Directors on May 21, 2009, and the balance sheets were signed on the Board's behalf by Willie Walsh and Keith Williams. British Airways Plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

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

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

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

2 Summary of significant accounting policies

Basis of preparation

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

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

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

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

Basis of consolidation

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

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

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

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

Other revenue is recognised at the time the service is provided. Commission costs are recognised at the same time as the revenue to which they relate and are charged to operating expenditure.

Revenue recognition – mileage programmes

The Group operates two principal loyalty programmes. The airline's frequent flyer programme operates through the airline's 'Executive Club' and allows frequent travellers to accumulate 'BA Miles' mileage credits that entitle them to a choice of various awards, primarily free travel. The fair value attributed to the awarded mileage credits is deferred as a liability and recognised as revenue on redemption of the miles by the participants to whom the miles are issued. The accounting policy for mileage revenue recognition was amended during the year in line with the adoption of IFRIC 13. Refer to 'Impact of new International Financial Reporting Standards' note in this section for impact of the change in policy.

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

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

Segmental reporting

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

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

a Goodwill
Where the cost of a business combination exceeds the fair value attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable. Any goodwill arising on the acquisition of equity accounted entities is included within the cost of those entities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the accounts continued

2 Summary of significant accounting policies continued

Interests in associates

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

Cash and cash equivalents

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

Other current interest-bearing deposits

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

Trade and other receivables

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

Available-for-sale financial assets

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

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

Employee benefits

a Pension obligations

Employee benefits, including pensions and other post-retirement benefits (principally post-retirement healthcare benefits) are presented in these financial statements in accordance with IAS 19 'Employee Benefits'. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

Past service costs are recognised when the benefit has been given. The financing cost and expected return on plan assets are recognised within financing costs in the periods in which they arise. The accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains and losses) that are less than 10 per cent of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10 per cent the excess amount is recognised on a straight-line basis in the income statement over the estimated average remaining service period.

b Termination benefits

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

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

Share-based payments

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

The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entry in equity.

Taxation

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

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

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

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

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

Provisions

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

Foreign currency translation

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

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

Derivatives and financial instruments

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

Other investments (other than interests in associates) are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold, when the cumulative amount recognised in equity is recognised in the income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in equity is included in the income statement.

Exchange gains and losses on monetary items are taken to the income statement unless the item has been designated and is assessed as an effective hedging instrument in accordance with the requirement of IAS 39. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold when the cumulative amount recognised in equity is recognised in the income statement.

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

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

Cash flow hedges

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

Notes to the accounts continued

2 Summary of significant accounting policies continued

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

Impairment in financial assets

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

Investment in own shares

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

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

Derecognition of financial assets and liabilities

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

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

Exceptional items

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

Discontinued operations

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

Key accounting estimates and judgements

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

a Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 19).

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

b Share-based payments

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

This also requires determining the most appropriate inputs to the valuation model including the expected life of the option and volatility and making assumptions about them. The assumptions and models used are disclosed in note 34.

c Pensions and other post-retirement benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty and are disclosed in note 36.

d Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair value in shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the income statement. Impairment losses recognised in the income statement are disclosed in note 11.

e Passenger revenue recognition

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used for transportation ('unused tickets') are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

During the current year, changes in estimates regarding the timing of revenue recognition primarily for unused flexible tickets were made, resulting in increased revenue in the current year of £109 million.

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

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

Impact of new International Financial Reporting Standards

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

IFRIC 13 'Customer Loyalty Programmes'; effective for periods beginning on or after July 1, 2008, which addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale. The Group has chosen to 'early adopt' this interpretation, the results for the year ended March 31, 2008, have been restated accordingly. The net impact on the income statement for the year ended March 31, 2008, is a £5 million increase in total revenue, a £2 million increase in expenditure on operations and a £7 million increase to the taxation charge for the year. The net impact to the balance sheet as at March 31, 2008, is a £206 million decrease in shareholders' equity, a £285 million increase in trade and other payables and a £79 million decrease in the provision for deferred tax.

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

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

New standards, amendments and interpretations not yet effective

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

IFRS 2 (Amendment) 'Share Based Payments – Vesting Conditions and Cancellations'; effective for periods beginning on or after January 1, 2009, clarifies that only service and performance conditions are vesting conditions, and other features of a share-based payment are not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply this amendment from April 1, 2009.

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

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

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

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

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

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

Notes to the accounts continued

3 Segment information

a Business segments

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

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

For the year ended March 31, 2009

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

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

Overview
Our business
Corporate governance
Financial statements

3 Segment information continued

For the year ended March 31, 2008, Restated

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

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

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

b Geographical segments – by area of original sale

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

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

Notes to the accounts continued

4 Operating (loss)/profit

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

Depreciation, amortisation and impairment of fixed assets:

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

Operating lease costs:

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

Cost of inventories:

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

b Exceptional items

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

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

5 Discontinued operations

On November 3, 2006, the Group announced that it had reached an agreement in principle to sell the regional operation of its subsidiary airline BA Connect to the Flybe Group Limited (Flybe). The acquisition of BA Connect by Flybe excluded the London City airport routes and the BA Connect-operated service from Manchester to New York. The disposal was completed on March 5, 2007. The business sold comprised the majority of the 'Regional airline business' segment as disclosed in the financial statements for the year ended March 31, 2006.

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

5 Discontinued operations continued

Reconciliation of the tax charge relating to discontinued operations

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

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

6 Business combinations

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

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

a Purchase consideration

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

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

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

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

c Net cash flow in respect of the acquisition comprises

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

Notes to the accounts continued

6 Business combinations continued

d Contribution to Group results

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

7 Auditor's remuneration

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

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

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

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

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

8 Employee costs and numbers

a Staff costs

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

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

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

8 Employee costs and numbers continued

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

Other employee costs include allowances and accommodation for crew.

b Directors' emoluments

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

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

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

9 Finance costs and income

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

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

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

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

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

Notes to the accounts continued

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

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

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

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

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

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

12 Tax

a Tax on (loss)/profit on ordinary activities

Tax (credit)/charge in the income statement

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

12 Tax continued

Tax (credit)/charge directly to equity

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

b Reconciliation of the total tax (credit)/charge

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

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

c Deferred tax

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

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

Notes to the accounts continued

12 Tax continued

c Deferred tax continued

Movement in provision

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

d Other taxes

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

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

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

e Factors that may affect future tax charges

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

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

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

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

13 Earnings per share

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

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

The Group has granted additional options over shares to employees that were not dilutive during the year but which may be dilutive in the future. Details of the Group's share options can be found in note 34.

14 Dividends

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

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

Equity dividends

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

Notes to the accounts continued

15 Property, plant and equipment

a Group

£ million	Fleet	Property	Equipment	Group total
Cost				
Balance at April 1, 2007	*11,223*	*1,398*	*753*	*13,374*
Additions (note 15d)	*428*	*122*	*87*	*637*
Disposals	*(262)*	*(12)*	*(36)*	*(310)*
Balance at March 31, 2008	*11,389*	*1,508*	*804*	*13,701*
Additions (note 15d)	584	54	13	**651**
Disposals	(118)	(45)	(30)	**(193)**
Reclassifications	(19)	1	(1)	**(19)**
Exchange movements		(2)	(3)	**(5)**
At March 31, 2009	**11,836**	**1,516**	**783**	**14,135**
Depreciation and impairment				
Balance at April 1, 2007	*5,070*	*466*	*481*	*6,017*
Charge for the year	*542*	*72*	*47*	*661*
Disposals	*(199)*	*(7)*	*(34)*	*(240)*
Balance at March 31, 2008	*5,413*	*531*	*494*	*6,438*
Charge for the year	561	59	52	**672**
Disposals	(116)	(45)	(29)	**(190)**
Reclassifications	(18)			**(18)**
At March 31, 2009	**5,840**	**545**	**517**	**6,902**
Net book amounts				
March 31, 2009	**5,996**	**971**	**266**	**7,233**
March 31, 2008	*5,976*	*977*	*310*	*7,263*
Analysis at March 31, 2009				
Owned	2,535	950	260	**3,745**
Finance leased	2,004			**2,004**
Hire purchase arrangements	1,342			**1,342**
Progress payments	85	21	6	**112**
Assets not in current use*	30			**30**
	5,996	**971**	**266**	**7,233**
Analysis at March 31, 2008				
Owned	*2,572*	*952*	*300*	*3,824*
Finance leased	*1,728*			*1,728*
Hire purchase arrangements	*1,549*			*1,549*
Progress payments	*127*	*25*	*10*	*162*
	5,976	*977*	*310*	*7,263*

