BRITISH AIRWAYS

Report and Accounts to December 2010

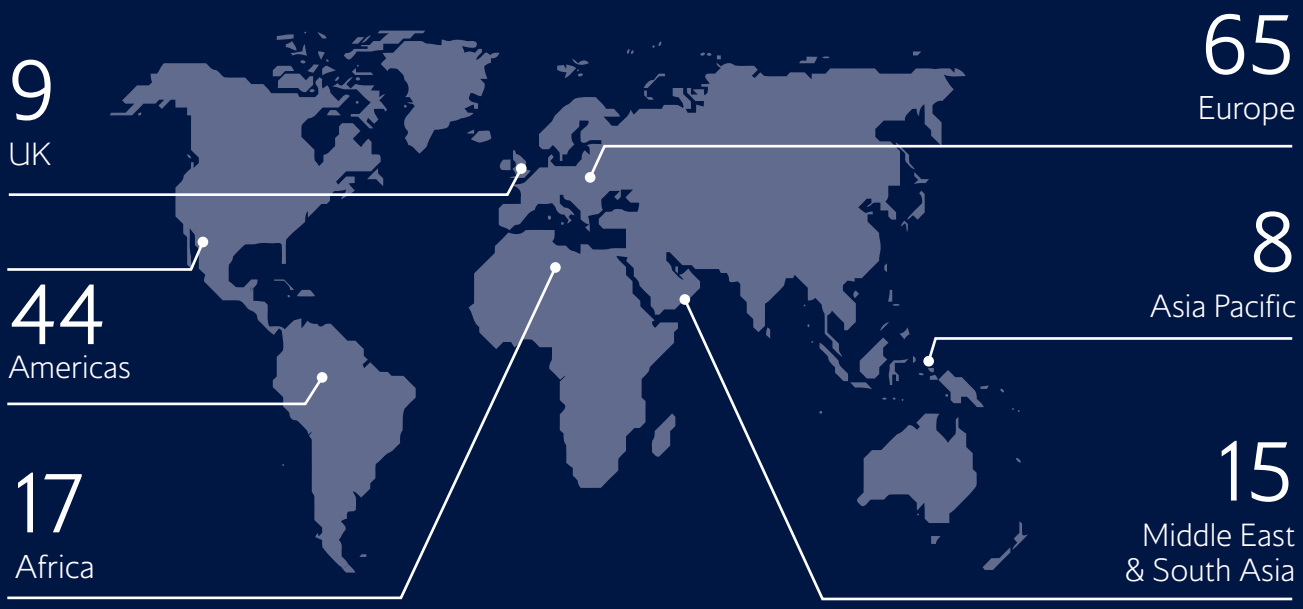
Where we fly

December 2010

British Airways: one of the world's leading global premium airlines

Principal Activities Statement

The main activities of British Airways Plc and its subsidiary undertakings are the operation of international and domestic scheduled air services for the carriage of passengers, freight and mail and the provision of ancillary services.



This is illustrative. Please see ba.com for a full list of where we fly to.

Who we are

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

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

We also operate a worldwide air cargo business, largely in conjunction with our scheduled passenger services. Operating one of the most extensive international scheduled airline route networks, together with our joint business agreement, codeshare and franchise partners, we fly to more than 400 destinations worldwide. In the nine months to December 2010, we carried over 24 million passengers.

We support the UK economy by providing vital arteries for trade and investment, meeting the demand for business travel and leisure travel for holidays and family reunions. In the nine months to December 2010, we earned £6.7 billion in revenue. Passenger traffic accounted for 87 per cent of this revenue, while 8 per cent came from cargo and 5 per cent from other activities. We carried 570 tonnes of cargo to destinations in Europe, the Americas and throughout the world. At the end of December 2010 we had 240 aircraft in service.

Contents

Directors' Report and Business Review

The Directors present their Report and Accounts for the period ended 31 December 2010, which includes the Business Review as per Section 417 of the Companies Act 2006 and DTR 4.1.8 of the Disclosure and Transparency Rules (DTRs) of the UK Listing Authority and the corporate governance statement as per DTR 7.2. The financial statements are set out on pages 55 to 111.

Our fleet

British Airways already operates a large and modern fleet, and we're continuing to invest in the most technologically advanced aircraft. In 2010 we took delivery of our first three new longhaul Boeing 777-300 aircraft. These are quieter and more fuel-efficient than their predecessors, as well as having much improved cabins throughout.

240 Aircraft

(Fleet in service at 31 December 2010)

50 Boeing 747s
49 Boeing 777s
21 Boeing 767s
19 Boeing 737s
4 Boeing 757s

40 Airbus A320s
33 Airbus A319s
11 Airbus A321s
2 Airbus A318s

11 Embraer – E-jets

Overview

Contents

Highlights and achievements

There was much to be proud of in 2010 – we're improving the way we run our business, forming strong alliances to secure our future, and supporting the businesses and local communities that we serve.

Joint Business Agreement

An extensive transatlantic network built around 433 destinations in 105 countries with 5,178 departures.

Our merger

A highly complementary network fit worldwide, combining British Airways' strong presence in North America, Asia Pacific and Africa with Iberia's leadership in Latin America.

ba.com

1,600 years – the total amount of time spent by customers on ba.com during 2010.

Training

Training 9,000 British Airways staff and 4,000 American Airlines / Iberia staff to support the new Joint Business Agreement.

Volunteer programme

To keep our programme flying during the cabin crew dispute, British Airways operated a company wide volunteer programme.

Mixed Fleet

During 2010 British Airways launched a new cabin crew 'Mixed Fleet' which significantly increased our new entrant training.

Community relations

Our Flying Start partnership with Comic Relief raised nearly £335,000.

Cargo

Cargo revenues for the nine months to December 2010 were £531 million.

Community

3,335 retired and current British Airways employees donated over £600,000 to their chosen charities through our Giving Scheme during the year.

Diversity

Diversity at British Airways is about inclusion of all our colleagues and ensuring that we utilise their different knowledge and perspectives.

London 2012

British Airways employees are gearing up for the London 2012 Olympic and Paralympic Games through British Airways' employee programme.

Engineering

Launched first Heathrow engineering apprentice scheme for 16 years. Over 100 engineering technical and support students started their apprenticeships in October.

Relief mission to Haiti

Supported relief mission to Haiti, preparing a Boeing 747 and joining colleagues to deliver 50 tonnes of aid for earthquake victims.

Environment

British Airways announces partnership with Solena to build Europe's first biomass to jet fuel plant.

New destinations

British Airways new destinations include London City to Ibiza, Palma, Copenhagen and Chambery. London Gatwick to Cancun and London Heathrow to Gothenburg.

Mobile apps

Since the relaunch of British Airways' mobile app, over 100,000 customers have used their device as a boarding pass.

Financial and operational highlights

Financially, we achieved an operating profit for the first time since 2007/08. Our performance would have been even better without the exceptionally severe weather and other disruptions.

Revenue £6,683m

Group revenue for the 9 months to December 2010 was £6,683 million, compared with £7,994 million in the year to 31 March 2010.

Profit before tax £157m

Group profit before tax for the 9 months to December 2010 was £157 million, compared with a loss before tax of £531 million in the year to 31 March 2010.

Operating profit £342m

Group operating profit for the 9 months to December 2010 was £342 million, compared with a loss of £231 million in the year to 31 March 2010.

Basic earnings per share 13.6p

Group earnings per share for the 9 months to December 2010 was 13.6 pence, compared with a loss per share of 38.5 pence in the year to 31 March 2010.

Ready to Go 55%

Network-wide Ready to Go performance for the 9 months to December 2010 was 55 per cent, compared with 59 per cent in the year to 31 March 2010.

Shortlanded baggage

Shortlanded baggage at Heathrow for the 9 months to December 2010 was 22.2 bags per 1,000 passengers, compared to 24.7 for the same period in the previous year.

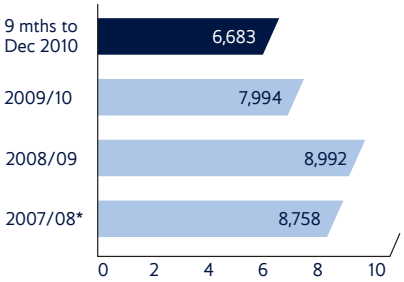
Geographical areas by area of original sale

2010 £ million

UK	44%
The Americas	22%
Continental Europe	15%
Africa, Middle East & Indian sub-continent	11%
Far East & Australia	8%

Total revenue

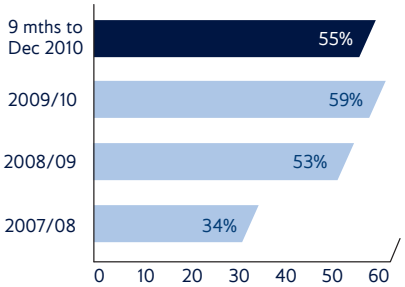
£ million



* Restated for the adoption of IFRIC 13 & 14

Ready to Go

Network punctuality %



Chairman's statement

2010 was the end of an era for British Airways. It was our final year as a separate, publicly quoted plc as on 24 January 2011 we merged with Iberia to create International Consolidated Airlines Group S. A. (IAG) and a powerful new force in the global aviation industry was born.

"We believe that the merger with Iberia and the creation of IAG will make us a stronger, more competitive airline that gives better service to customers. But in one important respect it changes nothing: the British Airways brand will continue. The new corporate structure will ensure that the distinctive British Airways and Iberia brand identities can flourish as part of a strong group that participates in the consolidation that is currently reshaping the airline industry."

The sky's the limit

Ours is an intensely competitive industry where margins are low and operations uniquely vulnerable to disruption – as we saw in 2010. It is only through partnerships such as IAG that British Airways and airlines like it can survive and prosper.

IAG is one of the world's top five airline groups, yet we believe it has great potential for further development. We have learned from other airlines' experience of consolidation, and taken great care to create a platform that is attractive to other airlines that share our outlook. This is why IAG is positioned as a holding company rather than a consumer brand – it allows the partners to share the benefits of scale while retaining their own distinctiveness and national identity.

In 2010 we put the finishing touches to another historic deal, our Joint Business Agreement (JBA) with American Airlines and Iberia, which we signed in September 2010. This was a tremendous achievement and the culmination of many years of patient work. We have high hopes for this partnership and we are confident it will drive improvements in market share and revenue on the important North Atlantic routes.

Taking on the challenges

More productive work was done in 2010 to drive down our cost base. We've taken some tough decisions and a new British Airways started to emerge during the year – a leaner, more focused airline that is in great shape to benefit from recovery in global markets. There have also been some setbacks. The cabin crew dispute dragged on into 2011, not because of any unwillingness by management to resolve the issues, but because the trade unions involved appear to be structurally incapable of agreeing amongst themselves.

Chairman's statement continued

"The unexpectedly robust recovery in premium travel during the second half of 2010 was a welcome boost."

Taking on the challenges continued

Oil price volatility continues to challenge us – in just three years we have seen fuel prices range between $40 and $147 per barrel. Although we have hedging arrangements in place, extreme fluctuations in the price of fuel make life more difficult for everyone, not least our customers.

We are concerned that UK airlines have been disadvantaged by the onerous increase in Air Passenger Duty (APD) which has doubled in the past two years and has pushed up the cost of travel substantially. APD costs British Airways' customers around £450 million annually – a family of four flying to the Caribbean now pays £300 in APD, more than double the previous amount. This is helping to drive business away from the UK and towards other European hubs where taxation is lower. At a time when the UK government wants to stimulate trade and tourism, APD is making it more expensive to travel to and from the UK. Fees for visitor visas to the UK are also significantly higher than in the rest of Europe and are a further drag on inbound tourism.

A positive outlook

The unexpectedly robust recovery in premium travel during the second half of 2010 was a welcome boost and enabled us to achieve an operating profit for the first time since 2007/08. Our performance would have been even better without the exceptionally severe weather and other disruptions.

We are cautiously confident that the recovery will continue through 2011. Although the US and European economies are likely to remain sluggish, we expect that rapid growth in the emerging economies of Asia and Latin America will help to stimulate international travel.

Under Willie Walsh's dynamic leadership, IAG will be well placed to capitalise on the opportunities that will present themselves as the expansion in global air travel resumes its momentum and consolidation continues. Willie has handed over as Chief Executive Officer (CEO) of British Airways to Keith Williams, previously our Chief Financial Officer, and I'm sure that Keith will build on the progress we have achieved in recent years.

During Willie's five years as CEO, British Airways has transformed itself. We've moved our operational centre to Terminal 5, created new strategic alliances, reduced costs and introduced better working practices. He leaves British Airways on a high note – thank you Willie.

After more than eight and five years respectively as Non-executive Directors, Maarten van den Bergh and Baroness Symons have retired from the Board from the Merger Effective Date. I would like to thank them for their dedicated service to the Company, and in particular for Maarten's services as Senior Independent Director.

Thanks also to Baroness Kingsmill and Jim Lawrence who also retired from the British Airways Board on the Merger Effective Date but continue to serve on the Board of IAG.

Finally, we would like to thank all of our customers for their continued support and loyalty during this difficult period.

Sir Martin Broughton
Chairman

Directors' report

Increased revenue

£6,683 million in the 9 months to 31 December 2010

Passenger revenue up

Increase of £474 million in the 9 months to 31 December 2010

In a year of many achievements, two in particular stand out – the signing of the Joint Business Agreement with American Airlines and Iberia and our merger with Iberia to become IAG. Both these strategic goals greatly enhance our ability to compete.

This has been an exciting, eventful and challenging period for British Airways. A recovery in our key market segment, premium travel, enabled us to record an operating profit after two difficult years of losses. We faced up to major operational challenges which disrupted our services.

Moreover, we achieved two hard won strategic goals that are redefining our future – the merger with Iberia and the North Atlantic JBA with American Airlines and Iberia.

Revenue during the nine month period to 31 December 2010 increased by 9 per cent to £6,683 million over the same nine months last year. Passenger revenue was up by £474 million and cargo revenue by £129 million, increases of 9 per cent and 32 per cent respectively.

We were rewarded for our well-judged decision to reduce capacity early in the economic downturn. This limited our losses as demand bottomed out, and enabled us to benefit from improved yields as demand picked up during 2010.

We also benefited from an upturn in our cargo business. The overall load factor for the period was 73.5 per cent, a decrease of 0.6 percentage points on the same period last year. Our programme to drive unnecessary costs out of the business, implemented with focus and determination during 2009 and 2010, further boosted our financial performance.

The Directors are pleased to report an operating profit of £342 million for the nine month period.

A profit of 13.6 pence is attributable to shareholders. The Board has decided not to recommend the payment of a dividend. However, we will award a bonus to all our employees, as a tribute to their dedication and commitment during a very difficult period.

"We were rewarded for our well-judged decision to reduce capacity early in the economic downturn."

Directors' report continued

"We were delighted when in November 2010 our shareholders gave their over-whelming support to the creation of IAG. This sealed the agreement with Iberia that had been two years in planning."

Investment to increase

To more than £1.5 billion over the next five years

Joint business' worth

$7 billion

Partnerships: our flight path to the future

We were delighted when in November 2010 our shareholders gave their overwhelming support to the creation of IAG. This sealed the agreement with Iberia that had been two years in planning.

The listing of British Airways Plc's equity securities ended on Friday 21 January 2011 and shares in IAG S. A. began trading the following Monday with a primary listing in London and a secondary listing in Spain. British Airways and Iberia will retain their own Boards of Directors and management boards, and will retain responsibility for their day-to-day operations. IAG will take charge of the overall direction, strategy and management of the combined business. Our results for this period do include £31 million of costs associated with the Merger.

The second of our strategic goals, the JBA with American Airlines and Iberia, was even longer in gestation than our merger with Iberia – it took no less than 14 years for us to gain approval from the competition and regulatory authorities.

Under the deal the two IAG partners, British Airways and Iberia, agreed with American Airlines to cooperate commercially on services between North America (including Mexico as well as the USA and Canada) and Europe (the EU, Switzerland and Norway). The benefits from the joint business are shared between the airlines irrespective of which one takes the booking. The deal significantly improves IAG's ability to serve its customers on transatlantic routes, and improves the position of the **one**world alliance, to which all three airlines are members. The other main global alliances have had regulatory approval to operate transatlantic joint businesses for several years, and **one**world is now able to compete with them on an equal footing.

The joint business' performance since it came into operation in October 2010 has been encouraging and we anticipate that this business will be worth a combined $7 billion in annual revenue and will account for 20 per cent of the Europe-USA market.

Enhanced customer focus

Consolidation gives us a once-only opportunity to deliver major improvements for all our customers. The merger with Iberia has greatly expanded our network – IAG has a fleet of 419 aircraft providing connections to 205 destinations, 59 of which are new for British Airways' customers. The British Airways and Iberia networks are an excellent fit – Iberia's powerful presence in Latin America complements British Airways' strengths in North America, Asia and Africa.

This larger network benefits customers, who will have greater choice at more competitive prices. Customers will be able to book flights and check in more conveniently, frequent flyer programmes will be enhanced, and more airport lounges will be available.

We recognise that investment is essential if we are to develop our position as a global leader in premium air travel. We have committed to a major capital investment programme, which will see expenditure rise steadily over the next five years, from nearly £600 million in 2010 to more than £1.5 billion in 2015.

Much of this expenditure will be focused on fleet renewal. The first three of the new longhaul Boeing 777-300 ERs arrived in 2010 and in 2012 we will have six in service. These are quieter and more fuel-efficient than their predecessors, as well as having much-improved cabins. We are also investing in improvements to our existing fleet, with upgrades to in-flight entertainment and our First cabins.

"We continued to reduce our cost base during 2010 by implementing measures to improve working practices and productivity."

Fuel costs up

By £56 million

Non-fuel costs

Up £59 million

Driving down costs

We continued to reduce our cost base during 2010 by implementing measures to improve working practices and productivity. It was essential that we took action: the severity of the economic downturn gave us little choice. Adverse trends in travel patterns, such as customers switching from premium to budget fares on shorthaul routes, have been another factor driving change.

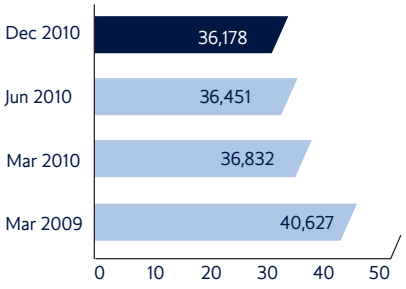
Our aim has been to take out inessential costs in ways that limit the impact on our service to customers. The effort involved has been substantial and could not have been achieved without great sacrifice and commitment from our staff, the great majority of whom accepted, if sometimes reluctantly, the necessity of the actions we were taking. Over the past two years we have reduced non-fuel costs by £241 million (excluding the effect of exchange £459 million), half of which is as a result of lower labour costs – since March 2009 our manpower (MPE) has fallen 4,449 to 36,178.

The work to reduce costs continues. We anticipate that the merger with Iberia will deliver substantial synergies. The target we have set is €400 million by year five.