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

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

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

15 Property, plant and equipment continued

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

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

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

b Company

£ million	Fleet	Property	Equipment	Company total
Cost				
Balance at April 1, 2007	*10,875*	*1,310*	*688*	*12,873*
Additions	*427*	*121*	*81*	*629*
Disposals	*(260)*	*(10)*	*(33)*	*(303)*
Balance at March 31, 2008	*11,042*	*1,421*	*736*	*13,199*
Additions	559	54	8	**621**
Disposals	(118)	(45)	(30)	**(193)**
Reclassifications	(19)			**(19)**
At March 31, 2009	**11,464**	**1,430**	**714**	**13,608**
Depreciation and impairment				
Balance at April 1, 2007	*4,918*	*434*	*422*	*5,774*
Charge for the year	*527*	*70*	*45*	*642*
Disposals	*(197)*	*(7)*	*(32)*	*(236)*
Balance at March 31, 2008	*5,248*	*497*	*435*	*6,180*
Charge for the year	545	58	50	**653**
Disposals	(116)	(45)	(29)	**(190)**
Reclassifications	(18)			**(18)**
At March 31, 2009	**5,659**	**510**	**456**	**6,625**
Net book amounts				
March 31, 2009	**5,805**	**920**	**258**	**6,983**
March 31, 2008	*5,794*	*924*	*301*	*7,019*
Analysis at March 31, 2009				
Owned	2,356	899	252	**3,507**
Finance leased	2,004			**2,004**
Hire purchase arrangements	1,342			**1,342**
Progress payments	73	21	6	**100**
Assets not in current use*	30			**30**
	5,805	**920**	**258**	**6,983**
Analysis at March 31, 2008				
Owned	*2,394*	*899*	*292*	*3,585*
Finance leased	*1,728*			*1,728*
Hire purchase arrangements	*1,549*			*1,549*
Progress payments	*123*	*25*	*9*	*157*
	5,794	*924*	*301*	*7,019*

Notes to the accounts continued

15 Property, plant and equipment continued

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

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

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

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

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

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

c Depreciation

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

Per cent	Group 2009	Group *2008*
Boeing 747-400 and 777-200	**3.7**	*3.7*
Boeing 767-300	**4.8**	*4.8*
Boeing 757-200	**4.4**	*4.4*
Boeing 737-400	**4.8**	*4.9*
Airbus A319, A320, A321	**4.9**	*4.9*

For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to residual value over the average remaining life of the related fleet.

Major overhaul expenditure is depreciated over periods ranging from 54 to 78 months, according to engine type. During the prior year, the Group changed the depreciation period for the RB211 engine, used on Boeing 747 and 767 fleets, from 54 months to 78 months. The change resulted in a £33 million decrease in the annual depreciation charge for this engine type.

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

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

d Analysis of Group property, plant and equipment additions

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

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

16 Capital expenditure commitments

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

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

17 Assets held for sale

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

During the year ended March 31, 2009, no assets were sold (2008: £3 million aircraft and £5 million property).

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

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

18 Intangible assets

a Group

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

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

Notes to the accounts continued

18 Intangible assets continued

b Company

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

c Analysis of Group intangible asset additions (excluding goodwill)

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

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

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

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

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

19 Impairment of goodwill

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

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

a Goodwill analysed by cash-generating units

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

Network airline operations

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

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

OpenSkies

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

The operating margins of both cash-generating units are based on the estimated effects of planned business efficiency and business change programmes, approved and enacted at the balance sheet date. These are adjusted for the volatile trading conditions that have impacted the airline over the past three years. The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business.

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

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

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

Notes to the accounts continued

19 Impairment of goodwill continued

b Key assumptions used in goodwill impairment review

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

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

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

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

Network airline operations

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

20 Investments

a Group

Investment in associates

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

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

Market value of listed associates

	Group	
£ million	**2009**	*2008*
At March 31	**184**	*275*

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

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

* Held by a subsidiary company.

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

In February 2008, the Group purchased 28.7 million additional shares in Iberia at an average price of €2.34 per share (£54 million), taking its holding from 9.95 per cent at March 31, 2007, to 13.15 per cent. The acquisition of these additional shares in Iberia resulted in goodwill of £9 million, which was reflected in investment in associates.

20 Investments continued

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

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

b Company

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

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

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

The Group's and Company's principal investments in subsidiaries, associates and other investments are listed in principal investments on page 134.

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

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

21 Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. For listed investments the fair value comprises the market price at the balance sheet date. For unlisted investments the fair value is estimated by reference to an earnings multiple model or by reference to other valuation methods. On March 5, 2007, the Group acquired a 15 per cent investment in Flybe in connection with the disposal of the regional business of BA Connect. The investment in Flybe was valued at £49 million at acquisition.

In the prior year, the Group performed a review of its investment in Flybe and due to an expected significant and prolonged decline in fair value associated with fuel price increases, the Group recognised a £6 million impairment of the investment. The impairment charge was reflected in the income statement within amounts relating to available-for-sale financial assets.

Notes to the accounts continued

21 Available-for-sale financial assets continued

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

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

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

	Group		Company	
£ million	**2009**	*2008*	**2009**	*2008*
Listed	**8**	*13*		
Unlisted	**57**	*67*	**27**	*24*
At March 31	**65**	*80*	**27**	*24*

22 Inventories

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

23 Trade receivables

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

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

£ million	Group	Company
At April 1, 2007	*16*	*16*
Provision for doubtful receivables	*7*	*7*
Receivables written off during the year	*(7)*	*(7)*
Unused amounts reversed	*(4)*	*(4)*
At March 31, 2008	*12*	*12*
Provision for doubtful receivables	**3**	**3**
Exchange movement on revaluation	**2**	**2**
Receivables written off during the year	**(2)**	**(2)**
Unused amounts reversed	**(2)**	**(2)**
At March 31, 2009	**13**	**13**

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

			Past due but not impaired		
£ million	Total	Neither past due nor impaired	< 30 days	30-60 days	> 60 days
Group					
2009	**530**	**510**	**14**	**2**	**4**
2008	*586*	*578*	*1*	*1*	*6*
Company					
2009	**517**	**510**	**2**	**1**	**4**
2008	*574*	*567*	*1*	*1*	*5*

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

24 Other current assets

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

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

a Cash and cash equivalents

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

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates. The fair value of cash and cash equivalents is £402 million for the Group (2008: £683 million) and for the Company £219 million (2008: £433 million).

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

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

b Reconciliation of net cash flow to movement in net debt

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

Notes to the accounts continued

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

c Analysis of net debt

£ million	Balance at April 1	Net cash flow	Other non-cash	Exchange	Group Balance at March 31
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)*
Year to March 31, 2008	*(991)*	*(207)*	*(7)*	*(105)*	*(1,310)*
Cash and cash equivalents	683	(289)		8	**402**
Current interest-bearing deposits maturing after three months	1,181	(202)			**979**
Bank and other loans	(876)	66		(38)	**(848)**
Finance leases and hire purchase arrangements	(2,298)	25	(126)	(516)	**(2,915)**
Year to March 31, 2009	**(1,310)**	**(400)**	**(126)**	**(546)**	**(2,382)**

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

26 Trade and other payables

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

27 Other long-term liabilities

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

28 Long-term borrowings

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

* Bank and other loans are repayable up to the year 2019. Bank and other loans of the Group amounting to US$108 million (2008: US$132 million), £382 million (2008: £410 million) and ¥6,915 million (2008: ¥nil) and bank loans of the Company amounting to US$108 million (2008: US$132 million) and £172 million (2008: £189 million) and ¥6,915 million (2008: ¥nil) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or property assets.

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

c Bank and other loans

Bank and other loans comprise the following:

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

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

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

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

(iv) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 6.14 per cent to 7.35 per cent. The loans are repayable between 2012 and 2018.

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

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

(vii) European Investment Bank loans are secured on certain property assets of the Group and bear interest of between 0.20 per cent below LIBOR and LIBOR. The loans are repayable between 2014 and 2017.

Notes to the accounts continued

28 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

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

e Obligations under finance leases and hire purchase contracts

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

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

29 Operating lease commitments

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

a Fleet

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

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

b Property and equipment

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

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

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

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

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

Notes to the accounts continued

30 Provisions for liabilities and charges

Group

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

Company

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

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

The onerous lease provision relates partly to the sub-lease of one Jetstream 41 aircraft to Eastern Airways and six Avro RJ100 aircraft to Swiss International Air Lines. This provision will be fully utilised by October 2011. In addition, the provision includes amounts relating to properties leased by the Group that are either sub-leased to third parties or are vacant with no immediate intention to utilise the property. This provision will be fully utilised by April 2037.

30 Provisions for liabilities and charges continued

Restoration and handback costs include provision for the costs to meet the contractual return conditions on aircraft held under operating leases. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are also capitalised. This provision will be utilised by March 2051.

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

There are ongoing investigations into the Group's passenger and cargo surcharges by the European Commission and other jurisdictions. These investigations are likely to continue for some time. The Company is also subject to related class action claims. The final amount required to pay the remaining claims and fines is subject to uncertainty. A detailed breakdown of the remaining provision is not presented as it may seriously prejudice the position of the Company in these regulatory investigations and potential litigation.

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

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

31 Financial risk management objectives and policies

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

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

a Fuel price risk

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

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

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

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

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

b Foreign currency risk

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

Notes to the accounts continued

31 Financial risk management objectives and policies continued

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

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

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

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

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

Group	Strengthening/ (weakening) in euro rate per cent	Effect on (loss)/profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in US dollar rate per cent	Effect on (loss)/profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on (loss)/profit before tax £ million	Effect on equity £ million
2009	**20**	**(7)**	**(33)**	**20**	**(52)**	**(162)**	**20**	**(8)**	**(138)**
	(20)	**6**	**32**	**(20)**	**52**	**162**	**(20)**	**8**	**138**
2008	*10*	*(2)*	*(26)*	*10*	*(4)*	*(42)*	*10*	*(7)*	*(57)*
	(10)	*2*	*22*	*(10)*	*3*	*32*	*(10)*	*5*	*47*
Company									
2009	**20**	**(7)**	**(33)**	**20**	**(52)**	**(162)**	**20**	**(8)**	**(138)**
	(20)	**6**	**32**	**(20)**	**52**	**162**	**(20)**	**8**	**138**
2008	*10*	*(2)*	*(26)*	*10*	*(6)*	*(42)*	*10*	*(7)*	*(57)*
	(10)	*2*	*22*	*(10)*	*5*	*32*	*(10)*	*5*	*47*

c Interest rate risk

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

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

	2009	
	Effect on loss before tax	
£ million	100 basis points increase	50 basis points decrease
Group		
Variable rate instruments	**(2)**	**1**
Company		
Variable rate instruments	**(10)**	**5**

	2008	
	Effect on profit before tax	
£ million	*100 basis points increase*	*100 basis points decrease*
Group		
Variable rate instruments	*3*	*(3)*
Company		
Variable rate instruments	*(3)*	*3*

31 Financial risk management objectives and policies continued

d Credit risk

The Group is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable. However, the Group has policies and procedures in place to ensure credit risk is limited by placing credit limits on each counterparty. The Group continuously monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities which include placing money market deposits, fuel hedging and foreign currency transactions could lead to a concentration of different credit risks on the same counterparty. This risk is managed by the allocation of an overall exposure limit for the counterparty that is then allocated down to specific treasury activities for that party. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings and credit default swap levels. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 32.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 37.

e Liquidity risk

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

The Company's long-term corporate debt ratings at March 31, 2009, assigned by Moody's and Standard & Poor's respectively were Ba1 and BB+. The Moody's rating was reduced from Baa3 in February 2009 and the Company is on credit watch for a further downgrade. The Standard & Poor's rating was reduced to BB with a stable outlook in May 2009. The downgrades were due to adverse trading conditions. The downgrades have had no impact on debt covenants or liquidity since the Group has committed borrowing facilities through to 2016, and adequate cash reserves to meet operating requirements for the next 12 months.

At March 31, 2009, the Group and Company had unused overdraft facilities of £20 million (2008: £20 million) and €4 million (£4 million) (2008: €20 million (£16 million) respectively).

The Group and Company held undrawn uncommitted money market lines of £25 million as at March 31, 2009 (2008: £45 million).

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

	2009	
million	Currency	£ equivalent
US dollar facility expiring June 2013	**$1,301**	**911**
US dollar facility expiring March 2014	**$940**	**658**
US dollar facility expiring June 2010	**$228**	**160**
US dollar facility expiring September 2016	**$509**	**356**
US dollar facility expiring December 2012	**$270**	**189**
US dollar facility expiring June 2012	**$269**	**189**
Japanese yen facility expiring January 2011	**¥68,085**	**485**

	2008	
million	*Currency*	*£ equivalent*
US dollar facility expiring June 2010	*$266*	*134*
US dollar facility expiring June 2012	*$115*	*58*
US dollar facility expiring December 2015	*$509*	*256*
US dollar facility expiring March 2014	*$940*	*472*
US dollar facility expiring December 2012	*$1,615*	*812*
Japanese yen facility expiring January 2011	*¥75,000*	*381*

Notes to the accounts continued

31 Financial risk management objectives and policies continued

e Liquidity risk continued

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

Group

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

Group

£ million	*Within 6 months*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*	*Total 2008*
Cash and cash equivalents	*683*					*683*
Other current interest-bearing deposits	*861*	*360*				*1,221*
Trade receivables	*586*					*586*
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	*(169)*	*(220)*	*(523)*	*(695)*	*(1,268)*	*(2,875)*
Fixed rate borrowings	*(98)*	*(21)*	*(51)*	*(150)*	*(468)*	*(788)*
Floating rate borrowings	*(20)*	*(37)*	*(56)*	*(143)*	*(211)*	*(467)*
Trade and other payables	*(1,265)*					*(1,265)*
Derivative financial instruments:						
Cross currency swaps				*(1)*	*(1)*	*(2)*
Forward currency contracts	*(15)*	*(5)*	*(1)*			*(21)*
Fuel derivatives				*(1)*		*(1)*
Forward currency contracts	*5*	*3*				*8*
Fuel derivatives	*151*	*82*	*50*	*1*		*284*
At March 31	*719*	*162*	*(581)*	*(989)*	*(1,948)*	*(2,637)*

Company

£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total 2009**
Cash and cash equivalents	219					**219**
Other current interest-bearing deposits	20	24				**44**
Trade receivables	517					**517**
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(461)	(246)	(495)	(757)	(1,811)	**(3,770)**
Fixed rate borrowings	(25)	(25)	(50)	(137)	(1,058)	**(1,295)**
Floating rate borrowings	(20)	(36)	(56)	(157)	(125)	**(394)**
Trade and other payables	(2,961)					**(2,961)**
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(4)	**(7)**
Forward currency contracts	(13)	(2)	(3)			**(18)**
Fuel derivatives	(252)	(204)	(111)	(2)		**(569)**
Forward currency contracts	31	9	3			**43**
At March 31	**(2,945)**	**(480)**	**(713)**	**(1,055)**	**(2,998)**	**(8,191)**

31 Financial risk management objectives and policies continued

e Liquidity risk continued

£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Company Total 2008
Cash and cash equivalents	433					433
Other current interest-bearing deposits	414					414
Trade receivables	574					574
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(182)	(225)	(543)	(760)	(1,431)	(3,141)
Fixed rate borrowings	(92)	(24)	(47)	(138)	(986)	(1,287)
Floating rate borrowings	(18)	(33)	(51)	(126)	(172)	(400)
Trade and other payables	(2,776)					(2,776)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	(15)	(5)	(1)			(21)
Fuel derivatives				(1)		(1)
Forward currency contracts	5	3				8
Fuel derivatives	151	82	50	1		284
At March 31	(1,506)	(202)	(592)	(1,025)	(2,590)	(5,915)

f Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, net debt as a percentage of total capital. Net debt is defined as the total borrowings, finance leases and hire purchase liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts. See note 25 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests and net debt.