We also made headway with the British Airways pension fund deficit, which stood at £3.7 billion in March 2009. We reached an agreement with the pension fund trustees, the unions and the Pensions Regulator on a recovery plan. Under the new arrangement, British Airways will contribute £330 million per annum plus inflation, increasing over time, which will have the effect of reducing the deficit. Pension scheme members can opt to receive lower future benefits and keep their current levels of contribution, or pay extra to maintain their existing pension benefits. There is a mechanism to help offset the impact of the contribution increases on lower paid employees.

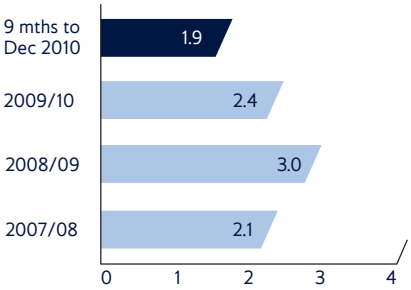
Group manpower
Period end MPE

(000's)



Total fuel

£ billion



Directors' report continued

The table below shows the operating costs for the nine months to 31 December 1010 on a like for like basis with the same period in the prior year.

Operating costs

£ million	2010	2009	Better/(worse)	2009/10
	9 months	9 months	%	12 months
Employee costs	1,547	1,523	(1.6)	1,998
Restructuring	6	62	nm	85
Depreciation, amortisation and impairment	570	544	(4.8)	732
Aircraft operating lease costs	51	52	1.9	69
Fuel and oil costs	1,869	1,813	(3.1)	2,372
Engineering and other aircraft costs	412	372	(10.8)	505
Landing fees and en route charges	464	467	0.6	608
Handling charges, catering and other operating costs	765	772	0.9	997
Selling costs	235	210	(11.9)	290
Currency differences	(1)	(3)	nm	(2)
Accommodation, ground equipment and IT costs	423	414	(2.2)	571
Total Group expenditure on operations	**6,341**	**6,226**	**(1.8)**	**8,225**
Total Group expenditure excluding fuel	**4,472**	**4,413**	**(1.3)**	**5,853**

Pensions financing expense

Pensions financing expense was £49 million for the nine months, compared to £116 million in the prior year. For the nine months to 31 December 2010, the interest costs of £684 million were offset by the expected return on assets of £694 million.

Earnings per share

13.6 pence

Taxation

The analysis and explanation of tax on the result for the year is set out in note 10 to the financial statements.

The total tax credit for the period was £13 million (March 2010: £106 million). The tax charge included a deferred tax movement of £36 million credit arising from a change in the corporation tax rate from 28 per cent to 27 per cent with effect from April 2011 as enacted by Finance Act (No 2) 2010, £62 million credit arising from timing differences on pension funding reporting under IFRIC 14 and there were adjustments relating to prior years giving rise to a charge of £12 million (March 2010: £9 million credit). Excluding these items the effective tax rate for the Group would have been 46 per cent.

The deferred tax balance at 31 December 2010 was £788 million (31 March 2010: £774 million). The year on year movement was primarily related to the tax effect of the utilisation of trading losses brought forward by British Airways offset by pension funding temporary differences and the change in the corporation tax rate from 28 per cent to 27 per cent effective from April 2011.

The Group also contributes tax revenues through payment of transaction and payroll related taxes. The total amount of such taxes paid during the nine month period was £560 million (March 2010: £636 million).

Earnings per share

A basic earnings per share of 13.6 pence (March 2010: loss 38.5 pence) is attributable to shareholders.

Other reserves

Other reserves at 31 December 2010, were £978 million, an increase of £286 million from March 2010. This increase is primarily driven by the profit for the year, our share of other movements in reserves of associates and net gains on cash flow hedges.

Dividend

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

Capital expenditure

£ million	9 months to Dec 2010	2009/10
Fleet – aircraft, spares, modifications and refurbishments (net of refund of progress payments)	545	518
Property and equipment	18	36
Landing rights and other intangible assets	35	13
Total	**598**	**567**

Total capital expenditure in the nine months to December 2010 amounted to £598 million. During the nine month period, we took delivery of three new Boeing 777-300 ER aircraft – with new cabins and in-flight entertainment throughout – three Airbus A320s and four Embraer E-jets.

Liquidity strong

£2.4 billion

New cabin crew savings

£65 million

Liquidity

Our liquidity position remains strong with nearly £2 billion of cash and equivalents at the end of the period. In addition, general purpose committed facilities of £211 million are available for immediate drawing and a further £230 million are available on the provision of substitute collateral to the pension scheme trustees. Aircraft purchase committed facilities of £1,406 million are sufficient to finance all contracted aircraft purchases until December 2012. Note 23 to the financial statements provides detailed analysis and explanation of our cash flow position. Our capital expenditure commitments are outlined in note 14 to the financial statements.

Financial risk management

We are exposed to a variety of financial risks, including market risk, credit risk, capital risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. This is covered in more detail in note 29 to the financial statements.

Going concern

Our business activities, performance, strategy and risks are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in this section, and further information is provided in notes 61 to 111 of the financial statements.

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

Directors' report continued

Environmental progress

All airlines have to meet a comprehensive range of local, national and international environmental regulations. Our approach to these is to comply with all regulations as an absolute minimum, and to exceed them in a number of key areas. For example, our target to halve our 2005 net CO_2 emissions by 2050 leads the industry in commitment to reducing our carbon emissions.

The work we are doing to reduce costs and waste is helping to improve our environmental performance, as is our investment in new, more fuel-efficient aircraft. For example, CO_2 emissions from our new Boeing 777-300 ERs are 15 per cent lower than our Boeing 747-400 aircraft.

We are proud of our environmental achievements and see ourselves as one of the industry leaders, delivering genuine emission reductions and setting stretching targets. In one key initiative, we are working in partnership with the Solena Group to create Europe's first sustainable biojet plant to convert waste materials into sustainable alternative fuels. For further details of our environmental programme, see our Corporate Responsibility Report 2009/2010 which can be downloaded from the Corporate Responsibility section of our website www.britishairways.com.

We believe that the aviation industry must act collectively to address emissions, and considerable progress was made during 2010 through industry bodies such the International Air Transport Association (IATA) and the International Civil Aviation Organisation (ICAO).

Dealing with disruption

2010 was a year of positives at British Airways, but there were also some frustrations. Our business was adversely affected by three major sources of disruption. Two of these were caused by external factors outside our control – the eruption of the Icelandic volcano Eyjafjallajökull in April and severe winter weather, both of which resulted in extensive flight cancellations. The third cause of disruption was industrial action by Unite Cabin Crew in May and early June.

Ash from the volcanic eruption resulted in the closure of airspace around Europe for more than five days. We believe that the regulatory authorities over-reacted. Volcanic ash can indeed present a risk to the safety of air transport, but we have long had thorough procedures in place that address this risk. In the event, not only did the authorities cause much unnecessary inconvenience to travellers, they left airlines to pick up a substantial bill in compensation to travellers for cancelled flights.

Heavy snow in late 2010 brought public transport in the UK to a near standstill. Our Heathrow operations team acted decisively, cancelling flights in a timely way to minimise inconvenience for customers. The resulting flight diversions and disrupted schedules created an immensely challenging situation for everyone.

We were disappointed that the drawn-out dispute with trade unions appeared to defy all attempts at resolution.

The new cabin crew working practices are essential – as well as bringing us in line with the rest of the industry, they are in the interest of our customers and have saved us around £65 million in costs in the first year of implementation. Many of our cabin crew staff accepted the necessity of the changes, and it is to their great credit that we were able to maintain most services while industrial action was in progress.

The estimated cost to our business of these three major sources of disruption is some £300 million in the reporting period.

Fit for the future

British Airways has emerged from the deepest recession since the 1930s in good shape, fit and ready for the challenges that lie ahead. The actions we have taken to reengineer our business and position ourselves for further industry consolidation are starting to pay off, and we are confident that British Airways has a great future as part of IAG.

Perhaps most impressive of all has been the talent, commitment and sheer hard work of so many of our staff. They pulled us through the recession and have demonstrated how much we are capable of achieving when we push ourselves. There is much more to come.

Approved by the Board and signed on its behalf by

Keith Williams
Chief Executive

"British Airways has emerged from the deepest recession since the 1930s in good shape, fit and ready for the challenges that lie ahead."

Our business

Contents

Our strategy and objectives

We first laid out our strategy to become the leading Global Premium Airline in 2008. Since then, despite the unprecedented market conditions we have faced, significant progress has been made towards our strategic goals.

Global

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

Premium

We will make sure all our customers enjoy a unique premium service at every point they come into contact with us. Our customers will recognise that we are worth paying that little bit more for.

Airline

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

We are now emerging from the downturn with an improved cost-base, strengthened partnerships, and with a series of product improvements rolling out across the fleet.

But our competitors haven't been idle either. Consolidation is accelerating, the make-up of the major alliances is repeatedly challenged, and product innovations and new aircraft are being deployed. Taking this together with an uncertain economic outlook, a high fuel price, and a rising burden of tax and regulation only serves to reinforce the importance of the strategy.

Progress towards our strategic goals

Securing the merger with Iberia has been a central plank of our strategy. The Iberia and British Airways networks are complementary, significantly extending our global reach. The deal also delivers improved financial stability and levels the playing field with our major European competitors.

Gaining Anti-Trust Immunity for the Joint Business with American Airlines and Iberia has similarly been a long-term strategic goal. It too offers significant benefits to our customers through greater access to discounted fares, more convenient connections, and a much broader range of destinations.

We have played an active role in strengthening **one**world, successfully managing Russia's S7 into the alliance in November 2010, and sponsoring Air Berlin and Kingfisher Airlines as members elect.

We have continued the roll-out of our restyled First cabin and begun the introduction of a new Inflight Entertainment System. We took delivery of our first three Boeing 777-300 ER aircraft, delivering a step-change in levels of customer satisfaction, and improved fuel efficiency and environmental performance.

Ancillary sales have been boosted by improved collection rates and the creation of new revenue streams from extra services such as the ability to upgrade cabin at the airport.

We delivered structural change in employee costs, and reduced manpower (MPE) by 16 per cent (6,696 MPE) between September 2008 and December 2010.

Our business plan

We have built our business plan to both advance our Global Premium Airline strategy, and to ensure British Airways fulfils its role within IAG.

Synergies

In gaining approval for the merger, IAG have committed to their shareholders to deliver €400 million per annum in synergies across the combined business within five years. The total figure is made up of both revenue synergies (from the opportunity of combining the British Airways and Iberia networks for both passenger and cargo sales) and cost synergies (from integrating resources and services, leveraging the combined scale, and sharing best practices). Central to the business plan is the effort to adapt British Airways in order to realise these synergies.

Deliver outstanding customer service and continue to invest in our products

Our customer-facing staff have long been passionate about delivering outstanding customer service. We are building on this through a revolution in the way we lead, train and reward. We are also making significant investments in the tools we provide our front-line teams, and are taking opportunities wherever possible to simplify processes.

Our product investment programme continues with significant refits to our Boeing 767 and Boeing 777-200 fleets and an on-going lounge refurbishment programme.

Grow revenue with our airline partners

We will work with both Air Berlin and Kingfisher Airlines to support their introduction to **one**world. Where appropriate we will seek to deepen partnerships through the extension of codeshare relationships and the development of joint businesses.

Secure the right assets and infrastructure

We will prepare the airline for the arrival of our new Boeing 787 and Airbus A380 aircraft, involving development of the airport infrastructure, provision of enhanced IT, and a significant programme of training. We will work closely with BAA on the development of Heathrow, and with Global Infrastructure Partners (GIP) on the development of Gatwick.

Achieve a cost base that enables us to compete and grow

Despite achieving structural change in our cost-base, we face significant cost pressures over the life of the plan, with a projected rise in fuel costs, above-inflation increases in many airport and over-flight charges, as well as inflationary pressures on wages and supplier costs. We will work with our employees and suppliers to manage costs wherever possible.

Create the culture and capabilities to succeed

All elements of the plan rely on engaged, motivated people. A comprehensive People Strategy has been developed that will transform the way people are led, developed, rewarded and engaged. We will continue to develop the leadership skills of our management population and our front-line leaders, and improve performance management. We will look to build on positive industrial relations in a number of areas of the business through direct engagement with colleagues.

Set the standard for responsible aviation

British Airways has led the industry in adopting a responsible approach through our award winning One Destination Programme. This brings together all of our work on the Environment, Community, Diversity and Inclusion. This important work is not only an imperative for the environment but is also an increasingly important consideration for our customers.

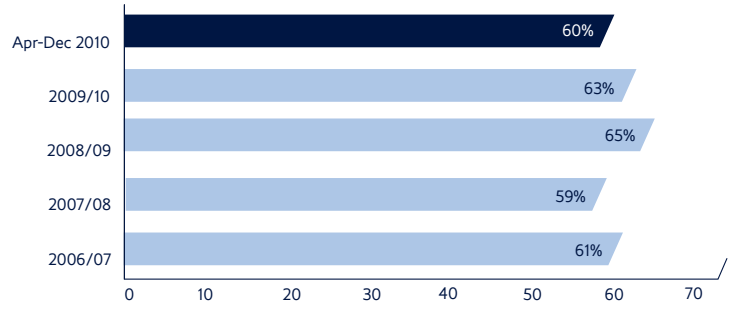
Our approach is threefold: reducing carbon emissions; campaigning for a single, appropriate and competitively non-distorting regulatory regime; and minimising local community impacts from air quality and noise.

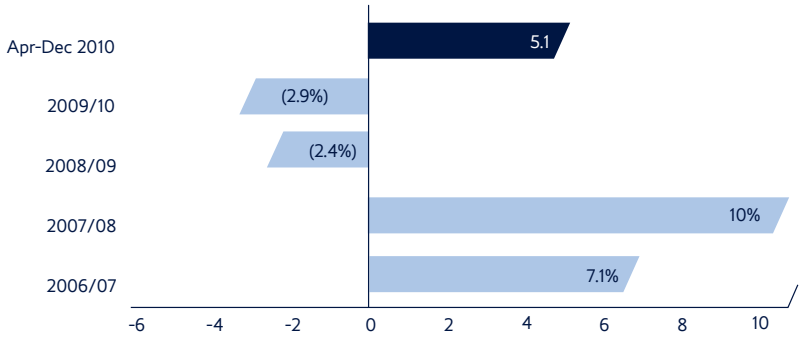
"Our customer-facing staff have long been passionate about delivering outstanding customer service."

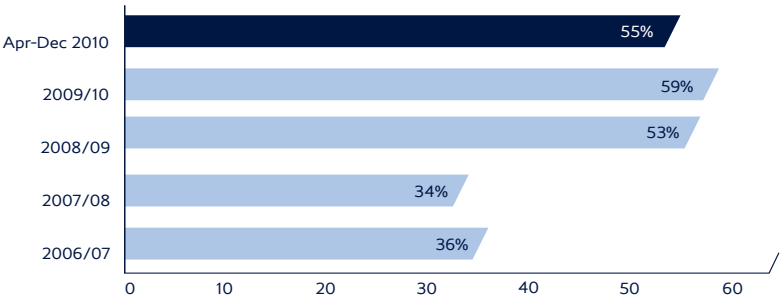
Key Performance Indicators

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

Measure	Progress
Customer recommendation The percentage of customers who were very, or extremely, likely to recommend British Airways to friends, family or colleagues.	We monitor our customers' views through our Think Customer survey. This is independent market research involving more than 36,000 customers each month. Our headline measure is customer recommendation. Apart from being extremely important in its own right, we believe that this measure indicates how the customer experience will affect future profitability. We also track customer views on our performance relative to our competitors, as well as general airline customers' opinions of our brand. These views help us steer our product investment decisions. For April to December 2010 we set a target level of customer recommendation of 64 per cent. However, levels of satisfaction were significantly impacted by the extended periods of disruption (see below), and our customer recommendation score moved down to 60 per cent. Underneath the headline score there is some evidence that the investments we are making are improving satisfaction. In particular, there has been a strong customer response to our new First Class product, and to our flagship products on the new Boeing 777-300 ERs.
Operating margin The headline measure of our financial performance.	We must achieve a consistently strong financial performance if we are to continue investing in the future success of the business and provide adequate shareholder returns. For 2010/11, we set ourselves a target operating result of £150 million, this equated to £160 million for the nine months to 31 December 2010. Our operating profit was £342 million for the nine months compared to a loss of £231 million for the 12 months to 31 March 2010. This significant improvement reflects the increase in revenue combined with the permanent structural changes we made to our cost base over the past two years.
Network punctuality The percentage of our flights that are 'Ready to Go' — prepared for departure at three minutes before the scheduled or planned departure time.	Running a robust operation is key to both meeting our customers' expectations, and to delivering a cost-effective business. We monitor our operational performance via a broad range of measures at a variety of levels. Departure punctuality is our primary measure, as high performance here requires other operational processes to run smoothly, and also because it is a key driver of customer satisfaction. Our headline measure of punctuality is 'Ready to Go', which focuses on the aspects of the departure process within our control. For April to December 2010 we targeted a score of 56 per cent. We faced significant periods of disruption due to the volcanic ash threat, industrial action by Unite, an ongoing series of European Air Traffic Control industrial disputes, and the severe weather at Gatwick and Heathrow. This brought down our performance from last year's record to 55 per cent.
Other measures Progressive, high-performing organisations are increasingly recognising that engaged employees are more committed to organisational goals and values, and more willing to embrace change and improve customer service.	We track opinions via an all-employee confidential 'Speak Up!' survey, conducted and hosted by the independent research organisation Ipsos MORI. This includes a Colleague Engagement Index, which summarises a basket of more detailed measures. We have also built employee responses into the way we measure and manage individual performance. We have set challenging goals for our One Destination environmental programme which include increases in the proportion of waste we recycle, an improvement in building energy efficiency, as well as a 25 per cent reduction (from 2005 levels) in carbon emissions per Revenue Passenger Kilometre by 2025.







"We monitor our operational performance via a broad range of measures at a variety of levels. Departure punctuality is our primary measure, as high performance here requires other operational processes to run smoothly, and also because it is a key driver of customer satisfaction."

Principal risks and uncertainties

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

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

The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible. You can find a more detailed summary of our internal control and risk management processes on pages 36 to 37.

Brand reputation

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

The Management Team regularly monitors customer satisfaction through the global monthly Think Customer Survey alongside ongoing research and development of the British Airways product to mitigate this risk.

Competition

The markets in which we operate are highly competitive. We face direct competition from other airlines on our routes, as well as from indirect flights, charter services and from other modes of transport. Some competitors have cost structures that are lower than ours or have other competitive advantages such as being supported by government intervention or benefitting from insolvency protection.

Fare discounting by competitors has historically had a negative effect on our results because we are generally required to respond to competitors' fares to maintain passenger traffic.

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

Consolidation/deregulation

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

The merger with Iberia and the Joint Business Agreement with American Airlines and Iberia for transatlantic routes includes delivery risks such as realising planned revenue and cost synergies. The delivery of synergies is inherently subject to industrial relations, revenue leakage and programme management risks. The Management Team have a robust integration and Joint Business Agreement programme which addresses these risks.