The gearing ratios at March 31, 2009 and 2008 were as follows:

£ million (except ratios)	Group 2009	2008 Restated
Capital reserves	**1,646**	3,062
Add minority interests	**200**	200
Total equity	**1,846**	3,262
Net debt (a)	**2,382**	1,310
Total capital (b)	**4,228**	4,572
Gearing ratio (a)/(b)	**56.3**	28.7

The increase in the gearing ratio during 2009 resulted primarily from decreased equity due to adverse marked-to-market adjustments on fuel derivatives and foreign currency borrowings, as well as the operating loss reported. The gearing ratio was further impacted by increased borrowings relating to the delivery of nine Airbus A320s and one Boeing 777 aircraft. The carrying value of foreign currency borrowings has increased as a result of the weakening of sterling during 2009.

Notes to the accounts continued

32 Financial instruments

a Fair values of financial assets and financial liabilities

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

	Group		Company	
£ million	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	**402**	**402**	**219**	**219**
Other liquid deposits maturing over three months	**979**	**979**	**43**	**43**
Trade receivables	**530**	**530**	**517**	**517**
Available-for-sale financial assets	**65**	**65**	**27**	**27**
Forward currency contracts*	**43**	**43**	**43**	**43**
Financial liabilities:				
Trade and other payables	**1,374**	**1,374**	**2,961**	**2,961**
Interest-bearing loans and borrowings:				
Finance lease and hire purchase obligations	**2,915**	**3,030**	**3,104**	**3,239**
Fixed rate borrowings	**442**	**386**	**556**	**490**
Floating rate borrowings	**406**	**406**	**362**	**362**
Cross currency swaps**	**7**	**7**	**7**	**7**
Forward currency contracts**	**18**	**18**	**18**	**18**
Fuel derivatives**	**569**	**569**	**569**	**569**

* Current portion of derivative financial assets is £40 million.

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

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

	Group		Company	
£ million	*Carrying value*	*Fair value*	*Carrying value*	*Fair value*
Financial assets:				
Cash and cash equivalents	*683*	*683*	*433*	*433*
Other liquid deposits maturing over 3 months	*1,181*	*1,181*	*399*	*399*
Trade receivables	*586*	*586*	*574*	*574*
Available-for-sale financial assets	*80*	*80*	*24*	*24*
Forward currency contracts*	*8*	*8*	*8*	*8*
Fuel derivatives*	*284*	*284*	*284*	*284*
Financial liabilities:				
Trade and other payables	*1,265*	*1,265*	*2,776*	*2,776*
Interest-bearing loans and borrowings:				
Finance lease and hire purchase obligations	*2,297*	*2,324*	*2,497*	*2,526*
Fixed rate borrowings	*518*	*526*	*584*	*586*
Floating rate borrowings	*359*	*359*	*311*	*311*
Cross currency swaps**	*2*	*2*	*2*	*2*
Forward currency contracts**	*21*	*21*	*21*	*21*
Fuel derivatives**	*1*	*1*	*1*	*1*

* Current portion of derivative financial assets is £241 million.

** Current portion of derivative financial liabilities is £20 million.

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

Available-for-sale financial assets and loan notes

Listed fixed asset investments are stated at market value as at March 31, 2009. For other investments the fair value is estimated by reference to a discounted cash flow that is not expected to reverse.

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

The repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at March 31, 2009.

32 Financial instruments continued

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

These amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked-to-market basis and accordingly, a fair value cannot be determined. The carrying value of £722 million (2008: £569 million) has therefore been included as the fair value above.

Euro-sterling notes and Euro-sterling bond 2016

These are stated at quoted market value.

b Fair values of financial assets and financial liabilities

Forward currency transactions

These are stated at the marked-to-market value of the instruments.

Over-the-counter (OTC) fuel derivatives

These are stated at the marked-to-market value of the instruments.

c Hedges

i Cash flow hedges

At March 31, 2009, the Group and Company held four principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk;
- A hedge of certain short-term revenue receipts by foreign exchange contracts hedging future foreign exchange risk;
- A hedge of certain short-term foreign currency operational payments by forward exchange contracts hedging future foreign exchange risk; and
- A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk.

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

						Group
£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total 2009**
Debt repayments to hedge future revenue	30	30	69	178	150	**457**
Forward contracts to hedge future payments	(10)	(6)	(1)			**(17)**
Hedges of future fuel purchases	361	178	97	2		**638**
	381	202	165	180	150	**1,078**
Related deferred tax charge						**(301)**
Total amount included within equity						**777**

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

	Group	Company
million	Notional amount	Notional amount
To hedge future currency revenues against US dollars	$118	$118
To hedge future currency revenues against sterling	£60	£60
To hedge future operating payments in US dollars	$365	$365
To hedge future Brazilian real capital payments against US dollars	$67	$67
Hedges of future fuel purchases	$2,612	$2,612
Debt repayments to hedge future revenue – Euro	€77	€77
– US dollars	$1,570	$1,570
– Japanese yen	¥95,358	¥95,358

Notes to the accounts continued

32 Financial instruments continued

c Hedges continued

i Cash flow hedges continued

£ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Group Total 2008
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	*$143*	*$143*
To hedge future currency revenues against sterling	*£235*	*£235*
To hedge future operating payments against US dollars	*$440*	*$440*
Hedges of future fuel purchases	*$4,143*	*$4,143*
Debt repayments to hedge future revenue – US dollars	*$1,307*	*$1,307*
– Japanese yen	*¥100,798*	*¥100,798*

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a loss of £7 million (2008: £12 million gain). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases. In the current year, £5 million of cash flow hedging losses previously recognised in equity were transferred to the income statement, relating to forecast transactions (future revenue) that are no longer expected to occur.

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

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

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

33 Share capital

	Group and Company			
	2009		*2008*	
Ordinary shares of 25 pence each	**Number of shares 000s**	**£ million**	*Number of shares 000s*	*£ million*
Authorised				
At April 1 and March 31	**1,512,000**	**378**	*1,512,000*	*378*
Allotted, called up and fully paid				
At April 1	**1,153,105**	**288**	*1,151,575*	*288*
Exercise of options under Employee Share Option Schemes	**523**		*1,530*	
At March 31	**1,153,628**	**288**	*1,153,105*	*288*

34 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees – these schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets. Details of the performance criteria to be met for each of the schemes, and details of the awards to the directors, are set out in the report of the Remuneration Committee on pages 67 to 73.

a Share Option Plan 1999

The British Airways Share Option Plan granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three-year vesting period. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant with the exception of grants made during the year ending March 31, 2005, when there will be a single re-test after a further year which will measure performance of the Group over the four-year period from the date of grant. No further grants of options under the Share Option Plan will be made other than those during the year ending March 31, 2006, in relation to performance during the year ending March 31, 2005 (for which there will be no re-testing).

b Long Term Incentive Plan

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

c Performance Share Plan

In 2005 the Group introduced a Performance Share Plan (PSP) for senior executives. Options over shares are awarded conditional on the achievement of a variety of performance conditions and will vest after three years subject to the executive remaining employed by the Group. A further award will be made that will vest based 100 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years (pages 67 and 68). No payment is due upon exercise of the options. Executives awarded shares under the PSP will be expected to retain no fewer than 50 per cent of the shares (net of tax) which vest from the new schemes until they have built up a shareholding equivalent to 100 per cent of basic salary.

d Deferred Share Plan

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

e Share options summary

Group and Company

	Deferred Share Plan		Performance Share Plan		Long Term Incentive Plan		Share Option Plan		
	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average exercise price £	Weighted average fair value £
Outstanding at April 1, 2007*	*830*		*2,643*		*1,483*		*19,340*	*2.74*	
Granted in the year			*1,444*	*2.61*					
Exercised during the year**/***					*(157)*		*(1,530)*	*2.71*	
Expired/cancelled	*(43)*		*(191)*		*(44)*		*(896)*	*2.73*	
Outstanding at April 1, 2008*	*787*		*3,896*		*1,282*		*16,914*	*2.75*	
Granted in the year	710	2.74	2,573	2.15					
Exercised during the year**/***	(269)		(454)		(183)		(69)	1.64	
Expired/cancelled	(187)		(1,476)				(2,765)	2.83	
Outstanding at April 1, 2009	**1,041**		**4,539**		**1,099**		**14,080**	**2.74**	
Options exercisable:									
At March 31, 2009					**1,099**		**14,080**	**2.74**	
At March 31, 2008	*7*	*4.84*			*1,282*		*11,413*	*2.74*	

* Included within this balance are options over 3,875,252 (2008: 5,235,228) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before November 7, 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The weighted average share price at the date of exercise for the Share Option Plan exercised is £2.36 (2008: £4.19).

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

Notes to the accounts continued

34 Share options continued

e Share options summary continued

Range of exercise prices 2009 for Share Option Plan

Range of exercise prices	Options outstanding: Number of shares 000s	Options outstanding: Weighted average remaining life (years)	Options outstanding: Weighted average exercise price £	Options exercisable: Number of shares 000s	Options exercisable: Weighted average exercise price £
£1.57 – £2.61	2,168	3.88	1.66	2,168	1.66
£2.62 – £3.20	8,830	5.78	2.70	8,830	2.70
£3.21 – £3.94	3,082	1.41	3.61	3,082	3.61
At March 31, 2009	**14,080**	**4.53**	**2.74**	**14,080**	**2.74**

Range of exercise prices 2008 for Share Option Plan

Range of exercise prices	Options outstanding: *Number of shares 000s*	Options outstanding: *Weighted average remaining life (years)*	Options outstanding: *Weighted average exercise price £*	Options exercisable: *Number of shares 000s*	Options exercisable: *Weighted average exercise price £*
£1.57 – £2.61	*2,784*	*4.82*	*1.67*	*2,784*	*1.67*
£2.62 – £3.20	*10,073*	*6.79*	*2.70*	*4,572*	*2.62*
£3.21 – £3.94	*4,057*	*2.40*	*3.61*	*4,057*	*3.61*
At March 31, 2008	*16,914*	*5.41*	*2.75*	*11,413*	*2.74*

For all outstanding share option schemes as at March 31, 2009, the weighted average remaining contractual life is four years (2008: five years). For options granted during the year the weighted average option life was three years (2008: three years).

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

	2009	*2008*
Expected share price volatility (per cent)	**24**	*24*
Historical volatility (per cent)	**35**	*24*
Expected comparator group volatility (per cent)	**21-98**	*19-96*
Expected comparator correlation (per cent)	**41**	*28*
Expected life of options (years)	**3**	*3*
Weighted average share price (£)	**1.88**	*3.82*

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

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

	2009	*2008*
Employee costs	**1**	*3*

35 Other reserves and minority interests

a Group

£ million	Retained earnings	Unrealised gains and losses	Currency translation	Total	Group Minority interests*
Balance at April 1, 2007	*903*	*99*	*(2)*	*1,000*	*200*
Profit for the year attributable to shareholders	*680*			*680*	
Exchange differences and other movements			*24*	*24*	
Fair value of cash flow hedges transferred to passenger revenue		*(5)*		*(5)*	
Fair value of cash flow hedges transferred to fuel and oil costs		*(136)*		*(136)*	
Fair value of cash flow hedges transferred to currency differences		*15*		*15*	
Net change in fair value of cash flow hedges		*245*		*245*	
Cost of share-based payment	*3*			*3*	
Tax effect of share-based payment	*(7)*			*(7)*	
Deferred tax – rate change adjustment	*6*			*6*	
Share of other movements in reserves of associates	*(2)*			*(2)*	
Net fair value adjustment on available-for-sale financial assets		*(5)*		*(5)*	
Total income and expense for the year	*680*	*114*	*24*	*818*	
Balance at March 31, 2008:	*1,583*	*213*	*22*	*1,818*	*200*
Adoption of IFRIC 13	*(206)*			*(206)*	
Adoption of IFRIC 14	*235*			*235*	
At March 31, 2008 (Restated)	*1,612*	*213*	*22*	*1,847*	*200*
Loss for the year attributable to shareholders	(375)			**(375)**	
Exchange differences and other movements			38	**38**	
Fair value of cash flow hedges transferred to passenger revenue		13		**13**	
Fair value of cash flow hedges transferred to fuel and oil costs		(78)		**(78)**	
Fair value of cash flow hedges transferred to currency differences		(46)		**(46)**	
Net change in fair value of cash flow hedges		(877)		**(877)**	
Exercise of share options	(2)			**(2)**	
Cost of share-based payment	1			**1**	
Share of other movements in reserves of associates	(26)			**(26)**	
Held-to-maturity investments marked-to-market		(5)		**(5)**	
Available-for-sale financial assets – gains recycled to the income statement		(4)		**(4)**	
Net dividends	(56)			**(56)**	
Total income and expense for the year	(458)	(997)	38	**(1,417)**	
At March 31, 2009	**1,154**	**(784)**	**60**	**430**	**200**

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

Notes to the accounts continued

35 Other reserves and minority interests continued

b Company

£ million	Company: Retained earnings	Unrealised gains and losses	Total
Balance at April 1, 2007	*591*	*92*	*683*
Profit for the year attributable to shareholders	*540*		*540*
Cost of share-based payment	*3*		*3*
Tax effect of share-based payment	*(7)*		*(7)*
Deferred tax – rate change adjustment	*6*		*6*
Fair value of cash flow hedges transferred to passenger revenue		*(5)*	*(5)*
Fair value of cash flow hedges transferred to fuel and oil costs		*(136)*	*(136)*
Fair value of cash flow hedges transferred to currency differences		*15*	*15*
Net change in fair value of cash flow hedges		*245*	*245*
Total income and expense for the year	*542*	*119*	*661*
Balance at March 31, 2008:	*1,133*	*211*	*1,344*
Adoption of IFRIC 13	*(135)*		*(135)*
Adoption of IFRIC 14	*235*		*235*
At April 1, 2008 (Restated)	*1,233*	*211*	*1,444*
Loss for the year attributable to shareholders	(389)		**(389)**
Cost of share-based payment	(2)		**(2)**
Deferred tax – rate change adjustment	1		**1**
Fair value of cash flow hedges transferred to passenger revenue		13	**13**
Fair value of cash flow hedges transferred to fuel and oil costs		(78)	**(78)**
Fair value of cash flow hedges transferred to currency differences		(46)	**(46)**
Net change in fair value of cash flow hedges		(877)	**(877)**
Net dividends	(56)		**(56)**
Total income and expense for the year	(446)	(988)	**(1,434)**
At March 31, 2009	**787**	**(777)**	**10**

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

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

Total shareholders' equity also includes the balance classified as share capital that includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 25 pence ordinary shares. Investment in own shares consists of shares held by British Airways Employee Benefits Trust (Jersey) Limited, a wholly-owned subsidiary, for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan (LTIP). At March 31, 2009, the Group and Company held 2,134,461 shares for the LTIP and other employee share schemes (2008: 2,087,147 shares). The purchase of shares was financed by the Company granting a loan to British Airways Employee Benefits Trust (Jersey) Limited.