Some of the markets in which we operate remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for us, may have a negative impact on our margins.

Debt funding

We carry substantial debt that will need to be repaid or refinanced. Our ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions. Although most of our future capital commitments are currently asset related and already financed, there can be no assurance that aircraft will continue to provide attractive security for lenders in the future.

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

Economic conditions

Our revenue is highly sensitive to economic conditions in the markets in which we operate. Deterioration in either the domestic and/or global economy may have a material impact on our financial position.

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

Employee relations

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

Event causing long-term network disruption

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

Failure of a critical IT system

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

Fuel price and currency fluctuation

We use approximately 5.5 million tonnes of jet fuel per annum. Volatility in the price of oil and petroleum products can have a material impact on our operating results. This price risk is partially hedged through the purchase of oil and petroleum derivatives in forward markets which can generate a profit or a loss.

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and selling the surplus or buying the shortfall of its currency obligations.

The Group is exposed to non-performance to financial contracts by counterparties, for activities such as fuel and currency hedging. Failure of counterparties may result in financial losses.

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

Fuel supply

The Heathrow jet fuel supply is critical to the operation. Bio-fuel and jet fuel use the same delivery infrastructure and with increased use of bio-fuel, the risk of contamination is increased. Any contamination of the fuel supply will have a significant operational impact. The fuel supply is not released to Heathrow until significant testing is completed.

Government intervention

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

Plans by governments to significantly increase environmental taxes such as the introduction of a 'per-plane' tax, the European Union Emissions Trading scheme and the potential for other environmental taxes may have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit our competitors by reducing the relative cost of doing business from their hubs.

Heathrow operational constraints

Heathrow has no spare runway capacity and operates on the same two main runways since it opened over 60 years ago. As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate this. The expansion of the airport would create extra capacity and reduce delays, enabling Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt.

Key supplier risk

We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations may cause significant disruption to our operation. We describe the supplier risk in more detail on page 30.

Pandemic

If there is a significant outbreak of swine flu or other infectious disease, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. During the recent outbreak of swine flu we implemented our pandemic business continuity plan.

Safety/security incident

The safety and security of our customers and employees are fundamental values for us. Failure to prevent or respond effectively to a major safety or security incident may adversely impact our operations and financial performance. Our Operations Control Incident Centre responds in a structured way, in the event of an incident.

Business review

The economic landscape

Following its emergence from the recession, the UK economy lost momentum in the second half of 2010. High inflation due to surging commodity prices, the recent rise in VAT, planned public spending cuts and reduced household spending power are expected to continue to suppress growth prospects. Consequently the outlook for 2011 is for modest growth, with estimates as low as 1.5 per cent of GDP. The private sector is then anticipated to drive a modest strengthening of the economy from 2012, with growth forecast to exceed 2.5 per cent.

The economic fundamentals in the USA point to continued moderate growth, but house prices and rising unemployment pose risks. The US faces an extended period of house-price weakness, with its associated wealth effects on consumer spending. Meanwhile the private sector is unlikely to grow employment fast enough to replace the loss of public sector jobs. On the positive side, there are signs of a pick-up in corporate investment and Mergers and Acquisitions (M&A) activity. Economic growth in 2011 is expected to match that estimated for 2010 (at 2.6 per cent). Growth should then strengthen by one-percentage point or so in 2012 as business investment picks up, and this level of growth should be sustainable into 2013 and beyond.

Eurozone growth in 2011 is likely to be slightly weaker than the 1.5 per cent predicted for 2010, and is expected to make only slow progress to reach 2.0 per cent by 2013.

It is anticipated that there will be a greater polarisation of economic activity across the Eurozone states; whilst Germany was expected to have grown by 3.6 per cent in 2010, other countries with marginal economies were likely to have contracted, with the prospect of only weak future growth. These countries are also likely to suffer from a further tightening of fiscal policy, which may become necessary to allay persistent market nervousness about sovereign debt.

Strong demand from China and India will keep the emerging economies at the forefront of global economic growth, although the more externally focused emerging countries may find themselves vulnerable to developments in the Organisation for Economic Co-operation and Development (OECD) economies, particularly the USA. There are also persistent concerns around the effects of inflation and asset bubbles leading to a correction in Chinese growth in 2011 with associated adverse effects on global trade.

Impact on our industry

Global premium air travel demand in key markets

	Premium demand	
	2010	**2009**
North Atlantic	5.2%	(12.2%)
Within Europe	3.0%	(25.1%)
Within Far East	21.1%	(19.8%)
Europe – Far East	12.2%	(15.6%)
Europe – Middle East	10.7%	(5.9%)
Total Market	9.1%	(15.8%)

Source: IATA

Competitor outlook

Increased competition

The airline industry remains fragmented and polarised between markets where free market principles are liberally applied, such as Europe, and a diminishing number of markets where heavy regulation and government intervention is still a feature. In 2010 we saw greater steps towards the creation of global airlines through increased merger activity and deeper levels of cooperation across the major alliance partnerships.

Middle East carriers continue to develop their businesses at an unprecedented pace. These carriers are aggressively developing truly global airline brands through high profile sponsorships and advertising and capturing ever increasing shares of longhaul passenger flows as their networks extend their geographic reach.

Consolidation

Consolidation and deeper cooperation within alliances continues to be a feature of the global airline industry. In Europe, we have completed our merger with Iberia creating IAG. In the US, United Airlines and Continental Airlines completed their merger to create the world's largest airline. In August 2010 LAN and TAM announced plans to merge and create South America's largest carrier.

2010 was a significant year in the development of the **one**world alliance. In October 2010 British Airways, launched the JBA a new venture with American Airlines and Iberia covering flights between Europe and North America. The JBA commencement follows approval from EU and US Department of Transportation for anti trust immunity similar to that enjoyed by rivals SkyTeam and Star Alliance.

In February 2010 JAL reaffirmed its commitment to the **one**world alliance. American Airlines and JAL received anti trust immunity for a transpacific alliance. This will compete directly with the ANA, United Continental tie up which commences cooperation on 1 April 2011.

oneworld welcomed a number of new airlines into the alliance and in so doing strengthened its presence in the key Europe and South Asian markets. Indian based airline Kingfisher Airlines accepted an invitation to join in February 2010 followed by Air Berlin announcing their proposed membership in July 2010.

Star Alliance and SkyTeam both continue to expand their membership bases, particularly in Asia and South America. SkyTeam will add three new Asian carriers, adding China Airlines, China Eastern, and Indonesia's Garuda. Meanwhile Star Alliance will add its sixth Asian member (Air India).

Both Star Alliance and SkyTeam have already announced steps to strengthen their coverage of Latin America, with SkyTeam recruiting its first South American carrier (Aerolíneas Argentinas) and Star Alliance announcing two new carriers in South America (Avianca-TACA and Copa).

Shorthaul

Low cost carrier expansion from London has slowed in recent years as EasyJet and Ryanair focused their growth on Continental Europe. Indeed Ryanair reduced its London capacity by 7.5 per cent in 2010. Following ASK growth of just 1.5 per cent in 2010, shorthaul competitor capacity is estimated to grow at a similar rate in 2011, before increasing to around 2 per cent for 2012 and 2013.

European low cost carriers are increasingly looking to attract higher yielding passengers by improving their proposition. Low cost carriers now offer flexible tickets, are increasing distribution through Global Distribution Systems (GDS) and using primary airports. We are also seeing expansion of low cost services into mid haul markets which were previously the domain of full service carriers such as London to the Middle East (Tel Aviv, Sharm El Sheikh).

Longhaul

More of British Airways' competitors will take delivery of Airbus A380s during the next five years. Given the importance of the London market and the capacity constraints across the City's airports, it is likely that non-European competitors will choose to deploy their Airbus A380s on the London route.

It is assumed that London-North Atlantic seat capacity will return to pre-downturn levels during the next five years with growth forecast at nearly eight per cent in 2011, slowing to four per cent in 2012, before picking up again to eight per cent in 2013.

The product advantage British Airways has traditionally enjoyed relative to its US competitors is under threat of erosion. US carriers are investing in product enhancements on the ground and in the air, as illustrated by Delta's $1 billion product investment programme launched in 2010.

London longhaul competitor capacity for the rest of the world is forecast to grow by just over three per cent in 2011, before picking up to seven per cent in 2012, and then softening to around six per cent in 2013. This growth will be driven by the continued expansion of Middle Eastern carriers (with 300 aircraft on order), increasing capacity not only on Gulf routes but also on routes to Asia and Australia.

The arrival of this wave of new generation aircraft is accompanied by significant enhancements in onboard products, particularly in the premium cabins.

Business review continued

Regulatory controls

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

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

EU/US second stage talks

The EU and US signed the second phase EU open skies agreement in Brussels in June 2010. Disappointingly, no progress was made on any immediate lifting of ownership and control restrictions (O&C) by the US. Instead, both sides have committed to continued negotiations aimed at removing market access barriers in the future. Some progress was made on 'Fly America', with the US agreeing to give EU carriers access to US government 'contractor' traffic, excluding defence/military traffic.

UK airports

2011 will see the commencement of consultation between the CAA, BAA and airlines to inform the setting of price controls applied for passenger charges at Heathrow and Gatwick for the next quinquennium (2013 – 2018). British Airways continues to contribute actively to the consultations and has fed back a number of recommendations as to how the process for the upcoming quinquennial review can be improved. British Airways is of the firm view that the process needs to support the principle of aligning charges at regulated airports to commercial rates akin to those in a competitive market place.

In October 2010 the court of appeal upheld the competition commissions requirement for BAA to dispose of its ownership of Stansted airport. Assuming this decision is not subject to further legal challenge, the disposal will need to conclude by 2012.

Capacity constraints at Heathrow mean it has fallen behind competing European airports in recent years, threatening its position as one of the world's leading airports. During the year, the Conservative Liberal Democrat Coalition Government confirmed that it will not support a planning application for a third Heathrow runway and has also ruled out approval of new runways at Gatwick and Stansted.

Safety and security

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

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

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

Cargo revenue

In 2010 World Cargo returned to its strategy for profitable growth. We continued to build on the previous success of our product range with a particular focus on Constant Climate – our temperature-sensitive solution for our healthcare, life science and pharmaceutical industry customers. For the second year running this doubled in turnover.

For the nine months to December 2010, cargo revenues improved by £129 million or 32 per cent compared to the same period in 2009. This was driven by a 1 per cent increase in volume, measured in cargo tonne kilometres (CTKs), and a 31 per cent improvement in yield due to market strengthening, higher fuel surcharge levels and improved premium mix. In response to this success, and the overall growth in demand for our premium products, we extended our specialist handling centre at London Heathrow – Premia. This now provides a further 25 per cent loose storage capacity.

World Cargo re-affirmed its strategic commitment by signing a long term contract to lease three Boeing 747-8 freighters. The new aircraft are expected during 2011 and will be 17 per cent more carbon efficient per tonne of cargo than the Boeing 747-400s they replace.

Cargo revenues

£129 million

New Boeing 747-8 freighters

17% more carbon efficient

Emissions reduction

50% by 2050

Carbon neutral growth

From 2020

Sustainable biofuel

From 2014

"We believe the most effective way for the airline industry to play its part in the global reduction in carbon emissions is through the inclusion in a global sectoral approach with emissions reductions targets of carbon neutral growth from 2020 and a 50 per cent reduction in net emissions by 2050."

Environment

All airlines have to meet a comprehensive range of local, national and international environmental regulations. Our approach to these is to comply with all regulations as an absolute minimum, and to exceed them in a number of key areas. For example, our target to halve our 2005 net CO_2 emissions by 2050 leads the industry in commitment to reducing our carbon emissions.

A key component of our award winning One Destination programme is our work on the environment.

We recognise that by providing air transport services we have an impact on the environment. As part of our mission to lead the airline industry in responsible behaviour we are fully commited to reducing our environmental footprint, including playing our full part in reducing global greenhouse gas emissions.

Climate change

We believe the most effective way for the airline industry to play its part in the global reduction in carbon emissions is through the inclusion in a global sectoral approach with emissions reductions targets of carbon neutral growth from 2020 and a 50 per cent reduction in net emissions by 2050.

As part of this work to develop climate change regulation for aviation, at the ICAO General Assembly in October 2010 a resolution was adopted which makes progress toward a framework for a sectoral approach for reducing emissions. During 2010 the United Nations Framework Convention on Climate Change (UNFCCC), has endorsed the role of ICAO in developing the regulatory framework for aviation. During 2011 we will continue to develop proposals and advocate their adoption through the ICAO and the UNFCCC processes and these will include a comprehensive policy for reducing aviation's emissions based on carbon trading while ensuring we minimise any competitive distortion.

The EU Emissions Trading System (EU ETS) is due to commence from 1 January 2012. We have implemented data systems in readiness to comply with the requirements of the system. While overall we support the scheme we continue to call on policymakers to address the market distortions that will result from the EU ETS.

Sustainable biofuels will play an important role in reducing aviation's carbon footprint and we are working on a number of projects to help accelerate their implementation into the airline industry. We have established a partnership with the technology company Solena to build Europe's first biomass to liquid plant to supply us with sustainable biofuel from 2014. In addition we have partnered with Rolls-Royce to test the performance of different biofuels and assess their sustainability credentials.

Noise and air quality

We continue to reduce the noise and air quality impacts of our business through our fleet modernisation and operational improvements programmes. Specific initiatives include targeted reduction of our aircraft Auxiliary Power Unit (APU) usage and enhancements to our ground vehicles environmental performance. We actively support several research and development programmes to further understand and improve aircraft noise and emissions performance including at international level through the ICAO Committee on Aviation Environmental Protection (CAEP).

As shown in the table on the following page, the average noise per flight is not currently on track due to the delivery delays in the Airbus A380 and Boeing 787's into our fleet. We are still showing a year-on-year reduction in average noise per flight but by 2015 the reduction is not estimated to reach the full 15 per cent we originally set as our target.

Business review continued

Waste and recycling

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

We will soon achieve our target of recycling 50 per cent at our main bases of Heathrow and Gatwick. This is being delivered through the provision of improved facilities for segregation and the removal of desk bins in our offices. We have now set a new target to recycle 60 per cent by 2015 at our main bases of Heathrow and Gatwick.

We are also very close to achieving our target to send zero waste to landfill from the waste streams that we manage at Heathrow and Gatwick. We have progressively increased the amount of non-recyclable waste that we process through a local waste to energy plant. Approximately 5 per cent of our remaining waste still goes to landfill. We continue to look for alternative means of disposal for this residual waste.

Carbon offsetting

During 2010 we made a number of improvements to our Government accredited offsetting scheme. Passengers can now pay for offsets according to the cabin of travel. In addition, members of our Executive Club who book tickets using redemption miles from the BA Miles scheme are able to offset the emissions from their flights.

The Corporate Responsibility Report will be available on line at www.iairgroup.com from Summer 2011.

Summary of environmental data and targets

	Target	2010	2009*	2008*	2007
Carbon efficiency gCO_2/pkm**	83 by 2025	NA	106	107	110
CO_2 emissions (million tonnes)		NA	16.67	17.60	17.70
Average noise per flight	15% reduction by 2015	Not on track	On track***	On track***	On track***
% Recycling (LHR and LGW)	50% by end of 2010	45.0	39.0	35.1	30.1
Waste to landfill (tonnes LHR and LGW)	Zero to landfill by end of 2010	319	2,187	3,424	3,688

* Calendar years.
** With effect from 2008 traffic statistics now include data related to customers who have flown on "frequent fliers" mileage redemption tickets. This change brings the Group into line with the industry standards and also into line with all major scheduled carriers.
*** Our fleet replacement programme is on track to deliver this target.

London 2012 Olympic and Paralympic Games

The British Airways Great Britons Programme offers a chance for the best of British creative talent to win a truly career defining opportunity.

British Airways is proud to be the official airline partner of the London 2012 Olympic and Paralympic Games. We are helping to develop British talent in the run up to, and beyond, London 2012 through a number of initiatives such as BA Great Britons Programme and the World Class Performance Programme. In February 2009 British Airways launched the BA Great Britons Programme in celebration of the London 2012 Olympic and Paralympic Games and our commitment to supporting British talent in its many different forms. You can read about our previous winners at www.ba.com/greatbritons

The BA Great Britons Programme will be re-launching in May 2011 to reflect the next step in British Airways' journey towards London 2012. We want to partner aspiring chefs, script writers and artists with celebrities in their fields to help them make the most of their abilities.

Long after the Olympic and Paralympic Games have left London, the BA Great Britons Programme will continue to offer flights to people with ideas and passion that would benefit from our help.

Please get in touch with us if you think you might qualify, and if it's something that could help improve British service, know-how or sense of style, then so much the better. We are also supporting British athletes through the World Class Performance Programme with UK Sport. We are providing flights to help competitors, their training staff, management and families on their journeys to London 2012.

British Airways employees are also gearing up for the London 2012 Games through British Airways' employee programme, which offers a variety of ways for staff to get involved.

Community investment

At present we work with 75 community and conservation organisations worldwide. We also have an extensive education programme for children and young people at our Community Learning Centre at Heathrow, which has welcomed over 63,376 learners since it opened in 1999.

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

This year we were delighted to announce our new global charity partnership with Comic Relief. We believe this partnership will strengthen our long tradition of raising money to support disadvantaged people in acute need, both at home in the UK and across the world's poorest countries.

Comic Relief

£335,000

Measuring our community investment

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

Our Flying Start partnership with Comic Relief raised £335,000 in the six months to 31 December 2010.

Some 3,335 retired and current employees donated over £600,000 directly from their payroll to their chosen charities through our Giving Scheme during the year.

BitC reported our total direct and in-kind donations for the year to March 2010 at £5 million. Of these, direct charitable donations amounted to £190,000. Information for the nine months to December 2010 is not yet available.

The Workplace

Face-to-face communication continues to be important; we run regular briefings across the Company so that as many people as possible can meet, question and share ideas with senior and line managers. Live online forums have also played their part in encouraging wider dialogue and understanding. Other communication channels include a personalised intranet, mobile SMS messaging, video and a range of Company-wide and local newsletters.

We continue to invest in finding new and improved ways to engage with our colleagues. In the reporting period we introduced our weekly on-line news magazine and monthly publication which has attracted an industry award – Association of Publishing Agencies: The Award for Best Internal Communication. More importantly, both of these have received very high approval ratings from our colleagues.

Reward

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

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

Diversity

Diversity at British Airways is about inclusion of all our colleagues and ensuring that we utilise their different knowledge and perspectives to maximise opportunities for innovation and flexible thinking. It is also about anticipating and meeting the needs of all our customers to help gain competitive advantage for our business.

We have five active colleague network groups who support the diversity strategy and work with local areas to provide information and advice on a wide range of topics. The areas covered are gender, faith, disability, ethnic background and sexual orientation and colleagues of British Airways get involved in issues such as advising on uniform standards from a faith perspective, design of new products to ensure they meet the needs of disabled customers and advising on cultural differences relating to new routes such as Saudi Arabia.

Dignity at work remains a key priority as we work towards a more inclusive culture. We have focused on informal conflict resolution to support colleagues by introducing more trained Harassment Advisors across the business. They can offer practical advice and guidance and face-to-face discussion, avoiding more formal processes. Mediation has also been introduced and a small number of trained colleagues can now support conflict resolution.

Business review continued

"We maintain an important focus on disability as part of our commitment to corporate responsibility."

Diversity continued

As a responsible company, we take disability very seriously. We welcome applications from people with disabilities as we aim to employ the most talented people and we support individuals with disabilities in reaching their full potential by making reasonable adjustments for them in the workplace.

All front line employees are trained in disability awareness to increase their knowledge about disabled customers and employees.

We maintain an important focus on disability as part of our commitment to corporate responsibility. During 2010 we held our first ever Disabled Customer Forum. We invited some of our regular disabled customers and also some Paralympic athletes to come in and share their issues and identify possible solutions. This is part of an ongoing process to ensure that we make continuous improvements to the journey for disabled customers prior to 2012 when London will host the Paralympic and Olympic Games.

Overseas branches

We fly to a number of destinations around the world (see Page 2). In addition to the overseas branches we have established in many of these countries, we have branches in countries to which we do not fly.

Suppliers

We procure goods and services through a strategic sourcing process to ensure that we identify the right suppliers and to put in place competitive supply contracts, and we seek to build effective relationships to ensure that we continue to receive maximum value from our supplier base through the duration of the agreement.

Top 500 suppliers

94% of total annual external spend

Top 500 suppliers

Our top 500 suppliers represent some 94 per cent of our total annual external spend, and we have continued to review the structure of our commercial deals and the specification of goods and services being bought, resulting in considerable savings over the year. We will continue this process in the year ahead.

Merger synergies

Joint procurement with Iberia is expected to deliver considerable savings and we have been developing detailed plans to enable this to happen during the past year. The joint procurement synergies are expected to be delivered over a five year period.

Supplier risk

We have overhauled our supplier risk assessment and monitoring process using external company data and analytics, and now have a robust and objective mechanism in place.

Payment performance

90% paid within mutually agreed terms

Payment performance

We continue to maintain supplier payment performance around our target of 90 per cent of suppliers paid in accordance with mutually agreed terms. The number of days' purchases in creditors at 31 December 2010 is calculated in accordance with the provisions of the Companies Act 2006 and was 36 days (March 2010: 33 days).

Corporate responsibility in the supplier base

"Obtaining best value from our supplier base is critical to our overall success, in both a financial and an operational sense."

We have continued to work on our 'Responsible Procurement' strategy, which has three strands. We are working with our suppliers to reduce overall emissions, most prominently in investigating options for using biofuel in our aircraft. We are commited to sourcing ethical suppliers and have defined what this means to us and begun to assess the performance of our existing supplier base. Finally we behave responsibly towards our suppliers through using a fair and transparent procurement process and paying our suppliers on time.

Corporate governance

Contents

Board of Directors

The names and details of the Directors are set out below. They all served during the reporting period from 1 April 2010 to 31 December 2010 and continued to serve until the Merger Effective Date (21 January 2011). Some of the Directors have continued to serve beyond the Merger Effective Date.

Chairman

Sir Martin Broughton — Board member since May 2000 becoming Chairman in July 2004. At the time of his appointment as Chairman, Martin met the independence criteria set out in paragraph A.3.1 of the Combined Code on Corporate Governance (June 2008). Chairman of the Nominations Committee. Martin was Chairman of Liverpool Football Club and Athletic Grounds Limited until the end of November 2010. He is also Chairman of Sports Investment Partners. Martin was appointed as Deputy Chairman of International Consolidated Airlines Group S.A. (IAG) on 29 June 2010.

Chief Executive

Willie Walsh — Executive Board member since May 2005, becoming Chief Executive in October 2005. Formerly Chief Executive of Aer Lingus, he is an honorary board member of Flight Safety International. Willie is also President of the London Chamber of Commerce and Industry, a member of the IATA Board of Governors and a member of the Council of The Air League. He was President of the Association of European Airlines (AEA) for 2010. He was also appointed as Chief Executive Officer of IAG on 29 June 2010 and moved to his new role on the Merger Effective Date.

Chief Financial Officer

Keith Williams — Executive Board member since January 2006. Having joined the airline in 1998 as Head of Taxation and being additionally appointed Group Treasurer in 2000, Keith was appointed Chief Financial Officer in January 2006. He is a Non-executive Director of Transport for London. He was appointed Non-executive Director of Iberia Líneas Aéreas de España S.A. (Iberia) until 26th January 2011 when he became a Non-executive Director of Iberia Líneas Aéreas de España Sociedad Anómina Operadora (Iberia OpCo). Keith is a chartered accountant. Keith was also appointed as a Director of IAG on 27 September 2010. He became Chief Executive Officer of British Airways Plc from the Merger Effective Date.

Non-executive Directors

Maarten van den Bergh — Independent Non-executive Director since July 2002, Senior Independent Director since July 2004. Audit, Nominations and Remuneration Committees until the Merger Effective Date.

Baroness Kingsmill — Independent Non-executive Director since November 2004. Audit, Nominations and Safety Review Committees until the Merger Effective Date. A former Deputy Chairman of the Competition Commission, she chaired the Department of Trade and Industry's Accounting for People task force. She is a current member of the Microsoft European Advisory Council, member of PricewaterhouseCoopers Advisory Board, Non-executive Director of Horizon plc and Korn/Ferry International. Baroness Kingsmill was appointed as a Non-executive Director of IAG on 27 September 2010

Jim Lawrence — Independent Non-executive Director since November 2006. Chairman of the Remuneration Committee until the Merger Effective Date. He became Chief Executive Officer for Rothschild North America in June 2010. Jim was previously Chief Financial Officer of Unilever. He was appointed as a Non-executive Director of IAG on 27 September 2010.

Alison Reed — Independent Non-executive Director since December 2003 becoming Deputy Chairman from the Merger Effective Date. Chairman of the Audit Committee until the Merger Effective Date, Remuneration Committee and became Chairman of the Remuneration Committee from the Merger Effective Date. Alison was previously Chief Financial Officer of Marks & Spencer plc and Standard Life plc. She is a chartered accountant. With effect from 1 January 2011 Alison became a Non-executive Director of DRS Data & Research Services plc.

Rafael Sánchez-Lozano Turmo — Non-executive Director since December 2009. Safety Review Committee. Rafael was Managing Director and Chief Operating Officer of Iberia until 26 January 2011 and was then appointed as the Chief Executive Officer of Iberia OpCo. He was appointed as an Executive Director of IAG in May 2010.

Ken Smart — Independent Non-executive Director since July 2005. Chairman of the Safety Review Committee Audit Committee until the Merger Effective Date. Ken is Chairman of the UK Aviation and Maritime Industries Confidential Human Factors Incident Reporting Programme (CHIRP), a member of the Flight Safety Foundation Board of Governors (until December 2010) and a Visiting Professor at Cranfield University.

Baroness Symons — Independent Non-executive Director since July 2005. Audit and Safety Review Committees until the Merger Effective Date. Life peer since 1996 and Privy Councillor since 1998. Former Deputy Leader of The House of Lords and Minister of State from 1997 until 2005 when she stepped down from government. International adviser to DLA Piper, Rio Tinto plc, Consolidated Contractors Company, MerchantBridge, and Non-executive Director of Caparo Group.

Company Secretary

Alan Buchanan — Joined the airline in 1990 becoming Company Secretary in April 2000.

Management Board

In the day-to-day running of the Company, the Chief Executive is supported by the Management Board, the members of which, as at 31 December 2010, were the Chief Financial Officer and:

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

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

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

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

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

Tony McCarthy — Director of People and Organisational Effectiveness. Joined the airline in December 2007 from Royal Mail.

The members of the Management Board during the reporting period were designated as persons discharging managerial responsibility, along with the ten Directors. The members of the Management Board all served until the Merger Effective Date.

Board members of British Airways as at 24 February 2011:

(A) Chairman — Martin Broughton;

(B) Chief Executive Officer of British Airways — Keith Williams; and

(C) Two Executive Directors — Frank van der Post (formerly Chief Operating Officer at Jumeirah Group) and Andrew Crawley;

(D) Chief Financial Officer of IAG — Enrique Dupuy de Lôme;

(E) Chief Executive Officer of Iberia OpCo — Rafael Sánchez-Lozano Turmo; and

(F) Three Directors are designated as Non-executive Directors by the holder of the British Airways B Shares (being the UK Trustee) — Alison Reed, Ken Smart and Gavin Patterson. (Chief Executive, BT Retail and a main Board member of BT Group plc.)

Maarten van den Bergh, Baroness Symons, Baroness Kingsmill, Jim Lawrence and Willie Walsh retired from the Board on the Merger Effective Date.

The Company's Articles of Association (adopted on 25 January 2011) no longer require Directors to be subject to retirement every three years.

With effect from the Merger Effective Date and as at 24 February 2011, the new Leadership Team is as follows:
Alan Buchanan — Chief of Staff and Company Secretary;
Garry Copeland — Director of Engineering;
Andrew Crawley — Director Commercial;
Maria Da Cunha — Director of People, Legal and Government Affairs;
Lynne Embleton — Director of Strategy and Business Units;
Andrew Lord — Director of Operations;
Silla Maizey — Managing Director of Gatwick;
Philip Osmond — Director of Business Services;
Stephen Riley — Director of Flight Operations;
Tim Steeds — Director of Safety and Security; and
Frank van der Post — Managing Director Brands and Customer Experience.

The number of scheduled Board and Committee meetings attended by each Director during the reporting period is shown in the table below:

Director	Board Meetings attended in the period	Audit Committee Meetings attended in the period	Nominations Committee Meetings attended in the period	Remuneration Committee Meetings attended in the period	Safety Review Committee Meetings attended in the period
Total in the period	**8**	**5**	**5**	**6**	**3**
Martin Broughton	7		5		
Willie Walsh	8				
Keith Williams	8				
Maarten van den Bergh	8	5	5	6	
Baroness Kingsmill	8	5	5		3
Jim Lawrence	8			6	
Alison Reed	7	5		6	
Rafael Sánchez-Lozano Turmo	5				3
Ken Smart	8	5			3
Baroness Symons	7	3			2

Details of the Directors' remuneration and share interests are set out in the report of the Remuneration Committee on pages 43 to 51.

Corporate governance

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

During the reporting period to which these financial statements relate, the code of best practice, set out in Section 1 of the Combined Code (June 2008) as amended from time to time and appended to the Listing Rules of the Financial Services Authority (the Combined Code), has been adopted as the Company's Corporate Governance statement. The Combined Code can be accessed on the Financial Reporting Council's website at www.frc.org/corporate.

In accordance with the Listing Rules, the Company is required to firstly, report on how it applies the main principles of the Combined Code and secondly to confirm that it has applied the Code's provisions or, where it has not, to provide an explanation. However, pursuant to the Merger, the premium listing of the Company's shares was cancelled and as such is no longer required to comply with the Combined Code from the Merger Effective Date. The Company now has a standard listing, and continues to be an issuer of debt. The Company has therefore, voluntarily decided to outline the way in which it applied the main and supporting principles in the Code during the reporting period and up to and including the Merger Effective Date, as detailed below.

The Board

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

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

The Board is led by the Chairman and the executive management of the Company is led by the Chief Executive. The Chairman is responsible for setting the Board agenda and ensuring that it works effectively. Working with the Secretary, he ensures that Board Members receive accurate, timely and clear information.

Of the ten members serving at the period end, excluding the Chairman, two were Executive Directors and seven were Non-executive Directors (of which six were considered independent for Combined Code purposes).

All seven Non-executive Directors were drawn from a diverse range of business and other backgrounds, bringing a broad spectrum of views and experiences to Board deliberations. This diversity of background and experience is identified by the Board Members as one of the strengths of the Board. Maarten van den Bergh was the Board's Senior Independent Director. In this role he was available to the shareholders if they had any concerns that they were unable to resolve through normal channels, or when such channels would be inappropriate. He was also responsible for leading the Board's discussions on the Chairman's performance.

Following the Merger there is no longer a requirement for the Company to have a Senior Independent Director.

A statement of the Directors' responsibilities in respect of the financial statements is set out on page 52 and a statement on going concern is given on page 15.

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

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

All Directors receive regular information about the Company so that they can play as full a part as possible in Board meetings. Papers for Board and Committee Meetings are typically distributed in the week prior to the relevant meeting. All Board members have access to the Secretary for any further information they require. If any of the Non-executive Directors has any concerns with the running of the Company, they would first discuss these concerns with one of the Executive Directors, the Secretary or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board Minutes. No such concerns arose during the reporting period.

Non-executive Directors are encouraged to visit the Company's operation and to speak to customers and employees. They were also encouraged to attend the annual Investor Day in May 2010, where they could discuss Corporate Governance matters with major shareholders. Seven Non-executive Directors attended the 2010 Investor Day. Independent professional advice is also available to Directors in appropriate circumstances, at the Company's expense. No such advice was needed during the reporting period in question.

The Secretary ensures that Board members receive an appropriate induction and further training as necessary. The Board receives briefings on changes in regulation or law, as circumstances require.

The Shareholder Circular dated 26 October 2010 stipulated the initial composition of the Board following the Merger and further details can be found in the report of the Nominations Committee set out on page 42.

Rules about the appointment and replacement of Directors are set out in the Company's Articles of Association. The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association. The Articles of Association can be amended by special resolution of the shareholders.

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

Board committees

During the reporting period the Board had four specific Committees: Audit, Nominations, Safety Review and Remuneration. Each Committee met regularly under their terms of reference as set by the Board. A Standing Committee, consisting of the Chairman or Senior Independent Director, one Executive Director and one Non-executive Director, was also available when necessary. The work carried out during the period by each of the four Committees is described in their respective reports. Every Committee has authority to take external advice as required.

Following the Merger with Iberia, the Company is no longer required to have an Audit Committee. The Company will continue to have a Remuneration and Safety Review Committee. The Articles of Association provides for a Nominations Committee to be convened in certain circumstances.

The Board receives regular feedback on investors' views. As part of its commitment to ensuring that the Board presents a balanced and understandable assessment of the Company's financial position and prospects, the Board received an external view of the Company's investor relations activity again during the reporting period.

Board performance evaluation

At the end of the financial year the Secretary would meet privately with each member of the Board to review the performance of the Board, its Committees and the individual Directors, the results of which would be presented to, and considered by, the Board. This would normally take place in the fourth quarter, but this reporting period has been shortened to nine months ending 31 December 2010 and thus this has not taken place. However a performance evaluation was undertaken during the calendar year and was reported upon in the 2009/10 Company accounts. In addition, the Chairman and Non-executive Directors typically meet without any executives present at least twice each financial year. During this reporting period they met once without the executives present. At least once a year, the Non-executive Directors meet under the chairmanship of the Senior Independent Director to review the performance of the Chairman taking account of the views of the Executive Directors.

Relations with shareholders

The Company maintained regular contact with its major institutional shareholders through its investor relations team, through meetings with the executive directors and the Chairman and through annual institutional investor events. The presentations from these events were available to private shareholders through the Company's investor relations website. The annual Investor Day took place in May 2010.

Private shareholders normally receive the Company's shareholder magazine twice a year and were encouraged to express their views and concerns either in person at the 2010 Annual General Meeting or by e-mail. The main themes were reported to the Board and responded to by the Chairman in his address at the 2010 Annual General Meeting.

Nine of the ten Board members serving at the time attended the 2010 Annual General Meeting. Since 2000, all voting at General Meetings has been by way of a poll to ensure that the views of all shareholders are taken into account. All 11 resolutions put to shareholders at the 2010 Annual General Meeting were passed, with a minimum vote of 91.92 per cent in favour.

On 29 November 2010, a General Meeting and a separate Class Meeting of shareholders approved the Merger as set out in the Notices of Meetings contained in the Shareholder Circular dated 26 October 2010. The Shareholder Circular, together with the Registration Document published on the 26 October 2010 and the Securities Note and Summary published on 10 January 2011 are available on the website www.iagshareholders.com. These meetings were attended by eight of the ten Board Members serving at the time and all of the proposed resolutions were passed with the minimum vote of 99.80 per cent in favour.

The 2011 Annual General Meeting will be held on Tuesday 22nd March at 8.30am at the Company's registered office.

Directors' conflicts

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

A register of authorised interests is maintained by the Secretary and updated by the Board as needed from time to time; it was last updated during the reporting period in September 2010. Throughout the reporting period and up to and including the Merger Effective Date, the Company complied with all relevant provisions set out in Section 1 of the Combined Code.

Directors' and Officers' liability insurance

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

Corporate governance continued

The Company has granted rolling indemnities to the Chairman, Executive and Non-executive Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as officers of companies within the Group. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs.

Political donations

At the Annual General Meeting in 2008, shareholders passed a resolution to authorise the making of political donations and the incurring of political expenditure for the purposes of Section 367 of the Companies Act 2006. This authorisation was taken on a four-year basis as a precaution only and the Board had no present intention of using it. In the event that any political donation were to have been made or political expenditure incurred, the Company had committed itself to seek further shareholder approval.

The Company does not make political donations or incur political expenditure within the ordinary meaning of those words and has no intention of doing so. The amount of political donations made and political expenditure incurred during the reporting period to 31 December 2010 was £nil (31 March 2010: £nil).

Post balance sheet events

There were no adjusting material post balance sheet events occurring after 31 December 2010, except for the Merger, as detailed in note 37, which was approved by the shareholders on 29 November 2010 and became effective on the Merger Effective Date as explained in the Shareholder Circular, Registration Documents and Securities Note published on 26 October 2010 and 10 January 2011, respectively.

Internal Control and Risk Management

Internal control

The Directors are responsible for maintaining, and for reviewing the effectiveness of, the Company's system of internal control including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding (a) the safeguarding of assets against unauthorised use or disposition and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement or loss.

Internal control over financial reporting

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

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

Standing instructions

In response to The Bribery Act (2010), the Company has re-launched its code on business integrity covering matters such as bribery, business conduct and ethics. It is one of a number of Standing Instructions to employees of the Group designed to enhance internal control. Along with the Finance Standing Instructions, these are regularly updated and made available to staff through the Company's intranet.

Organisational structure

A clear organisational structure exists, detailing lines of authority and control responsibilities. The performance management system establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements.

Information systems

Information systems are developed to support the Company's long-term objectives and are managed by a professionally staffed Technology Services team within the Business Services directorate. Appropriate policies and procedures are in place covering all significant areas of the business.

Strategic plan

The business agenda is determined by the strategy (pages 18-19) setting out the agreed targets for financial return and service standards, and identifying and prioritising improvement opportunities to deliver those targets. Each year the Board approves the strategy, which is supported by a detailed financial plan for the year ahead. Progress against the plan is regularly monitored.