36 Pension costs

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

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

In February 2007, following consultation with members and agreement with the Trustees, the Group amended NAPS for future service to restrict future increases in pensionable pay to RPI and increase the normal retirement age to 65. In addition, the Group agreed to make a one-off cash injection of £800 million into NAPS, of which £240 million was paid in February 2007, with the remaining balance of £560 million paid in April 2007 and an additional £50 million was paid in March 2008. The Group also agreed to make annual contributions of approximately £280 million a year for the next 10 years. Additionally, guarantees are issued in respect of APS, £230 million and NAPS, £100 million.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US. The Company participates in a multi-employer defined benefit plan operated in the US by the International Association of Machinists (IAM) and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were £2.1 million (2008: £1.9 million).

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

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

Total employer contributions to defined contribution pension plans both in the UK and overseas for the year ended March 31, 2009, were £25 million (2008: £17 million). The Company's contributions to APS and NAPS in the next year as determined by the actuarial review completed in March 2006 are expected to be approximately £320 million.

a Employee benefit schemes recognised on the balance sheet

	Employee benefit obligations		Employee benefit assets	
£ million	**2009**	*2008*	**2009**	*2008*
Arising under defined benefit pension plans and post-retirement benefits	**57**	*204*	**340**	*320*
Arising under post-retirement medical benefit plans	**123**	*116*		
Total arising under post-retirement benefits	**180**	*320*	**340**	*320*
Other employee benefit obligations	**11**	*10*		
At March 31	**191**	*330*	**340**	*320*

At March 31, 2009, NAPS was recognised on the balance sheet as an asset. However, due to the level of unrecognised losses it holds, its net position is a liability and therefore on all future tables within this note, it is included as an employee benefit obligation.

Employee benefit assets refer to the Group and Company in all instances. Employee benefit obligations include £9 million (2008: £8 million) relating to British Airways Holidays Limited with the remainder relating to the Company.

Notes to the accounts continued

36 Pension costs continued

b Scheme assets and liabilities

	2009					
	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	**Total**	APS	Other schemes	**Total**
Scheme assets at fair value:						
Equities	3,780	122	**3,902**	898	16	**914**
Bonds	1,665	76	**1,741**	4,679	12	**4,691**
Others	604	5	**609**	348		**348**
Fair value of scheme assets	6,049	203	**6,252**	5,925	28	**5,953**
Present value of scheme liabilities	7,216	497	**7,713**	5,065	28	**5,093**
Net pension (liability)/asset	**(1,167)**	**(294)**	**(1,461)**	**860**	**–**	**860**
Net pension asset/(liability) represented by:						
Net pension asset/(liability) recognised	26	(180)	**(154)**	304	10	**314**
Tax effect of APS surplus recognised				135		**135**
Cumulative actuarial (losses)/gains not recognised	(1,193)	(114)	**(1,307)**	421	(10)	**411**
	(1,167)	**(294)**	**(1,461)**	**860**	**–**	**860**

	2008 Restated					
	Employee benefit obligations			*Employee benefit assets*		
£ million	*NAPS*	*Other schemes*	*Total*	*APS*	*Other schemes*	*Total*
Scheme assets at fair value:						
Equities	*4,488*	*147*	*4,635*	*1,033*	*20*	*1,053*
Bonds	*1,882*	*68*	*1,950*	*5,079*	*15*	*5,094*
Others	*978*	*6*	*984*	*556*		*556*
Fair value of scheme assets	*7,348*	*221*	*7,569*	*6,668*	*35*	*6,703*
Present value of scheme liabilities	*7,705*	*384*	*8,089*	*5,432*	*29*	*5,461*
Net pension (liability)/asset	*(357)*	*(163)*	*(520)*	*1,236*	*6*	*1,242*
Net pension (liability)/asset represented by:						
Net pension (liability)/asset recognised	*(148)*	*(172)*	*(320)*	*312*	*8*	*320*
Tax effect of APS surplus recognised				*126*		*126*
Cumulative actuarial (losses)/gains not recognised	*(209)*	*9*	*(200)*	*798*	*(2)*	*796*
	(357)	*(163)*	*(520)*	*1,236*	*6*	*1,242*

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

36 Pension costs continued

c Amounts recognised in the income statement

2009

£ million	Employee benefit obligations NAPS	Other schemes	**Total**	Employee benefit assets APS	Other schemes	**Total**
Current service cost	129	7	**136**	14		**14**
Past service cost	3		**3**	1		**1**
Recognised in arriving at operating loss	**132**	**7**	**139**	**15**	**–**	**15**
Expected return on scheme assets	(502)	(19)	**(521)**	(338)	(3)	**(341)**
Interest costs on scheme liabilities	502	26	**528**	367	1	**368**
Amortisation of APS surplus (net of tax)				(17)		**(17)**
Other finance cost	**–**	**7**	**7**	**12**	**(2)**	**10**

2008 Restated

£ million	*Employee benefit obligations NAPS*	*Other schemes*	*Total*	*Employee benefit assets APS*	*Other schemes*	*Total*
Current service cost	*170*	*7*	*177*	*20*		*20*
Past service cost	*1*		*1*	*1*		*1*
Recognised in arriving at operating profit	*171*	*7*	*178*	*21*	*–*	*21*
Expected return on scheme assets	*(495)*	*(18)*	*(513)*	*(341)*	*(2)*	*(343)*
Immediate recognition of losses and the effect of the asset ceiling				*19*		*19*
Interest costs on scheme liabilities	*425*	*23*	*448*	*318*	*1*	*319*
Other finance cost	*(70)*	*5*	*(65)*	*(4)*	*(1)*	*(5)*

d Unrecognised cumulative actuarial gains and losses

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
Amount of unrecognised actuarial losses at April 1, 2007 (Restated)	*(593)*	*7*	*(586)*			
Actual return on scheme assets	*6*	*(8)*	*(2)*	*523*	*3*	*526*
Less: Expected return on scheme assets	*(495)*	*(18)*	*(513)*	*(341)*	*(2)*	*(343)*
	(489)	*(26)*	*(515)*	*182*	*1*	*183*
Other actuarial gains/(losses)	*873*	*28*	*901*	*616*	*(3)*	*613*
Cumulative unrecognised actuarial (losses)/gains at March 31, 2008	*(209)*	*9*	*(200)*	*798*	*(2)*	*796*
Actual return on scheme assets	(1,462)	(6)	**(1,468)**	(385)	(6)	**(391)**
Less: Expected return on scheme assets	(502)	(19)	**(521)**	(338)	(3)	**(341)**
	(1,964)	(25)	**(1,989)**	(723)	(9)	**(732)**
Other actuarial gains/(losses)	980	(98)	**882**	372	1	**373**
Amortisation of APS surplus (gross of tax)				(26)		**(26)**
Cumulative unrecognised actuarial (losses)/gains at March 31, 2009	**(1,193)**	**(114)**	**(1,307)**	**421**	**(10)**	**411**

The actuarial assumptions made for the expected rates of return on assets were derived by considering best estimates for the expected long-term real rates of return from the main asset classes and combining these in proportions for each scheme. These assumed rates of return are net of investment expenses.

Notes to the accounts continued

36 Pension costs continued

e Actuarial assumptions

At March 31

Per cent per annum	2009 NAPS	2009 APS*	2009 Other schemes	*2008 NAPS*	*2008 APS**	*2008 Other schemes*
Inflation	3.0	2.7	2.5-3.0	*3.5*	*3.5*	*3.0-5.0*
Rate of increase in salaries	3.0	2.7	2.8-8.5	*3.5*	*4.0*	*1.5-5.5*
Rate of increase of pensions in payment	2.9	2.7	1.5-10.0	*3.4*	*3.5*	*1.5-11.0*
Discount rate	6.9	7.1	1.9-7.6	*6.6*	*7.0*	*2.0-6.6*
Expected rate of return on scheme assets	7.1	4.7	5.5-8.5	*6.9*	*5.2*	*4.0-7.6*

* Rate of increase in salaries is assumed to be in line with inflation (2008: 4.0 per cent per annum for three years, 1.0 per cent in excess of RPI to March 2016 and 1.5 per cent in excess of RPI thereafter).