Management accounting system

A comprehensive management accounting system is in place providing management with financial and operational performance measurement indicators. Detailed management accounts are prepared monthly to cover each major area of the business. Variances from plan and previous forecasts are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings were held by the Management Board to discuss performance with specific projects being discussed when required. Throughout 2010, the Capital Investment Committee, chaired by the Chief Financial Officer, was instrumental in maintaining tight control of capital and major contract expenditure and headcount. All major corporate programmes are audited regularly.

Internal control framework

Effective Corporate Governance remains key to the business. The Company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. During the reporting period, the effectiveness of the framework was regularly reviewed by the Management Board.

Business controls are reviewed on an ongoing basis by the internal control function which operates internationally and to a programme based on risk assessment. Professionally qualified personnel manage the department with experience gained from both inside and outside the industry. A risk-based audit plan, which provides assurance over key business processes and commercial and financial risks facing the Company, was approved by the Audit Committee quarterly.

The Audit Committee considered significant control matters raised by management and both the internal and external auditors and reported its findings to the Board. Where weaknesses were identified, the Audit Committee ensured that management took appropriate action. No significant failings or weaknesses were identified during 2010.

Risk management

The Company has a structure and process to help identify, assess and manage risks. This process has been in place throughout the reporting period to which these statements apply and up to the date of their approval.

During the reporting period, the Risk Group consisted of the Management Team, the Head of Corporate Risk and Internal Control and key senior executives. Meeting quarterly, it reviews the Company's key risks contained in the corporate risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Group also provides policy and guidance to those responsible for managing the individual risks and to the departmental risk leaders.

The management of each major area of corporate risk is subject to review by an appropriate 'assurance body'. This includes a review of the controls in place to mitigate the risks and the further actions being taken by management. The Risk Group reported quarterly to the Audit Committee to assist the Board in the management of risk in accordance with the October 2005 Revised Guidance for Directors on the Combined Code (June 2008). The 2010 UK Corporate Governance Code only applies to accounting periods commencing on or after 29 June 2010.

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

Liquidity risk is discussed in more detail within the Directors' Report on page 15. The Company's Treasury Committee, chaired by the Group Treasurer, is responsible for managing liquidity risk and operates within clearly defined parameters.

Auditor

Resolutions to reappoint the retiring auditor, Ernst & Young LLP, and to authorise the directors to determine its remuneration will be proposed at the 2011 Annual General Meeting

Receipts and returns to shareholders

Dividend

The Board has decided not to recommend the payment of a final dividend (31 March 2010: nil pence per share).

Share issues, buy-backs and treasury shares

In line with the Companies Act 2006, which abolished the concept of authorised share capital, the Company removed references to authorised share capital from its Articles of Association.

During the reporting period ended 31 December 2010 there has been an increase in the issued share capital of the Company, details of which are set out in the sections headed 'Shares and shareholders' and 'Capital structure and shareholder rights', respectively.

Under UK legislation, the Board can be given authority to allot shares by the passing of an ordinary resolution at a general meeting of the Company. During the reporting period the Board had authority to allot shares of the Company up to an aggregate nominal value of £95 million by virtue of a resolution passed at the Annual General Meeting of the Company held on 13 July 2010. This authority expires on 12 July 2011.

Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued, any share of the Company may be issued with such preferred, deferred or other special rights, or subject to such restrictions, whether as regards dividend, return of capital, voting or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Board may determine) and, subject to the provisions of applicable company law, the Company may issue any shares which are, or at the option of the Company and/or the holder are, liable to be redeemed.

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

If the Company were to buy-back shares they would be held in treasury, so they could be sold quickly (subject to insider dealing rules) and cost effectively, giving the Company additional flexibility in the management of its capital base. Whilst in treasury, the shares would be treated as if cancelled so that no dividends would be paid on them and they would have no voting rights. No shares were held in treasury during the reporting period ended 31 December 2010 (31 March 2010: nil).

Shares and shareholders

The number of ordinary shares issued and fully paid as at 31 December 2010 was 1,153,689,000 (31 March 2010: 1,153,674,000). The increase over 31 March 2010 reflects the issue of new ordinary shares to satisfy the share options exercised during the reporting period ended 31 December 2010 under the British Airways Share Option Plan 1999, The British Airways Long Term Incentive Plan 1996 and the vesting of shares awarded under the Deferred Share Plan as set out in notes 31 and 32 to the financial statements.

Corporate governance continued

Capital structure and shareholder rights

During the reporting period, the share capital of the Company was divided into ordinary shares of 25 pence each and one special voting share of 25 pence. All ordinary shares have equal rights to dividends and capital and to vote at general meetings of the Company. The rights attached to the ordinary shares, in addition to those conferred on their holders by law, were set out in the Company's Articles of Association.

The special voting share had no dividend rights, limited capital rights and restricted voting rights. The sole function of the special voting share was to ensure that the votes capable of being cast by the UK shareholders of the Company, taken as a whole, need never fall below a majority. Its voting rights would only be triggered if the number of UK shares represent, or were reasonably likely to represent at the time of the next scheduled Annual General Meeting, 50 per cent or less of the issued ordinary share capital and if the Board considered that, as a result, any air service operating right which was granted to, or enjoyed by, the Company would have been materially restricted, suspended or revoked. Once its voting rights had been triggered, the special voting share entitled the holder to such number of votes as, when aggregated with the votes which were capable of being cast by holders of the UK shares, were equal to 50 per cent of the total number of votes which are capable of being cast, plus one. On any resolution, votes cast by the holder of the special voting share were only able to be cast in the same manner and proportion as the votes cast by the UK shareholders. The special voting share, which was held by The Law Debenture Trust Corporation Plc was redeemed on 17 January 2011.

In August 2009, the Company issued £350 million* 5.8 per cent Convertible Bonds due 2014 (the Bonds). The Bonds are convertible into fully paid ordinary shares of the Company at a price of 189 pence per share and will mature on 14 August 2014. The Bonds may be redeemed before 13 August 2014 at the option of the Company (subject to certain conditions) in certain circumstances, including if conversion rights have been exercised in respect of 85 per cent or more of the Bonds. As part of the Merger, a structure was put in place to ensure that the Company is able to satisfy its obligations to deliver IAG shares under the Bonds after the Company's shares were de-listed. IAG will grant the Company the right to procure the issue of IAG Shares to nominated subscribers.

Further details can be found in the Shareholder Circular and Registration Documents published on the 26 October 2010 and made available on the website www.iagshareholders.com.

Throughout the reporting period the Company maintained an American Depositary Receipts (ADR) programme in the US as a Level I programme. This meant that the Company's ADRs were traded on the over-the-counter market. The ratio was changed from 10 shares per ADR to 5 shares per ADR on 1 September 2010.

Accordingly each ADR was equivalent to 5 ordinary shares and each ADR holder was entitled to the financial rights attaching to such shares, although the ADR depositary was the registered holder of the shares.

* The principal amount of £0.9 million converted into British Airways Plc shares before the British Airways scheme became effective.

On 6 December 2010, Deutsche Bank was appointed as the Depositary Bank. As at 31 December 2010, the equivalent of 3.2 million shares were held in ADR form (31 March 2010: 21.2 million).

In order to protect the air service operating rights of the Company, the number of ordinary shares held by non-UK nationals is monitored, as is the number of ordinary shares held by persons who are not nationals of states comprising the European Economic Area (EEA). At 31 December 2010, 40 per cent of the ordinary shares of the Company were held by non-UK nationals (31 March 2010: 41 per cent) and 19 per cent of the ordinary shares were held by persons who were not nationals of states comprising the EEA (31 March 2010: 18 per cent).

Share structure following the merger

Full details of the Company's Share Structure are contained in the Shareholder Circular and Registration Document published on 26 October 2010, which can be found on the website www.iagshareholders.com.

Following the Merger, the share capital of the Company is divided into A1 shares, A2 shares and B shares. The rights attaching to these shares are as set out in the Company's Articles of Association adopted on 25 January 2011.

Waiver of dividends

The British Airways Employee Benefits Trust (Jersey) Limited, which holds British Airways shares for the purpose of satisfying awards and options granted to employees under the Company's employee share schemes, has waived its rights to dividends. The Trustee does not vote on the shares that it holds. At 31 December 2010 there were 795,733 shares held in the Trust (31 March 2010: 1,086,001).

Impact of change of control

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- The Joint Business Agreement between (1) American Airlines Inc, (2) British Airways Plc, and (3) Iberia Líneas Aéreas de España, S.A. which was approved in July 2010 and began operating in October 2010;
- The Shareholder Circular and the Registration Document published on the 26 October 2010, which set out the details of the Merger;
- All of the Company's share schemes contain provisions relating to a change in control. Other than the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time, all outstanding options would normally vest and become exercisable on a change of control. The Directors have determined that following the Merger with Iberia all options will rollover into IAG;
- Codeshare agreements with Aer Lingus, Cathay Pacific, Finnair, Flybe, JAL, Kingfisher, LAN, Malev, Meridiana Fly, and Royal Jordanian; and
- Contracts to sell miles to Alaska Airlines, American Airlines, American Express Services Europe Limited, Chase Bank USA N.A, Lloyds TSB plc, Royal Bank of Canada and Tesco Stores Limited.

Neither of the executive Directors' service contracts (who served during the reporting period) provided for compensation to be paid in the event of change of control of the Company.

As at 31 December 2010 there were 196,585 shareholders (31 March 2010: 209,129). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares	Classification of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	88.20	4.41	Individuals	98.37	19.60
1,001 – 5,000	10.41	3.48	Bank or Nominee	1.35	78.94
5,001 – 10,000	0.80	0.95	Insurance companies	0.01	0.01
10,001 – 50,000	0.34	1.12	Pension trusts	0.01	0.30
50,001 – 100,000	0.05	0.61	Investment trusts	0.02	0.21
100,001 – 250,000	0.06	1.75	Other corporate bodies	0.24	0.94
250,001 – 500,000	0.04	2.16			
500,001 – 750,000	0.02	1.99			
750,001 – 1,000,000	0.02	2.40			
Over 1,000,000	0.06	81.13			
	100.00	**100.00**		**100.00**	**100.00**

Shareholders of the Company following the Merger and as at 26 January 2011:

Name	Share class	Percentage of total issued share capital held
IAG	A1	44.92%
Iberia Líneas Aéreas de España Sociedad Anónima Operadora	A2	4.08%
LDC (NCS) Limited	B	51%

Report of the Audit Committee

Members for the reporting period:

Alison Reed (Chairman), Maarten van den Bergh, Baroness Kingsmill, Ken Smart and Baroness Symons.

The Board is satisfied that Alison Reed had recent and relevant financial experience for the purposes of paragraph C.3.1 of the Combined Code for the reporting period. Following the Merger the Company is no longer required to have an Audit Committee.

The Committee met five times during the reporting period ended 31 December 2010.

In addition to the Secretary, regular attendees at Committee meetings, at the invitation of the Committee, included the Chairman, the Chief Executive, Chief Financial Officer, the Head of Corporate Risk and Internal Control, the Group Financial Controller, the Group Reporting Manager and representatives from the external auditor. Other senior management were invited to attend when the business of the Committee requires in particular areas such as Information Technology. During the course of the year the Committee also held closed meetings and met privately with both the external and internal auditors.

The Audit Committee was responsible for exercising the full powers and authority of the Board in accounting and financial reporting matters.

The key duties of the Committee included to:

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

Items reviewed during the reporting period included:

Financial reporting

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

Going concern and liquidity risk

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

Internal control and risk management

The Committee reviewed the risk management process and discussed the inherent risks faced by the business. Risk management activities take place throughout the organisation to support the Committee in its Corporate Governance responsibilities, working with the business to proactively and effectively manage risk. This, together with the related controls and assurance processes, is designed to identify, evaluate and manage risk and to ensure that the resultant residual risks meet the risk appetite of the Board. The principal risks and uncertainties are outlined in the relevant section on pages 22 and 23.

The Committee has an ongoing process for reviewing the effectiveness of the system of internal controls and of the internal audit function. During 2010, it reviewed and approved the risk-based audit plan and the staffing levels in Internal Control to ensure it had sufficient resources to fulfil the agreed plan. It considered reports from the Internal Control team summarising the audit findings and recommendations and describing actions taken by management to address any shortfalls. It also reviewed how the audit function was performing against the relevant standards published by the Institute of Internal Auditors.

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

External audit

The Committee reviewed the external audit strategy and the findings of the external auditor from its review of the interim announcement and its audit of annual financial statements. The Committee also reviewed the scope and costs of the external audit. The Committee has a clear policy regarding non-audit services that may be provided by the external auditor, which prohibits certain categories of work and controls the overall level of expenditure. Pre-authorisation is required for all non-audit work.

Whistleblowing

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

Merger with Iberia

The Committee convened a special meeting to review in detail the procedure and steps involved in the Merger. In particular, a review was undertaken of the Shareholder Circular and the Registration Documents that were published on 26 October 2010.

Auditor independence

The Committee reviewed the work undertaken by the external auditor and each year assesses its independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Committee monitored the auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assesses annually its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. Having reviewed Ernst & Young's performance during the reporting period ended 31 December 2010, the Committee decided it was in the Group's and shareholders' interests not to tender the external auditor in 2011 and recommends the re-appointment of Ernst & Young LLP.

Other issues

Details of the fees paid to the external auditor during the period from 1 April 2010 to 31 December 2010 can be found in note 5 to the financial statements.

The terms of reference of the Committee are normally reviewed at least annually and any changes are recommended to the Board. Following the Merger, the Company will no longer have an Audit Committee.

Report of the Nominations Committee

Members for the reporting period:

Martin Broughton (Chairman), Maarten van den Bergh and Baroness Kingsmill.

The Chairman chaired the Committee and all other members of the Committee were independent Non-executive Directors. All Non-executive Board members were invited to attend its meetings and the Chief Executive attended as necessary. No Board member participated in any discussion of his or her own performance. The Committee wrote terms of reference covering the authority delegated to it by the Board.

The Nominations Committee met at least once a year, and additionally if required, to consider the balance of the Board's membership, to identify any additional skills or experience which might enhance the Board's performance, and to interview candidates and recommend appointments to or, where necessary, removals from the Board. The Committee's remit also included a review of corporate governance and succession planning.

In relation to the appointment of new Board members, the process that was used for the nomination of new candidates started with the identification of the skills and experience needed to maintain or enhance the diversity of skills and experience on the Board. In most cases this would result in the use of an independent search firm.

An independent search firm was used for a new Non-executive Director which resulted in the appointment of Gavin Patterson to the Board with effect from 1 February 2011.

Separate searches resulted in the appointment of two of the new Executive Directors, Frank van der Post who joined the Board as Managing Director Brands and Customer Experience on 17 January 2011 and Nick Swift who will be joining the Board as Chief Financial Officer on 7 March 2011.

An independent search firm was also used to assist in the selection of two independent Non-executive Directors for the Board of IAG, although this was technically outside the terms of reference of the Committee.

Merger

Following the Merger, the Company is no longer required to have a Nominations Committee and any further meetings of the Nominations Committee will be held as per the Company's Articles of Association.

Directors are no longer required to submit themselves for re-election every three years. As explained in the Shareholder Circular dated 26 October 2010, the initial composition of the Board following the merger is as follows. Sir Martin Broughton continues as Chairman and Keith Williams was appointed as Chief Executive Officer from the Merger Effective Date. Frank van der Post was appointed on 17 January 2011 and Andrew Crawley was appointed on Merger Effective Date as Executive Directors. Further nominations included, the Chief Financial Officer of IAG Enrique Dupuy de Lôme, the Chief Executive Officer of Iberia OpCo Rafael Sanchez-Lozano Turmo and three Non-executive Directors as designated by the holders of the British Airways B shares, these being Alison Reed, Ken Smart and Gavin Patterson.

Any further appointments following the Merger will be made in accordance with the Company's Articles of Association.

Report of the Safety Review Committee

Members:

The members during the reporting period were Ken Smart (Chairman), Baroness Kingsmill, Baroness Symons and Rafael Sánchez-Lozano Turmo. Following the Merger, Baroness Kingsmill and Baroness Symons retired (Merger Effective Date) and were replaced by Gavin Patterson on 1 February 2011.

The Safety Review Committee meets at least four times a year to consider matters relating to the operational safety of the airline and subsidiary airlines, as well as health and safety issues.

The Safety Review Committee reviews reports from the various safety boards within the airline including the senior management's Safety Review Board. Where appropriate the Committee also reviews relevant reports published by the UK Air Accident Investigation Branch (AAIB), major incidents to other operators and external reports. During 2010 issues raised at the Safety Review Committee included the:

- AAIB report into the Boeing 777 take-off incident in St Kitts on 26 September 2009;
- Ensuring safe operations were resumed as soon as possible following the eruption of Mt. Eyjafjallajökull on 14 April 2010, and preparing and leading the industry's response to the resulting unprecedented closure of airspace by the UK Civil Aviation Authority (CAA);
- Circumstances surrounding the failure of a 'D Duct' on a Boeing 777 Rolls-Royce Trent engine whilst in flight from Singapore to Heathrow on 14 June 2010; and
- The circumstances surrounding the death on board of a deportee whilst under escort by guards contracted by the Government on 12 October 2010; and

The Chief Executive is the named Accountable Manager for the Company for the purposes of the Air Operators Certificate and EU Ops (EU Ops are prescribed in Annex 111 to EU Regulation No. 3922/1991). As the Accountable Manager, he chairs quarterly meetings of the Safety Review Board with the four Nominated Postholders (the executives responsible to the CAA for safety in the various operational departments of the Company) along with the Director of Safety and Security, the Head of Aviation Safety, the Head of Operational Safety and the Head of Operational Risk and Compliance. These meetings review operational compliance, quality and safety, monitor the effectiveness of the corporate safety management system and agree cross-departmental policy as appropriate.

Report of the Remuneration Committee

This report covers the reporting period from 1 April 2010 to 31 December 2010 and provides details of the Remuneration Committee and policy for the Company. Following the Merger Effective Date, Sir Martin Broughton's, Keith Williams's and Willie Walsh's remuneration will be determined by the IAG Remuneration Committee.

Information not subject to audit

Members during the reporting period:

Jim Lawrence (Chairman), Maarten van den Bergh and Alison Reed served as Committee members during the reporting period.

Members from the Merger Effective Date:

Alison Reed (Chairman from 21 January 2011), Gavin Patterson (from 1 February 2011) and Ken Smart (from 21 January 2011). Jim Lawrence (Chairman to 21 January 2011) and Maarten van den Bergh both retired from the Board following the merger between British Airways and Iberia on the Merger Effective Date.

Committee members are all independent Non-executive Directors of the Company, none of whom has any personal financial interest, other than as a shareholder, in the matters to be decided.

Committee and advisers

During the reporting period, the Company's Remuneration Committee determined on behalf of the Board, within the agreed terms of reference, the overall remuneration packages for the Chairman, the Executive Directors and the other members of the management team (as defined in the Committee's terms of reference).

The Committee's main duties were:

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

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

The Company participated in four main salary survey sources during the reporting period, run by Hay, PricewaterhouseCoopers (PwC), Hewitt New Bridge Street (Hewitt) and Towers Watson. Data was extracted from each of these in determining the Company's approach to base-pay market rates, and identifying competitive market practice in respect of the other remuneration elements. The Remuneration Committee was, however, aware of the risk of an upward ratcheting of remuneration that can result from over reliance on pay surveys.

Following a review of the independent external advisors to the Committee in late 2009, Hewitt was re-appointed and provided advice to the Committee. Its terms of reference for the reporting period were available for inspection on the Company's investor relations website.

The Chairman, Chief Executive, Chief Financial Officer, Secretary, Director of People and Organisational Effectiveness and Head of Reward, all assisted the Committee in its deliberations but none of them participated in any decisions relating to their own remuneration. None of those who materially assisted the Committee in its deliberations was appointed by the Remuneration Committee other than Hewitt. Hay provided no services to the Company other than advice on remuneration matters during the nine-month period ending 31 December 2010. In addition to its advice on remuneration, Hewitt also provided some advice to the Company on pension matters and PwC also provided minor advisory services.

Towers Watson provided actuarial advice to the Trustees of the British Airways pension schemes and to the Company. Where appropriate, the Committee consulted with major investors about its proposals.

From the Merger Effective Date, the remuneration for Sir Martin Broughton, Keith Williams and Willie Walsh is determined by the IAG Remuneration Committee as set out in the Shareholder Circular and Registration Document published on 26 October 2010. After the Merger, the Remuneration Committee will continue to determine the remuneration of Directors and senior executives of British Airways Plc.

Report of the Remuneration Committee continued

Policy for 2010

Executive Directors

The Company's remuneration policy during the 2010 reporting period was to provide compensation packages at market rates which reward successful performance and attract, retain and motivate managers. The Company aimed to provide remuneration packages which are broadly comparable with other UK based international businesses of similar size.

In fixing packages, the Committee had regard to the compensation commitments which would result in the event of early termination and took account of pay and employment conditions of employees elsewhere in the Group.

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

As noted in the previous Remuneration Report, the Remuneration Committee was well aware of the challenging economic environment and its severe impact on the Company's finances, but it also recognised that it was very important to incentivise and retain management to drive the business forward while continuing to attract top talent from outside the organisation.

The package for the Executive Directors for 2010 consisted of a base salary, benefits-in-kind (including private health care, a car and fuel and non-contractual travel concessions), pension, an annual bonus scheme (including a deferred element payable in shares) and participation in the Performance Share Plan. The expected value of performance-related variable remuneration, through the bonus scheme and awards under the Performance Share Plan, represented approximately one half of total target remuneration (excluding pension arrangements).

The Committee assessed remuneration packages on a total remuneration basis, taking into account the value of each of the individual elements of the package. The policy aimed to target base salaries at around the market median. The strategy for incentive pay was intended to increase the expected value to make the package more market-competitive for Executive Directors, but to retain as its aim the achievement of a market median value, subject to the achievement of stretching targets. Between them, the elements of the remuneration package provided a good balance between the achievement of short and longer-term goals linked to the creation of shareholder value.

Base salary

The base salary reflected the level of responsibility of the Executive Director, external market value considerations and individual performance. The Committee's objective was to position base salaries around the market median level compared against companies of similar size. In reviewing base salary, independent external advice was taken on salaries for comparable jobs in similar sized companies from the survey sources referred to previously. The Committee had regard to the performance of the individuals and the pay and employment conditions elsewhere in the Company when determining annual salary increases.

The base salaries for the Executive Directors, which took effect from 1 July 2008, presented on the basis of annualised amounts, were:

	2010	2009/2010
Willie Walsh	£735,000	£735,000
Keith Williams	£440,000	£440,000

Annual bonus

As reported last year, the Committee determined that it would be appropriate to partially restore the level of annual bonus opportunities to two-thirds of the 2008/09 maxima. The amount of annual bonus available for distribution for 2010/11 was therefore a maximum limit of 100 per cent of salary for the Chief Executive, 82.5 per cent of salary for the Chief Financial Officer and 66.6 per cent for senior executives generally. Any award would only be payable half in cash and half in deferred shares which would vest after three years (under the British Airways Deferred Share Plan 2005 as detailed on page 51).

The Committee gave significant consideration to the performance metrics for the 2010/11 plan. Recognising the importance of the key strategic initiatives for the Company, the Committee considered that it was appropriate to base 30 per cent of the bonus payable to the Executive Directors on the achievement of strategic targets relating to the Iberia Merger, the Joint Business Agreement with American Airlines and Iberia, agreeing a recovery plan in respect of the pension deficits, and an improvement in industrial relations. For other senior managers, 30 per cent of the bonus was assessed with reference to personal objectives with 40 per cent of the bonus based on operating profit, based on achievement of the Financial Plan, with a sliding scale so that full payment required performance to be significantly better than Plan and no payment being made if there was an operating loss. The threshold for 2010/11 represented a significant improvement on the target for 2009/10. Finally, 15 per cent was based on customer recommendation and 15 per cent on punctuality. The two non-financial measures are two of the Company's Key Performance Indicators and are more fully described on page 20 and 21. The customer recommendation measure was based on the percentage of customers who say that they are 'extremely likely' or 'very likely' to recommend British Airways. Punctuality was measured on the basis of the percentage of British Airways' flights that are prepared for departure and 'Ready to Go' at three minutes before the scheduled departure time.

For both customer recommendation and punctuality, the Committee again set a sliding scale around the targets for the reporting period, with significant stretch required above the target to earn full payment.

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

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

It was agreed that if the Merger with Iberia was completed on time, the financial year would be shortened to nine months ending 31 December 2010 for consistency with IAG's financial year-end.

The bonus targets were structured so that they could apply to a full financial year or, based on the Iberia Merger timetable, to a nine month period until 31 December 2010 (with bonus prorated down to nine-twelfths).

The Committee determined that bonus awards would be payable to the Executive Directors reflecting the Company's actual performance for the nine month period ending 31 December 2010. Bonus awards were based on the operating profit result being considerably ahead of the stretch target, punctuality performance between threshold and target level and customer recommendation being below threshold level. The pro-rated nine month bonus awards to the Chief Executive and Chief Financial Officer were £420,000 and £207,000 respectively, half of which is payable in deferred shares in IAG vesting after three years.

Long term incentive arrangements

British Airways Performance Share Plan 2005 (PSP)

Up until the Merger, the British Airways Performance Share Plan 2005 (PSP) was the long-term incentive plan operated for key senior executives of the Company, those most directly involved in shaping and delivering the medium to long-term business goals of the Company. The plan was approved by shareholders at the Annual General Meeting in 2005.

The PSP consisted of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions (see below) in full or in part at the third anniversary of award. No payment was required from individuals when the shares were awarded or when they vest. The Remuneration Committee supervised the operation of the PSP. Awards worth up to 150 per cent of an executive's base salary could be granted under the PSP. Executive Directors were granted this level of award in September 2010.

The awards made annually prior to 2009/10 were each subject to two performance conditions operating independently of each other. This meant that meeting either of the conditions would trigger a payment without the need to meet the other performance condition. 50 per cent of each award was subject to a Total Shareholder Return (TSR) performance condition, measured against a group of other airline companies, and the other 50 per cent was subject to an average operating margin performance condition. The use of two separate but complementary performance conditions created an alignment to both the airline industry (via the TSR measure) and also the Company's internal financial performance measure (via the operating margin measure). Both of these performance conditions were measured over a single three year performance period which began on 1 April prior to the award date with vesting on the third anniversary of the date of award. For the awards made in 2009/10 and the nine months ending 31 December 2010, the difficulty in setting appropriate financial targets covering three years resulted in the whole of the awards being conditional on the Company's relative TSR performance, with a financial underpin. This requires the Remuneration Committee to be satisfied that the Company's underlying financial performance has shown an improvement and that this is satisfactory in the circumstances prevailing over the three year period. The Remuneration Committee used this performance condition because it is challenging, aligned to shareholders' interests and, despite the current circumstances, is a reliable means of comparing management's performance within its sector.

TSR measures the financial benefits of holding a company's shares and is determined by share price performance along with any dividends which are paid. None of the shares that are subject to the TSR performance condition will vest unless the Company's TSR performance is at the median (50th percentile) of the airline comparator group. If median performance is achieved, 25 per cent of the shares relating to TSR vest. There is then a sliding scale at the top of which all of the shares relating to TSR vest in full if the Company's TSR performance is at or above the upper quintile (top 20 per cent) of the comparator group. The comparator group of airlines used in the awards from 2007 to 2010 are shown in the table below.

Air Berlin (not 2007)	JAL (2009 only)
Air Canada	LAN (2009 and 2010 only)
Air France/KLM	Lufthansa
Air New Zealand	Northwest Airlines (2008 only)
Alitalia (not 2009 or 2010)	Qantas Airways
All Nippon Airlines	Ryanair
American Airlines	SAS
Cathay Pacific Airways	Singapore Airlines
Continental Airlines	Southwest Airlines (2007 only)
Delta Airlines (2008, 2009, 2010 only)	United Airlines
Easyjet	US Airways
Iberia	

As noted in last year's report, for unvested awards as at the Merger Effective Date, the TSR performance of the Company will be used up to the Merger Effective Date and the TSR performance of IAG will be used to determine performance for the remaining period over which the awards are tested.

For the 50 per cent of the awards made in 2007/08 and 2008/09 that are subject to the operating margin performance condition, targets were as follows:

		Average annual operating margin over performance period		
Award	**Performance period**	**0% vests**	**25% of shares (ie 12.5% of total award) vest**	**100% of shares (ie 50% of total award) vest**
2007 award	2007/08 – 2009/10	Less than 8%	8%	11%+
2008 award	2008/09 – 2010/11	Less than 5%	5%	10%+

A sliding scale of vesting operates for performance between the minimum and maximum vesting points.

Report of the Remuneration Committee continued

British Airways Deferred Share Plan 2005

The British Airways Deferred Share Plan 2005 (DSP) was adopted by the Board in September 2005 and is the mechanism for delivering the deferred element of the annual bonus. Awards were made under the DSP in November 2006, August 2008 and September 2010. In each case, an award of deferred shares to the value of one half of the bonus earned was made to qualifying executives. Other than on retirement or redundancy, the shares will be subject to forfeiture if the executive leaves during the three year deferral period. On vesting, executives will receive the benefit of any dividends paid over the deferred period. All of the bonus payable in relation to 2009/10 was made in the form of deferred shares.

Following the merger, the Company has ensured that the options and awards held by participants in the British Airways Share Plans (other than LTIPs) are automatically exchanged for options and rights, of equivalent value and in the same terms, to acquire IAG shares, all in accordance with the regulations of the relevant British Airways Share Plans.

For further information regarding these schemes, see pages 50 to 51 which contain details of awards to Executive Directors and in prior years under current and historic share incentive schemes and also see note 32 to the financial statements.

Shareholding guideline

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

Service contracts

Each of the Executive Directors serving at the period-end had a rolling contract with a one year notice period. The service contracts for the serving Directors include the following terms:

Executive Director	Date of contract	Notice period
Willie Walsh	8 March 2005	12 months
Keith Williams	1 January 2006	12 months

There were no express provisions for compensation payable upon early termination of the Executive Directors' contracts other than normal payments due during the notice period. In the event of early termination, the Company's policy was to act fairly in all circumstances and the duty to mitigate would be taken into account. The Executives' contracts included a pay in lieu of notice provision and were subject to mitigation provisions during the second six months of the notice period. Neither of the contracts provided for compensation to be paid in the event of a change of control of the Company. Copies of the two service contracts were available on the Company's investor relations website.

External Non-executive Directorships

The Board encouraged Executive Directors to broaden their experience outside the Company by taking up non-executive appointments from which they may retain any fee. The Company's consent was required before an Executive can accept such an appointment and permission was only given in appropriate circumstances. During the reporting period in question, Keith Williams earned fees of £17,000 as a Non-executive Director of Transport for London. Keith Williams was also a Non-executive Director of Iberia until the Merger Effective Date and the fees from this appointment were payable to the Company.

Pension schemes

The Company has three main pension schemes. Two of these, Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS), are defined benefit schemes and are closed to new members. The third scheme, the British Airways Retirement Plan (BARP), has been available to new joiners since 1 April 2003 and is a defined contribution scheme. Willie Walsh was a member of BARP and received a contribution of 12 per cent of salary. Keith Williams was a member of both NAPS and an unfunded unapproved retirement scheme. Provision for payment of a surviving dependant's pension on death and lump sum payments for death in service is also made. Only base salary was pensionable. The Company operates a SmartPension arrangement, which allows individuals to make their pension contributions in a more tax-efficient way. Further details of pension provisions are set out on page 48.

Non-executive Directors

Policy for 2010

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

Chairman's and Non-executive Directors' fees

The Chairman's fee was set at £350,000 in July 2007, taking into account the level of fees payable in similar companies and recognising his above average time commitment.

For the nine months to 31 December 2010, the Non-executive Directors' fees (which were fixed in October 2006 and reviewed but unchanged in October 2008) were £40,000 per annum, with the Chairmen of the Audit, Remuneration and Safety Review Committees and the Senior Independent Director each receiving £10,000 per annum in addition to these fees. No other fees were paid for attendance at Board committees.

Service agreements

The dates of the Chairman's and Non-executive Directors' appointments, who served during the reporting period are as follows:

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

*Directors who retired from the Board on the Merger Effective Date.

Except where appointed at a General Meeting, Directors stood for election by shareholders at the first Annual General Meeting following appointment, and stood for re-election every three years thereafter, under Article 94 of the then current Articles of Association. Either party could terminate on one month's written notice. Neither the Chairman nor any of the Non-executive Directors had any right to compensation on the early termination of their appointment. Copies of the letters of engagement for the Chairman and the Non-executive Directors were available for inspection on the Company's investor relations website.

As set out in the Nominations Committee Report, Directors are no longer required to submit themselves for re-election every three years. Any further appointments following the Merger will be made in accordance with the Company's Articles of Association (adopted on 25 January 2011).

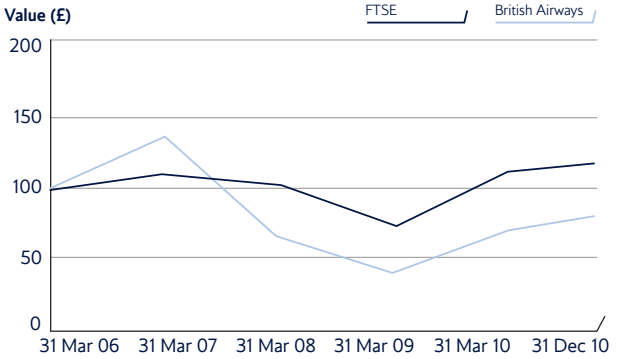
Performance graph

The graph shows the TSR (with dividends reinvested where applicable) over the five financial periods from 31 March 2006 to 31 December 2010 of a holding of the Company's shares against a hypothetical holding of shares in the FTSE 100.

The FTSE 100 was selected because it is a broad equity index of which the Company was a constituent.

Total shareholder's return

From 31 March 2006 to 31 December 2010



Source: Reuters

This graph shows the value by 31 December 2010 of £100 invested in British Airways Plc on 31 March 2006 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the value of intervening financial year-ends.

Policy for 2011

Looking forward the Remuneration Committee does not envisage making any material changes to the current remuneration policy and framework applicable to Executive Directors and other members of the Leadership Team. The Company's remuneration philosophy will therefore continue to reflect the provision of market competitive total remuneration packages comprising a competitive base salary, an annual bonus plan based on key financial and operational metrics with some deferral, participation in the IAG Performance Share Plan, competitive pension and benefit provision. The remuneration for Willie Walsh and Keith Williams is set out in the Shareholder Circular and Registration Document published on 26 October 2010 and moving forward will be determined by the IAG Remuneration Committee.

Following the Merger, the Chairman's fee is determined by the IAG Remuneration Committee. The fee payable for Sir Martin Broughton's role as Chairman of British Airways Plc and Deputy Chairman of IAG is set out in the Registration Document published on 26 October 2010.

Report of the Remuneration Committee continued

Information subject to audit

Directors' remuneration

	Base salary and fees (£'000)	Taxable benefits* (£'000)	Performance related bonuses: Cash (£'000)	Performance related bonuses: Value of deferred shares (£'000)	Total nine months ending 31 December 2010 (£'000)	Total 2009/10 (£'000)
Executive Directors						
Willie Walsh	551	13	210	210	984	1,024
Keith Williams	330	9	104	104	547	582
Non-executive Directors						
Sir Martin Broughton	263	23			286	351
Maarten van den Bergh	38	1			39	46
Baroness Kingsmill	30				30	38
Jim Lawrence	38	1			39	47
Alison Reed	38				38	47
Rafael Sánchez-Lozano Turmo**	30				30	12
Ken Smart	38				38	46
Baroness Symons	30	1			31	37
Chumpol NaLamlieng***						11
Dr Martin Read***						14
Aggregate emoluments	**1,386**	**48**	**314**	**314**	**2,062**	**2,255**

* Taxable benefits include a company car, fuel, private health insurance and personal travel.
** Fee payable to Iberia.
*** Retired from the Board on 14 July 2009.

The pension entitlements of the Executive Directors were:

(£)	Accumulated accrued benefits nine month period ending 31 December 2010	Increase in accrued benefits during the period	Increase, before inflation, in accrued benefits during the period	Transfer value* of increase before inflation, less Directors' contributions
Keith Williams	110,971	5,022	688	(13,289)

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

(£)	Nine month period ending 31 December 2010	31 March 2010	Director's contributions during the period	Movement, less Director's contributions
Keith Williams	1,960,200	1,771,254	25,715	163,231

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

Keith Williams is a member of both the NAPS and an unfunded unapproved retirement scheme, which, under the terms of his service contract, will provide a total retirement benefit at age 60 equivalent to 1/56th of pensionable pay for each year of service up to 31 March 2007. For service between 1 April 2007 and 30 September 2010, he is entitled to 1/60th of pensionable pay for each year of service payable at age 65. In line with other NAPS members, Keith was entitled to buy his pension to remain payable at age 60 which he elected to do. For service from 1 October 2010, Keith is entitled to 1/75th of pensionable pay payable at age 65. Again, in line with other NAPS members, for service from 1 October 2010, Keith Williams is entitled to his pension to be payable from age 60 should he so elect.

Willie Walsh is a member of BARP, a defined contribution scheme and the Company paid contributions during the reporting period ended 31 December 2010 of £69,458 (at 31 March 2010: £92,242).

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

From the Merger Effective Date, Willie Walsh and Keith Williams cease to be eligible for active membership of any British Airways' pension schemes. Further details of their pension arrangements as employees of IAG are set out in the Shareholder Circular and Registration Document published on 26 October 2010.