Rate of increase in healthcare costs are based on medical trend rates of 10 per cent grading down to 5 per cent over five years (2008: 11 per cent grading down to 5 per cent over six years).

In the UK, mortality rates are calculated using the 00-series standard mortality tables for APS and the PA80 standard mortality tables for NAPS (the two largest Group and Company schemes). The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the 1994 GAM Static tables. If the post-retirement mortality tables used for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by approximately £110 million in APS and approximately £140 million in NAPS.

If the discount rate were to be decreased by 0.1 per cent without changing any other assumptions, the defined benefit obligations would increase by approximately £50 million in APS and £120 million in NAPS.

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

£ million	Increase	Decrease
Effect on aggregate service cost and interest cost	(3)	2
Effect on defined benefit obligation	(26)	21

f Present value of scheme liabilities

£ million	Employee benefit obligations NAPS	Employee benefit obligations Other schemes	Employee benefit obligations Total	Employee benefit assets APS	Employee benefit assets Other schemes	Employee benefit assets Total
As at April 1, 2007	*8,110*	*397*	*8,507*	*6,076*	*27*	*6,103*
Current service cost	*170*	*7*	*177*	*20*		*20*
Past service cost	*1*		*1*	*1*		*1*
Interest cost	*425*	*23*	*448*	*318*	*1*	*319*
Benefits paid	*(202)*	*(15)*	*(217)*	*(375)*	*(2)*	*(377)*
Employee contributions	*74*		*74*	*8*		*8*
Actuarial (gains)/losses	*(873)*	*(28)*	*(901)*	*(616)*	*3*	*(613)*
As at March 31, 2008	*7,705*	*384*	*8,089*	*5,432*	*29*	*5,461*
Current service cost	129	7	**136**	14		**14**
Past service cost	3		**3**	1		**1**
Interest cost	502	26	**528**	367	1	**368**
Benefits paid	(221)	(18)	**(239)**	(385)	(1)	**(386)**
Employee contributions	78		**78**	8		**8**
Actuarial (gains)/losses	(980)	98	**(882)**	(372)	(1)	**(373)**
At March 31, 2009	**7,216**	**497**	**7,713**	**5,065**	**28**	**5,093**

The defined benefit obligation comprises £169 million (2008: £134 million) arising from unfunded plans and £7,544 million (2008: £7,955 million) from plans that are wholly or partly funded.

36 Pension costs continued

g Fair value of scheme assets

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
As at April 1, 2007	*6,553*	*238*	*6,791*	*6,491*	*34*	*6,525*
Expected return on plan assets	*495*	*18*	*513*	*341*	*2*	*343*
Employer contributions	*917*	*6*	*923*	*21*		*21*
Contributions by employees	*74*		*74*	*8*		*8*
Benefits paid	*(202)*	*(15)*	*(217)*	*(375)*	*(2)*	*(377)*
Actuarial (losses)/gains	*(489)*	*(26)*	*(515)*	*182*	*1*	*183*
As at March 31, 2008	*7,348*	*221*	*7,569*	*6,668*	*35*	*6,703*
Expected return on plan assets	502	19	**521**	338	3	**341**
Employer contributions	306	6	**312**	19		**19**
Contributions by employees	78		**78**	8		**8**
Benefits paid	(221)	(18)	**(239)**	(385)	(1)	**(386)**
Actuarial losses	(1,964)	(25)	**(1,989)**	(723)	(9)	**(732)**
At March 31, 2009	**6,049**	**203**	**6,252**	**5,925**	**28**	**5,953**

h History of experience gains and losses

£ million	Employee benefit obligations NAPS	Other schemes	**Total**	Employee benefit assets APS	Other schemes	**Total**
As at March 31, 2009						
Fair value of scheme assets	6,049	203	**6,252**	5,925	28	**5,953**
Present value of defined benefit obligation	(7,216)	(497)	**(7,713)**	(5,065)	(28)	**(5,093)**
(Deficit)/surplus in the scheme	(1,167)	(294)	**(1,461)**	860		**860**
Experience adjustments arising on plan liabilities	(980)	98	**(882)**	(372)	(1)	**(373)**
Experience adjustments arising on plan assets	(1,964)	(25)	**(1,989)**	(723)	(9)	**(732)**
As at March 31, 2008 (Restated)						
Fair value of scheme assets	*7,348*	*221*	*7,569*	*6,668*	*35*	*6,703*
Present value of defined benefit obligation	*(7,705)*	*(384)*	*(8,089)*	*(5,432)*	*(29)*	*(5,461)*
(Deficit)/surplus in the scheme	*(357)*	*(163)*	*(520)*	*1,236*	*6*	*1,242*
Experience adjustments arising on plan liabilities	*(873)*	*(28)*	*(901)*	*(616)*	*3*	*(613)*
Experience adjustments arising on plan assets	*(489)*	*(26)*	*(515)*	*182*	*1*	*183*
As at March 31, 2007						
Fair value of scheme assets	*6,553*	*238*	*6,791*	*6,491*	*34*	*6,525*
Present value of defined benefit obligation	*(8,110)*	*(397)*	*(8,507)*	*(6,076)*	*(27)*	*(6,103)*
APS irrecoverable surplus				*(306)*		*(306)*
(Deficit)/surplus in the scheme	*(1,557)*	*(159)*	*(1,716)*	*109*	*7*	*116*
Experience adjustments arising on plan liabilities	*(113)*	*52*	*(61)*	*(272)*	*3*	*(269)*
Experience adjustments arising on plan assets	*(27)*	*(21)*	*(48)*	*(138)*	*(3)*	*(141)*
As at March 31, 2006						
Fair value of scheme assets	*5,832*	*318*	*6,150*	*6,650*	*36*	*6,686*
Present value of defined benefit obligation	*(7,902)*	*(538)*	*(8,440)*	*(5,867)*	*(30)*	*(5,897)*
APS irrecoverable surplus				*(652)*		*(652)*
(Deficit)/surplus in the scheme	*(2,070)*	*(220)*	*(2,290)*	*131*	*6*	*137*
Experience adjustments arising on plan liabilities	*(920)*	*(25)*	*(945)*	*(285)*	*(5)*	*(290)*
Experience adjustments arising on plan assets	*794*	*35*	*829*	*581*	*5*	*586*
As at March 31, 2005						
Fair value of scheme assets	*4,554*	*266*	*4,820*	*6,031*	*29*	*6,060*
Present value of defined benefit obligation	*(6,523)*	*(488)*	*(7,011)*	*(5,603)*	*(24)*	*(5,627)*
APS irrecoverable surplus				*(296)*		*(296)*
(Deficit)/surplus in the scheme	*(1,969)*	*(222)*	*(2,191)*	*132*	*5*	*137*

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

Notes to the accounts continued

37 Contingent liabilities

There were contingent liabilities at March 31, 2009, in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group and the Company have guaranteed certain borrowings, liabilities and commitments, which at March 31, 2009, amounted to £185 million (2008: £173 million) and £498 million (2008: £448 million) respectively. For the Company these included guarantees given in respect of the fixed perpetual preferred securities issued by subsidiary undertakings.

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

38 Related party transactions

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

	Group		Company	
£ million	**2009**	*2008*	**2009**	*2008*
Associates:				
Sales to associates	**41**	*43*	**41**	*43*
Purchases from associates	**53**	*54*	**53**	*54*
Amounts owed by associates	**1**	*4*	**1**	*4*
Amounts owed to associates	**2**		**2**	
Subsidiaries:				
Sales to subsidiaries			**26**	*36*
Purchases from subsidiaries			**131**	*126*
Amounts owed by subsidiaries			**169**	*116*
Amounts owed to subsidiaries			**2,106**	*1,982*

In addition, the Company meets certain costs of administering the Group's retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to £3.8 million in relation to the costs of the Pension Protection Fund levy (2008: £3.6 million).

Associates

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

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

As at March 31, 2009, the net trading balance owed to Iberia by the Group amounted to £1 million (2008: £3 million owed by Iberia).

b Other associates

The remaining net trading balance of £1 million as at March 31, 2009, was due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited.