Directors' beneficial interests in shares
Board members as at 31 December 2010

	British Airways Plc ordinary shares	
	31 December 2010	**31 March 2010**
Sir Martin Broughton	69,090	69,090
Willie Walsh	150,078	150,078
Keith Williams	33,016	33,016
Maarten van den Bergh	2,000	2,000
Baroness Kingsmill	2,000	2,000
Alison Reed	10,000	10,000
Rafael Sánchez-Lozano Turmo		
Ken Smart	2,000	2,000
Baroness Symons		
Total	**268,184**	**268,184**

	British Airways Plc American Depositary Shares	
	31 December 2010	**31 March 2010**
Jim Lawrence	10,000	**1,000**

* On 1 September 2010 the ratio changed to one American Depositary Share being equivalent to 5 ordinary shares.

	British Airways Plc Convertible Bonds due 2014	
	31 December 2010	**31 March 2010**
Sir Martin Broughton	**2**	2

Keith Williams's shareholding increased to 34,036 following the Merger, as a result of holding 1,000 shares in Iberia. All the above interests are now held in IAG, other than the Convertible Bonds. No Director has any beneficial interest in any subsidiary undertaking of the Company.

Directors' share options

The following Directors held options to purchase ordinary shares in the Company granted under the British Airways Share Option Plan 1999 (SOP 1999). The SOP 1999 was closed after the final grant in 2005/06. The SOP 1999 provided for the grant of options to acquire ordinary shares in the Company or the Company's American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options.

British Airways Share Option Plan 1999

Keith Williams	Date of grant	Number of options as at 1 Apr 2010	Exercise price	Options exercised during the period	Options lapsed during the period	Options granted during the period	Exercisable from	Expiry date	Number of options as at 31 Dec 2010
	28 June 2000	26,315	380p				28 June 2003	28 June 2010	**Nil**
	26 June 2001	38,940	321p				26 June 2004	26 June 2011	**38,940**
	1 July 2002	91,160	181p				1 July 2005	1 July 2012	**91,160**
	25 June 2003	114,649	157p				25 June 2006	25 June 2013	**114,649**
	25 June 2004	72,480	262p				25 June 2007	25 June 2014	**72,480**
	23 June 2005	69,927	276p				23 June 2008	23 June 2015	**69,927**
Total		**413,471**		–	–	–			**387,156**

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

Report of the Remuneration Committee continued

Directors' conditional awards

The following Directors held conditional awards over ordinary shares of the Company granted under the British Airways Long Term Incentive Plan 1996 (LTIP) and the PSP. The LTIP operated from 1996 to 2004 and was replaced by the PSP in 2005.

	Plan	Date of award	Number of awards as at 1 April 2010	Awards vesting during the period	Options exercised during the period	Awards lapsing during the period	Awards made during the period	Number of awards as at 31 December 2010
Willie Walsh								
	PSP	9 August 2007	254,854			254,854		**Nil**
	PSP	19 August 2008	430,664					**430,664**
	PSP	17 September 2010					469,148	**469,148**
Total			**685,518**	–	–	**254,854**	**469,148**	**899,812**
Keith Williams								
	LTIP	9 June 2003	46,631					**46,631**
	LTIP	16 June 2004	22,141					**22,141**
	PSP	9 August 2007	125,910			125,910		**Nil**
	PSP	19 August 2008	257,813					**257,813**
	PSP	19 March 2010	325,123					**325,123**
	PSP	17 September 2010					280,851	**280,851**
Total			**777,618**	–	–	**125,910**	**280,851**	**932,559**

The vested LTIP awards disclosed above were subject to a performance condition that the Company's TSR performance relative to the constituents of the FTSE 100 was median or above. Upon vesting of the LTIP awards and the Remuneration Committee having considered in both cases that underlying financial performance was satisfactory, participants were granted nil-cost options in accordance with the rules of the scheme. Options are exercisable for seven years from the date of vesting of the relevant LTIP award. No payment is due upon the exercise of these options.

PSP awards are subject to the performance conditions outlined earlier in this report on page 45. In each case, the performance conditions will be measured over a single three year performance period, which begins on 1 April prior to the award date. For the award granted in 2008, 50 per cent of the award was subject to TSR performance measured against a group of airlines, and 50 per cent was subject to average operating margin performance. For awards granted from 2009 onwards, 100 per cent of the awards are based on TSR performance, with a financial underpin. Awards generally vest on the third anniversary of the award date.

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2010 PSP award, (17 September 2010) was 235 pence. (2009: 203 pence; 2008: 256 pence; 2007: 412 pence; 2006: 484 pence).

Deferred Share Plan (DSP)

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

Keith Williams	Relates to bonus earned in respect of performance in	Date of award	Number of awards as at 1 April 2010	Awards released during the period	Date of vesting	Awards lapsing during the period	Awards made during the period	Number of awards as at 31 December 2010
	2007/08	19 August 2008	26,100		30 June 2011			**26,100**
	2009/10	17 September 2010	Nil				70,999	**70,999**
Total			**26,100**	**–**		**–**	**70,999**	**97,099**

Willie Walsh did not accept the 2009/10 DSP award.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2008 DSP award (19 August 2008) was 256 pence and the 2010 DSP award (17 September 2010) was 235 pence.

Share scheme dilution limits

The Company followed the guidelines laid down by the Association of British Insurers (ABI) during the reporting period. These restrict the issue of new shares under all the Company's share schemes in any ten year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten year period. As at 31 December 2010, the headroom available for the all employee share schemes was 5.31 per cent and 0.34 per cent for the discretionary schemes. Whereas it had been the Company's intention to use newly issued shares for the SOP 1999 and the PSP 2005 and market purchased shares for the LTIP 1996 and the DSP 2005, it has been agreed with Iberia as a term of the Merger agreement that only market purchased shares will be used to satisfy future awards.

The highest and lowest prices of the Company's shares during the reporting periods and the share price at 31 December 2010 and 31 March 2010 comparatives were:

	December 2010	March 2010
At 31 December/31 March	272.50	243.00
Highest in the year	286.00	253.90
Lowest in the year	184.20	118.00

Approved by the Board and signed on its behalf by

Alison Reed
Non-executive Director and Chairman of the
Remuneration Committee
24 February 2011

Responsibility statements

Directors' statement as to disclosure of information to the auditor

The Directors who are members of the Board at the time of approving the Directors' report and business review are listed on page 32. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- To the best of each Director's knowledge and belief there is no information relevant to the preparation of the auditor's report of which the Company's auditor is unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to make him or herself aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

Statement of Directors' responsibilities in relation to the financial statements

The Directors as listed on page 32 are responsible for preparing the annual report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards (IFRS) as adopted by the EU.

The Directors are required to prepare financial statements for each financial year, which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors as listed on page 32 are responsible for keeping proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4

The Directors listed on page 32 confirm that, to the best of each person's knowledge:

- The Group and Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit/(loss) of the Company and of the Group taken as a whole; and
- The management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by

Alan Buchanan
Company Secretary
24 February 2011

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

We have audited the financial statements of British Airways Plc for the nine-month period ended 31 December 2010 which comprises the Group consolidated income statement, the Group statement of other comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Richard Wilson (Senior statutory auditor)
For and on behalf of Ernst & Young LLP,
Statutory auditor London
24 February 2011

Contents

Financial statements

Group consolidated income statement

£ million	Note	Group Nine months to 31 December 2010	12 months to 31 March 2010
Traffic revenue			
Passenger		**5,831**	*6,980*
Cargo		**531**	*550*
		6,362	*7,530*
Other revenue		**321**	*464*
Revenue	3	**6,683**	*7,994*
Employee costs	6	**1,547**	*1,998*
Restructuring	4	**6**	*85*
Depreciation, amortisation and impairment	4	**570**	*732*
Aircraft operating lease costs		**51**	*69*
Fuel and oil costs		**1,869**	*2,372*
Engineering and other aircraft costs		**412**	*505*
Landing fees and en-route charges		**464**	*608*
Handling charges, catering and other operating costs		**765**	*997*
Selling costs		**235**	*290*
Currency differences		**(1)**	*(2)*
Accommodation, ground equipment and IT costs		**423**	*571*
Total expenditure on operations		**6,341**	*8,225*
Operating profit/(loss)	4	**342**	*(231)*
Fuel derivative (losses)/gains		**(2)**	*15*
Finance costs	7	**(125)**	*(157)*
Finance income	7	**18**	*20*
Net financing expense relating to pensions	7	**(49)**	*(116)*
Retranslation charges on currency borrowings	7	**(12)**	*(14)*
Loss on sale of property, plant and equipment and investments	8	**(3)**	*(16)*
Share of post-tax profits/(losses) in associates accounted for using the equity method	18	**6**	*(32)*
Net charge relating to available-for-sale financial assets	19	**(18)**	
Profit/(loss) before tax		**157**	*(531)*
Tax	10	**13**	*106*
Profit/(loss) after tax		**170**	*(425)*
Attributable to:			
Equity holders of the parent		**157**	*(443)*
Non-controlling interest		**13**	*18*
		170	*(425)*
Earnings/(loss) per share			
Basic	11	**13.6p**	*(38.5)p*
Diluted	11	**13.6p**	*(38.5)p*

Statement of other comprehensive income

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
Net profit/(loss) for the period	**170**	(425)
Other comprehensive income:		
Exchange losses	**(8)**	*(18)*
Net gains on cash flow hedges	**84**	*587*
Share of other movements in reserves of associates	**48**	*34*
Net gain on available-for-sale financial assets		*22*
Total comprehensive income for the period (net of tax)	**294**	*200*
Attributable to:		
Equity holders of the parent	**281**	*182*
Non-controlling interest	**13**	*18*
	294	*200*

Balance sheets

£ million	Note	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Non-current assets					
Property, plant and equipment:					
Fleet	13	**5,758**	*5,739*	**5,491**	*5,523*
Property	13	**885**	*920*	**838**	*871*
Equipment	13	**221**	*245*	**214**	*239*
		6,864	*6,904*	**6,543**	*6,633*
Intangibles:					
Goodwill	16	**40**	*40*		
Landing rights	16	**209**	*202*	**181**	*163*
Software	16	**37**	*27*	**36**	*27*
		286	*269*	**217**	*190*
Investments in subsidiaries	18			**2,333**	*2,368*
Investments in associates	18	**244**	*197*		
Available-for-sale financial assets	19	**65**	*76*	**18**	*21*
Employee benefit assets	34	**575**	*483*	**575**	*483*
Derivative financial instruments	30	**19**	*27*	**19**	*27*
Prepayments and accrued income		**40**	*17*	**163**	*93*
Total non-current assets		**8,093**	*7,973*	**9,868**	*9,815*
Non-current assets held for sale	15	**33**	*30*	**33**	*25*
Current assets and receivables					
Inventories	20	**98**	*98*	**96**	*97*
Trade receivables	21	**384**	*499*	**368**	*486*
Other current assets	22	**260**	*289*	**377**	*376*
Derivative financial instruments	30	**132**	*74*	**132**	*74*
Other current interest-bearing deposits	23	**1,173**	*928*	**1,153**	*908*
Cash and cash equivalents	23	**779**	*786*	**753**	*756*
		1,952	*1,714*	**1,906**	*1,664*
Total current assets and receivables		**2,826**	*2,674*	**2,879**	*2,697*
Total assets		**10,952**	*10,677*	**12,780**	*12,537*
Shareholders' equity					
Issued share capital	31	**288**	*288*	**288**	*288*
Share premium		**937**	*937*	**937**	*937*
Investment in own shares		**(3)**	*(4)*	**(3)**	*(4)*
Other reserves	33	**978**	*692*	**590**	*273*
Total shareholders' equity		**2,200**	*1,913*	**1,812**	*1,494*
Non-controlling interests	33	**200**	*200*		
Total equity		**2,400**	*2,113*	**1,812**	*1,494*
Non-current liabilities					
Interest-bearing long-term borrowings	26	**3,496**	*3,446*	**3,737**	*3,698*
Employee benefit obligations	34	**219**	*208*	**211**	*200*
Provisions for deferred tax	10	**788**	*774*	**751**	*720*
Other provisions	28	**164**	*159*	**139**	*141*
Derivative financial instruments	30	**4**	*5*	**4**	*5*
Other long-term liabilities	25	**306**	*232*	**265**	*194*
Total non-current liabilities		**4,977**	*4,824*	**5,107**	*4,958*
Current liabilities					
Current portion of long-term borrowings	26	**457**	*556*	**456**	*554*
Trade and other payables	24	**2,815**	*2,910*	**5,103**	*5,256*
Derivative financial instruments	30	**10**	*12*	**11**	*13*
Current tax payable		**10**	*2*	**11**	*5*
Short-term provisions	28	**283**	*260*	**280**	*257*
Total current liabilities		**3,575**	*3,740*	**5,861**	*6,085*
Total equity and liabilities		**10,952**	10,677	**12,780**	*12,537*

Approved by the Board and signed on its behalf by

Sir Martin Broughton, on 24 February 2011

Keith Williams, on 24 February 2011

Cash flow statements

£ million	Note	Group Nine months to 31 December 2010	Group *12 months to 31 March 2010*	Company Nine months to 31 December 2010	Company *12 months to 31 March 2010*
Cash flow from operating activities					
Operating profit/(loss)		**342**	*(231)*	**355**	*(202)*
Depreciation, amortisation and impairment		**570**	*732*	**539**	*709*
Operating cash flow before working capital changes		**912**	*501*	**894**	*507*
Movement in inventories, trade and other receivables		**12**	*(181)*	**(62)**	*(242)*
Movement in trade and other payables and provisions		**(28)**	*241*	**(134)**	*1,289*
Payments in respect of restructuring		**(14)**	*(81)*	**(14)**	*(81)*
Payments in settlement of competition investigation		**(3)**	*(19)*	**(3)**	*(19)*
Other non-cash movement				**(1)**	
Cash generated from operations		**879**	*461*	**680**	*1,454*
Interest paid		**(87)**	*(136)*	**(72)**	*(125)*
Taxation			*6*		*(4)*
Net cash generated from operating activities		**792**	*331*	**608**	*1,325*
Cash flow from investing activities					
Purchase of property, plant and equipment	13	**(510)**	*(492)*	**(440)**	*(391)*
Purchase of intangible assets	16	**(35)**	*(13)*	**(35)**	*(13)*
Purchase of available-for-sale financial assets		**(10)**			
Purchase of subsidiary (net of cash acquired)			*(9)*		*(9)*
Proceeds from sale of available-for-sale financial assets		**1**			
Proceeds from sale of non-current assets held for sale, property, plant and equipment		**43**	*102*	**36**	*60*
Proceeds received from loan notes		**4**	*7*	**4**	*7*
Interest received		**17**	*17*	**16**	*8*
Dividends received				**102**	*6*
(Increase)/decrease in other current interest-bearing deposits		**(245)**	*51*	**(245)**	*(865)*
Net cash used in investing activities		**(735)**	*(337)*	**(562)**	*(1,197)*
Cash flow from financing activities					
Proceeds from long-term borrowings		**368**	*1,053*	**368**	*1,053*
Proceeds from equity portion of convertible bond			*84*		*84*
Repayments of borrowings		**(100)**	*(160)*	**(89)**	*(148)*
Payment of finance lease liabilities		**(349)**	*(609)*	**(358)**	*(616)*
Distributions made to holders of perpetual securities		**(13)**	*(18)*		
Net cash flow from financing activities		**(94)**	*350*	**(79)**	*373*
Net (decrease)/increase in cash and cash equivalents		**(37)**	*344*	**(33)**	*501*
Net foreign exchange differences		**30**	*40*	**30**	*36*
Cash and cash equivalents at 1 April		**786**	*402*	**756**	*219*
Cash and cash equivalents at period end	23	**779**	*786*	**753**	*756*

Statements of changes in equity

£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 33)	**Total shareholders' equity**	Non-controlling interest	**Total equity**
							Group
At 1 April 2010	288	937	(4)	692	**1,913**	200	**2,113**
Total comprehensive income for the period (net of tax)				281	**281**	13	**294**
Cost of share-based payment				6	**6**		**6**
Exercise of share options			1	(1)			
Distributions made to holders of perpetual securities						(13)	**(13)**
At 31 December 2010	**288**	**937**	**(3)**	**978**	**2,200**	**200**	**2,400**

For the year ended 31 March 2010

£ million	*Issued capital*	*Share premium*	*Investment in own shares*	*Other reserves (note 33)*	*Total shareholders' equity*	*Non-controlling interest*	*Total equity*
							Group
At 1 April 2009	*288*	*937*	*(9)*	*430*	*1,646*	*200*	*1,846*
Total comprehensive income for the year (net of tax)				*182*	*182*	*18*	*200*
Equity portion of convertible bond*				*84*	*84*		*84*
Cost of share-based payment				*1*	*1*		*1*
Exercise of share options			*5*	*(5)*			
Distributions made to holders of perpetual securities						*(18)*	*(18)*
At 31 March 2010	*288*	*937*	*(4)*	*692*	*1,913*	*200*	*2,113*

* After deduction of transaction costs of £2 million

£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 33)	**Total equity**
					Company
At 1 April 2010	288	937	(4)	273	**1,494**
Total comprehensive income for the year (net of tax)				312	**312**
Exercise of share options			1	(1)	
Cost of share-based payment				6	**6**
At 31 December 2010	**288**	**937**	**(3)**	**590**	**1,812**

For the year ended 31 March 2010

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

* After deduction of transaction costs of £2 million.

Notes to the accounts

1 Authorisation of financial statements and compliance with IFRSs

In April 2010, British Airways and Iberia signed a merger agreement to create a new leading airline group. The merger was completed on 21 January 2011. International Airlines Group (IAG) was formed and shares in IAG started trading on the London Stock Exchange, with a secondary listing in Spain, on 24 January 2011. As a consequence, the British Airways Group (the Group) has changed its reporting period to a December year end. This set of financial statements has been prepared for the nine months ended 31 December 2010. The comparative results are the Group's published financial statements for the year ended 31 March 2010.

The Group's and Company's financial statements for the nine month period ended 31 December 2010 were authorised for issue by the Board of Directors on 24 February 2011 and the balance sheets were signed on the Board's behalf by Keith Williams and Sir Martin Broughton. British Airways Plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares ceased being traded on the London Stock Exchange on 21 January 2011.

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

The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

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

2 Summary of significant accounting policies

Basis of preparation

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

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

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

Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, each made up to 31 December (31 March for the prior year), 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.

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

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

Notes to the accounts continued

2 Summary of significant accounting policies *continued*

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 Team as detailed on page 33. 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. Capitalised landing rights based within the EU are not amortised, as regulations within the EU consider them to have an indefinite economic life.

c Software

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

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

Property, plant and equipment

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

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

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying 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 depreciate 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.

Non-current assets held for sale

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

Inventories

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

Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in investment in associates in the consolidated balance sheet and its interest in their results is included in the income statement, below operating profit. Certain associates make up their annual audited accounts to dates other than 31 December 2010 (prior year 31 March 2010). In the case of Iberia, published results up to the nine month period ended 30 September 2010 are included. In other cases, results disclosed by subsequent unaudited management accounts are included. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. Refer to note 18 for details of investments in associates.

Cash and cash equivalents

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

Other current interest-bearing deposits

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

Trade and other receivables

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

Available-for-sale financial assets

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

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. 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.

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 ten 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 ten per cent the excess amount is recognised on a straight-line basis in the income statement over the estimated average remaining service period.