38 Related party transactions continued

Subsidiaries

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

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with directors or officers of the Company at March 31, 2009, or arose during the year that need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

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

Neither the Group nor Company have provided or benefited from any guarantees for any related party receivables or payables. During the year ended March 31, 2009, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2008: £nil).

Compensation of key management personnel (including directors):

	Group		Company	
£ million	**2009**	*2008*	**2009**	*2008*
Short-term employee benefits	**4**	*4*	**4**	*4*
Share-based payments	**1**	*2*	**1**	*2*
Termination benefits	**1**		**1**	
At March 31	**6**	*6*	**6**	*6*

39 Foreign currency translation rates

	At March 31		Annual average	
£1 equals	**2009**	*2008*	**2009**	*2008*
Euro	**1.07**	*1.26*	**1.21**	*1.43*
US dollar	**1.43**	*1.99*	**1.75**	*2.01*
Japanese yen	**140**	*197*	**177**	*231*

Operating and financial statistics

For the five years ended March 31, 2009

Total Group operations (note 1)

		2009	2008*	2007	2006**	2005***
Traffic and capacity						
Revenue passenger km (RPK)	m	**114,346**	*118,395*	*112,851*	*109,713*	*107,892*
Available seat km (ASK)	m	**148,504**	*149,576*	*148,321*	*144,194*	*144,189*
Passenger load factor	%	**77.0**	*79.1*	*76.1*	*76.1*	*74.8*
Cargo tonne km (CTK)	m	**4,638**	*4,892*	*4,695*	*4,929*	*4,954*
Total revenue tonne km (RTK)	m	**16,054**	*16,797*	*16,112*	*15,909*	*15,731*
Total available tonne km (ATK)	m	**22,293**	*22,872*	*22,882*	*22,719*	*22,565*
Overall load factor	%	**72.0**	*73.4*	*70.4*	*70.0*	*69.7*
Passengers carried	'000	**33,117**	*34,613*	*33,068*	*32,432*	*35,717*
Tonnes of cargo carried	'000	**777**	*805*	*762*	*795*	*877*
Revenue aircraft km	m	**644**	*644*	*637*	*614*	*661*
Revenue flights	'000	**279**	*281*	*276*	*280*	*378*
Operations						
Average manpower equivalent (MPE)		**41,473**	*41,745*	*42,683*	*43,814*	*47,472*
RTKs per MPE		**387.1**	*402.4*	*377.5*	*363.1*	*331.4*
ATKs per MPE		**537.5**	*547.9*	*536.1*	*518.5*	*475.3*
Aircraft in service at year end		**245**	*245*	*242*	*284*	*290*
Aircraft utilisation (average hours per aircraft per day)		**10.68**	*10.91*	*10.82*	*10.29*	*9.83*
Unduplicated route km	'000	**621**	*629*	*589*	*574*	*623*
Punctuality – within 15 minutes	%	**77**	*63*	*67*	*75*	*76*
Regularity	%	**98.6**	*98.2*	*98.5*	*98.8*	*98.8*
Financial						
Passenger revenue per RPK	p	**6.85**	*6.42*	*6.44*	*6.31*	*6.02*
Passenger revenue per ASK	p	**5.28**	*5.08*	*4.90*	*4.80*	*4.51*
Cargo revenue per CTK	p	**14.51**	*12.57*	*12.74*	*12.94*	*9.73*
Average fuel price before hedging (US cents/US gallon)		**284.06**	*245.26*	*209.60*	*188.22*	*136.44*
Interest cover (note 2)	times	**(3.6)**	*15.4*	*16.7*	*6.0*	*3.8*
Dividend cover	times	**(5.2)**	*n/a*	*n/a*	*n/a*	*n/a*
Operating margin (note 3)	%	**(2.4)**	*10.0*	*7.1*	*8.5*	*7.2*
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	**645**	*1,780*	*1,549*	*1,666*	*1,552*
Net debt/total capital ratio (note 4)	%	**56.3**	*28.7*	*29.1*	*44.2*	*67.7*
Net debt/total capital ratio including operating leases	%	**62.8**	*38.2*	*39.6*	*53.0*	*72.4*
Total traffic revenue per RTK	p	**53.00**	*48.91*	*48.79*	*47.53*	*44.4*
Total traffic revenue per ATK	p	**38.17**	*35.92*	*34.35*	*33.28*	*30.94*
Total operating expenditure per RTK (note 5)	p	**57.38**	*46.91*	*49.26*	*47.26*	*40.85*
Total operating expenditure per ATK (note 5)	p	**41.32**	*34.45*	*34.68*	*33.10*	*28.48*

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

** Restated for the disposal of the regional business of BA Connect.

*** Restated for the adoption of IFRS.

n/a = not applicable

Notes:

1. Operating statistics do not include those of associate undertakings and franchisees.

2. Interest cover is defined as the number of times (loss)/profit before tax excluding net interest payable covers the net interest payable. Interest cover is not a financial measure under IFRS. However, management believes this measure is useful to investors when analysing the Group's ability to meet its interest commitments from current earnings. The following table shows a reconciliation of net interest payable for each of the two most recent financial years:

	Year ended March 31	
£ million (except ratios)	**2009**	*2008**
(Loss)/profit before tax	**(401)**	*922*
Net interest payable (a)	**(87)**	*(64)*
(Loss)/profit adjusted for interest payable (b)	**(3.14)**	*986*
Interest cover (b)/(a)	**(3.6)**	*15.4*

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

3. Operating margin is defined as operating (loss)/profit as a percentage of revenue. Revenue comprises: passenger revenue (scheduled services and non-scheduled services), cargo services and other revenue.

4. Net debt as a percentage of total capital. Net debt is defined as the total of loans, finance leases and hire purchase liabilities, net of short-term loans and deposits and cash less overdrafts. See note 25 to the financial statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, minority interests, and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. Similarly, net debt adjusted to include obligations under operating leases is not a financial measure under IFRS. However, management believes these measures are useful to investors when analysing the extent to which the Group is funded by debt rather than by shareholders' funds. The following table shows a reconciliation of total capital to total shareholders' funds and the net debt/capital ratio for each of the two most recent financial years:

	Year ended March 31	
£ million (except ratios)	**2009**	*2008**
Capital and reserves	**1,646**	*3,062*
Add minority interests	**200**	*200*
Total shareholders' equity	**1,846**	*3,262*
Net debt (a)	**2,382**	*1,310*
Total capital (b)	**4,228**	*4,572*
Net debt/total capital percentage (a)/(b)	**56.3**	*28.7*

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

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

	Year ended March 31	
£ million (except ratios)	**2009**	*2008**
Total expenditure on operations	**9,212**	*7,880*
RTKs	**16,054**	*16,797*
ATKs	**22,293**	*22,872*
Total expenditure on operations per RTK (p)	**57.38**	*46.91*
Total expenditure on operations per ATK (p)	**41.32**	*34.45*

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

Principal investments

At March 31, 2009

Investments in subsidiaries

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

These subsidiaries are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Limited (from April 1, 2009, The Mileage Company Limited)	Airline marketing	England
BA & AA Holdings Limited	Holding Company	England
BA Cash Management Limited Partnership	Investment	England
BA Cityflyer Limited (referred to as CityFlyer)	Airline operations	England
BA European Limited (trading as OpenSkies)	Airline operations	England
BritAir Holdings Limited	Holding Company	England
British Airways 777 Leasing Limited	Aircraft financing	England
British Airways Avionic Engineering Limited	Aircraft maintenance	England
British Airways Holdings Limited	Airline finance	Jersey
British Airways Holidays Limited	Package holidays	England
British Airways Interior Engineering Limited	Aircraft maintenance	England
British Airways Leasing Limited	Aircraft financing	England
British Airways Maintenance Cardiff Limited	Aircraft maintenance	England
Speedbird Cash Management Limited	Investment	Bermuda
Speedbird Insurance Company Limited	Insurance	Bermuda
The Plimsoll Line Limited	Holding Company	England

Investments in associates

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

* Not owned directly by British Airways Plc.