The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations.

b Termination benefits

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

Other employee benefits are recognised when there is deemed to be a present obligation.

Notes to the accounts continued

2 Summary of significant accounting policies *continued*

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 period. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the income statement.

Derivatives and financial instruments

In accordance with IAS 39 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each period 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 is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euro and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

Impairment in financial assets

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

Investment in own shares

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

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

Derecognition of financial assets and liabilities

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

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

Exceptional items

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

Key accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 17.

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 32.

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 34.

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 9.

Notes to the accounts continued

2 Summary of significant accounting policies *continued*

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.

Impact of new International Financial Reporting Standards

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

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

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

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

IAS 17 (Amendment), 'Leases'; effective for periods beginning on or after 1 January 2010. The amendment requires that leases of land are classified as either 'finance' or 'operating' using the general principles of the Standard.

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

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

IAS 38 (Revised), 'Intangible assets'; effective for periods beginning on or after 1 July 2009. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and allows the grouping of assets into a single asset if each asset has a similar economic life.

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

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

New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the date of these financial statements which management believe could impact the Group in future periods. The Group plan to adopt the following standards, interpretations and amendments from 1 January 2011, management have not yet determined the potential effect of the amendments.

IFRS 3 (Amendment), 'Business Combinations'; effective for periods beginning on or after 1 January 2011. The amendment clarifies guidance on the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation.

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; effective for periods beginning on or after 1 January 2011. The amendment includes multiple clarifications related to the disclosure of financial instruments.

IAS 1 (Amendment) 'Presentation of Financial Statements'; effective for periods beginning on or after 1 January 2011. The amendment permits, for each component of equity, the presentation of the analysis by item to be included in either the statement of changes in equity or the notes to the financial statements.

IAS 34 (Amendment) 'Interim Financial Reporting'; effective for periods beginning on or after 1 January 2011. The amendment clarifies guidance on the disclosure principals involving significant events and transactions, including changes to fair value measurements, and the requirement to update relevant information from the most recent annual report.

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

3 Segment information

a Business segments

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

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

For the nine months ended 31 December 2010

£ million	Airline business	All other segments	Unallocated	**Total**
Revenue				
Sales to external customers	6,524	159		**6,683**
Inter-segment sales	57			**57**
Segment revenue	6,581	159		**6,740**
Segment result	323	19		**342**
Other non-operating costs	(20)			**(20)**
Profit before tax and finance costs	303	19		**322**
Net finance costs	(31)		(137)	**(168)**
Loss on sale of assets	(3)			**(3)**
Share of associates' profit	6			**6**
Tax			13	**13**
Profit/(loss) after tax	275	19	(124)	**170**
Assets and liabilities				
Segment assets	10,585	123		**10,708**
Investment in associates	244			**244**
Total assets	10,829	123		**10,952**
Segment liabilities	3,424	377		**3,801**
Unallocated liabilities*			4,751	**4,751**
Total liabilities	3,424	377	4,751	**8,552**
Other segment information				
Property, plant and equipment – additions (note 13d)	561	2		**563**
Non-current assets held for sale – transfers in (note 15)	47			**47**
Intangible assets – additions (note 16c)	35			**35**
Depreciation, amortisation and impairment (note 4a)	569	1		**570**
Impairment of available-for-sale financial assets – including Flybe (note 9)	18			**18**
Exceptional items (note 4b):				
Restructuring	6			**6**
Costs associated with the Iberia merger	31			**31**
Impairment of OpenSkies assets	12			**12**
Impairment of property, plant and equipment	16			**16**

* Unallocated liabilities consist of current taxes of £10 million, deferred taxes of £788 million and borrowings of £3,953 million which are managed on a Group basis.

Notes to the accounts continued

3 Segment information *continued*

a Business segments *continued*

For the year ended 31 March 2010

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

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

b Geographical analysis – by area of original sale

£ million	Group **Nine months to 31 December 2010**	12 months to 31 March 2010
Europe:	**3,906**	*4,891*
UK	**2,943**	*3,636*
Continental Europe	**963**	*1,255*
The Americas:	**1,493**	*1,651*
USA	**1,334**	*1,473*
The rest of the Americas	**159**	*178*
Africa, Middle East and Indian sub-continent	**727**	*731*
Far East and Australasia	**557**	*721*
Revenue	**6,683**	*7,994*

Total of non-current assets excluding available-for-sale financial assets, employee benefit assets, prepayments and accrued income and derivative financial instruments located in the UK is £7,063 million (31 March 2010: £7,060 million) and the total of these non-current assets located in other countries is £364 million (31 March 2010: £340 million).

4 Operating profit/(loss)

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

Depreciation, amortisation and impairment of non-current assets:

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
Owned assets	**370**	*463*
Finance leased aircraft	**109**	*142*
Hire purchased aircraft	**20**	*67*
Other leasehold interests	**36**	*51*
Impairment charge on property, plant, equipment and intangible assets	**28**	
Amortisation of intangible assets	**7**	*9*
	570	*732*

Operating lease costs:

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
Minimum lease rentals - aircraft	**51**	*78*
- property and equipment	**73**	*98*
Sub-lease rentals received	**(10)**	*(12)*
Net onerous lease provision increase		*2*
	114	*166*

Cost of inventories:

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
Cost of inventories recognised as an expense, mainly fuel and other	**1,865**	*1,984*

b Exceptional items

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
Recognised in operating profit/(loss):		
Restructuring costs	**6**	*85*
Impairment of OpenSkies assets (note 17)	**12**	
Impairment of property, plant and equipment (note 17)	**16**	
Costs associated with the Iberia merger (note 37)	**31**	
	65	*85*

During the period the Group incurred restructuring costs mainly relating to lease exit costs (31 March 2010: mainly relating to the reduction in employees announced during the year).

Notes to the accounts continued

5 Auditor's remuneration

£ '000	Group Nine months to 31 December 2010	Group 12 months to 31 March 2010	Company Nine months to 31 December 2010	Company 12 months to 31 March 2010
Group auditors				
Fees payable to the Group's auditor for the audit of the Group's accounts	**1,701**	*1,841*	**1,701**	*1,841*
Fees payable to the Group's auditor and its associates for other services:				
Audit of the Group's subsidiaries pursuant to legislation	**402**	*310*		
Other services pursuant to legislation	**29**	*48*	**29**	*48*
Other services relating to taxation	**209**	*356*	**195**	*294*
Services relating to corporate finance transactions *	**2,200**	*1,100*	**2,200**	*1,100*
	4,541	*3,655*	**4,125**	*3,283*

* In the period, this included services in relation to the Joint Business Agreement with American Airlines and Iberia and the Merger with Iberia.

Of the Group fees, £4,343,000 relates to the UK (March 2010: £3,425,000) and £198,000 relates to overseas (March 2010: £230,000).

Of the Company fees, £3,941,000 relates to the UK (March 2010: £3,121,000) and £184,000 relates to overseas (March 2010: £162,000).

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.

6 Employee costs and numbers

a Staff costs

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

Number	Group Nine months to 31 December 2010	Group 12 months to 31 March 2010	Company Nine months to 31 December 2010	Company 12 months to 31 March 2010
UK	**34,745**	*35,920*	**32,699**	*33,838*
Overseas	**5,083**	*5,574*	**4,369**	*4,670*
	39,828	*41,494*	**37,068**	*38,508*

£ million	Group Nine months to 31 December 2010	Group 12 months to 31 March 2010	Company Nine months to 31 December 2010	Company 12 months to 31 March 2010
Wages and salaries	**993**	*1,346*	**930**	*1,265*
Social security costs	**114**	*146*	**104**	*135*
Costs related to pension scheme benefits	**157**	*145*	**153**	*140*
Other post-retirement benefit costs	**3**	*4*	**3**	*3*
Other employee costs	**280**	*357*	**270**	*343*
Total employee costs excluding restructuring	**1,547**	*1,998*	**1,460**	*1,886*
Restructuring *	**(1)**	*75*	**(1)**	*75*
Total employee costs	**1,546**	*2,073*	**1,459**	*1,961*

* Restructuring costs included above excludes £7 million of lease exit costs (March 2010: £10 million).

In addition, included in 'Wages and salaries' is a total expense for share-based payments of £6 million (31 March 2010: £1 million) that arises from transactions accounted for as equity-settled share-based payment transactions.
Other employee costs include allowances and accommodation for crew.

6 Employee costs and numbers *continued*

b Directors' emoluments

£ '000	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
Fees	**531**	*649*
Salary and benefits	**903**	*1,105*
Performance-related bonuses	**628**	*501*
	2,062	*2,255*

During the reporting period 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 43 to 51.

7 Finance costs and income

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
a Finance costs		
On bank loans*	**(13)**	*(13)*
On finance leases	**(47)**	*(56)*
On hire purchase arrangements	**(2)**	*(7)*
On other loans*	**(52)**	*(65)*
Interest expense	**(114)**	*(141)*
Unwinding of discounting on provisions**	**(13)**	*(19)*
Capitalised interest ***	**1**	*1*
Change in fair value of cross currency swaps	**1**	*2*
	(125)	*(157)*

* Total interest expense for financial liabilities not at fair value through the income statement is £65 million (March 2010: £78 million).
** Unwinding of discount on the competition investigation provision and restoration and handback provisions (note 28).
*** Interest costs on progress payments are capitalised at a rate based on London Interbank Offered Rate (LIBOR) plus 0.5 per cent which is the rate specific to the borrowings.

£ million	Group **Nine months to 31 December 2010**	*12 months to 31 March 2010*
b Finance income		
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	**18**	*20*
	18	*20*
c Financing income and expense relating to pensions		
Net financing income/(expense) relating to pensions	**2**	*(164)*
Amortisation of actuarial losses in excess of the corridor	**(62)**	*(37)*
Immediate recognition of net actuarial gains (APS)	**84**	
Effect of the APS asset ceiling	**(73)**	*85*
	(49)	*(116)*
d Retranslation charges on currency borrowings	**(12)**	*(14)*

Notes to the accounts continued

8 Loss on sale of non-current assets

£ million	Nine months to 31 December 2010	*12 months to 31 March 2010*
Loss on sale of non-current assets held for sale	**3**	
Loss on sale of property, plant and equipment		*16*
Loss on sale of non-current assets	**3**	*16*

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

£ million	Group Nine months to 31 December 2010	*12 months to 31 March 2010*
Income from available-for-sale financial assets*	**1**	*2*
Amounts written off investments**	**(19)**	*(2)*
	(18)	*–*

* Includes £1 million (March 2010: £1 million) attributable to interest earned on loans to The Airline Group Limited, an available-for-sale financial asset.

** Includes a £15 million impairment of the Group's investment in Flybe Group plc (note 19) (March 2010: £nil) and a £4 million (March 2010: £2 million) impairment of the Group's investment in Inter-Capital and Regional Rail Limited, a loss making entity that managed Eurostar UK Limited until 2010. The Group no longer holds an investment in this entity.

10 Tax

a Tax on profit/(loss) on ordinary activities

Tax credit in the income statement

£ million	Group Nine months to 31 December 2010	*12 months to 31 March 2010*
Current income tax		
UK corporation tax	**2**	*(4)*
UK tax	**2**	*(4)*
Adjustments in respect of prior years - UK corporation tax	**4**	*2*
Total current income tax charge/(credit)	**6**	*(2)*
Deferred tax		
Property, plant and equipment related temporary differences	**(67)**	*(72)*
Pension related temporary differences	**(40)**	*77*
Unremitted earnings of associate companies	**(1)**	*(26)*
Tax losses carried forward	**121**	*(66)*
Exchange related temporary differences	**(3)**	*(4)*
Share option deductions written back	**(1)**	
Other temporary differences		*(2)*
Adjustments in respect of prior years - deferred tax	**8**	*(11)*
Effect of corporation tax rate change on deferred tax balances	**(36)**	
Total deferred tax credit	**(19)**	*(104)*
Total tax credit in the income statement	**(13)**	*(106)*

10 Tax *continued*

a Tax on profit/(loss) on ordinary activities *continued*

Tax charge directly to equity

£ million	Group **Nine months to 31 December 2010**	*12 Months to 31 March 2010*
Deferred tax relating to items charged to statement of other comprehensive income		
Foreign exchange	**11**	*34*
Net gains on cash flow hedges	**20**	*193*
Share of other movements in reserves of associates		*3*
Deferred tax relating to items charged/(credited) to statement of changes in equity		
Share options in issue	**2**	*(4)*
Total tax charge relating to items included in the statement of other comprehensive income and statement of other changes in equity	**33**	*226*

b Reconciliation of the total tax charge/(credit)

The tax charge on the profit for the period ended 31 December 2010 is less than the notional tax charge calculated at the UK Corporation tax rate of 28 per cent.

The tax credit on the loss for the year ended 31 March 2010 is less than the notional tax credit calculated at the prior year UK corporation tax rate of 28 per cent.

The differences are explained below:

£ million	Group **Nine months to 31 December 2010**	*12 Months to 31 March 2010*
Accounting profit/(loss) before tax	**157**	*(531)*
Accounting profit/(loss) multiplied by standard rate of corporation tax in the UK of 28 per cent (March 2010: 28 per cent)	**44**	*(149)*
Effects of:		
Tax on associate and subsidiary companies		
Tax on associates' profits and dividends	**(2)**	*9*
Effect of change in foreign profits legislation		*(13)*
Tax on subsidiaries unremitted earnings		*(8)*
Tax on remitted earnings	**1**	
Euro preferred securities		
Euro preferred securities accounted for as non-controlling interests	**(4)**	*(5)*
Tax on revaluation of intra group foreign currency loans	**1**	*1*
Deferred tax assets not recognised		
Current year losses not recognised	**4**	*9*
Other		
Non-deductible expenses	**14**	*10*
Effect of pension fund accounting	**(62)**	*45*
Foreign exchange and unwind of discount on competition investigation provisions	**3**	*4*
Adjustments in respect of prior years	**12**	*(9)*
Disposal and write down of investments	**10**	
Overseas tax in relation to branches	**2**	
Effect of corporation tax rate change to 27 per cent on closing deferred tax balances	**(36)**	
Tax credit in the income statement	**(13)**	*(106)*

Notes to the accounts continued

10 Tax *continued*

c Deferred tax

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

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Fixed asset related temporary differences	**952**	*1,043*	**882**	*957*
Pensions related temporary differences	**20**	*62*	**22**	*64*
Exchange differences on funding liabilities	**(30)**	*(38)*	**(30)**	*(38)*
Advance corporation tax	**(94)**	*(94)*	**(94)**	*(94)*
Tax losses carried forward	**(61)**	*(181)*	**(61)**	*(181)*
Subsidiary and associate unremitted earnings		*1*		*1*
Fair value profits recognised on cash flow hedges	**40**	*19*	**40**	*19*
Share options related temporary differences	**(5)**	*(5)*	**(5)**	*(5)*
Deferred revenue in relation to loyalty reward programmes	**(32)**	*(30)*		
Other temporary differences	**(2)**	*(3)*	**(3)**	*(3)*
At period end	**788**	*774*	**751**	*720*

Movement in provision

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Balance at 1 April	**774**	*652*	**720**	*592*
Deferred tax credit relating to income statement	**(19)**	*(104)*	**(2)**	*(95)*
Deferred tax charge taken to statement of other comprehensive income	**31**	*230*	**31**	*227*
Deferred tax charge/(credit) taken to statement of changes in equity	**2**	*(4)*	**2**	*(4)*
At period end	**788**	*774*	**751**	*720*

d Other taxes

The Group also contributed tax revenues through payment of transaction and payroll related taxes. A breakdown of these other taxes paid during 2010 was as follows:

£ million	Group Nine months to 31 December 2010	Group 12 months to 31 March 2010
UK Air Passenger Duty	**261**	*323*
Other ticket taxes	**188**	*167*
Payroll related taxes	**111**	*146*
Total	**560**	*636*

The UK Government has implemented substantial increases in the rates of Air Passenger Duty from 1 November 2010 and has stated that consultations will be held on any future proposals to replace or amend the structure of Air Passenger Duty.

10 Tax *continued*

e Factors that may affect future tax charges

The Group has UK capital losses carried forward of £193 million (March 2010: £189 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 (March 2010: £69 million). No deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they could be offset against the UK capital losses carried forward. The Group also has an unrecognised deferred tax asset of £75 million (March 2010: £79 million) arising from temporary differences in respect of future capital losses if properties are realised at their residual value.

The Group has overseas tax losses of £61 million (March 2010: £44 million) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated.

UK tax legislation largely exempts UK and overseas dividends received on or after 1 July 2009 from UK tax and as there are no withholding taxes arising on the payment of such dividends, the timing difference on unremitted earnings of overseas subsidiaries is £nil (March 2010: £nil).

The Group has UK non-trading losses carried forward of £31 million (March 2010: £nil) in excess of non trade interest. No deferred tax asset has been recognised in respect of these losses as their utilisation is currently not anticipated.

A stepped reduction in the UK corporation tax rate from 28 per cent to 24 per cent over 4 years was announced in the Emergency Budget. The Finance (No. 2) Act 2010 included the first of the 1 per cent rate reductions with effect from April 2011, with subsequent reductions to be dealt with by future legislation. The provision for deferred tax on timing differences as at 31 December 2010 was calculated at 27 per cent, the corporation tax rate effective from April 2011. The difference from the application of 27 per cent instead of 28 per cent for the three month period to 31 March 2011 is not expected to be material. The benefit to the Group's net assets, if the 4 per cent reduction in the rate is applied to the Group's gross deferred tax balances at 31 December 2010 is estimated as £131 million in total and will be applied in the Group's Financial Statements as the legislation is substantively enacted.

11 Earnings per share

				Group
		Profit/(loss)		**Earnings per share**
	Nine months to 31 December 2010 £ million	*12 months to 31 March 2010 £ million*	**Nine months to 31 December 2010 Pence**	*12 months to 31 March 2010 Pence*
Profit/(loss) for the period	**170**	*(425)*		
Non-controlling interest	**(13)**	*(18)*		
Profit/(loss) for the period attributable to shareholders and basic earnings per share (EPS)	**157**	*(443)*	**13.6**	*(38.5)*
Interest expense on convertible bond	**27**	*21*		
Diluted profit/(loss) for the period attributable to shareholders and diluted EPS	**184**	*(422)*	**13.6**	*(38.5)*
Weighted average number of shares for basic EPS ('000)			**1,152,634**	*1,152,088*
*Dilutive potential ordinary shares:				
5.8 per cent convertible capital bonds			**185,185**	*117,199*
Employee share options ('000)			**8,558**	*4,796*
Weighted average number of shares for diluted EPS ('000)			**1,346,377**	*1,274,083*

* During the prior year, the Group issued a £350 million convertible bond (note 37), convertible into ordinary shares at the option of the holder. In addition the Group granted additional options over shares to employees. Details of the Group's share options and long-term borrowings can be found in notes 32 and 26 respectively.

Basic EPS are calculated on a weighted average number of ordinary shares in issue after deducting shares held for the purposes of Employee Share Ownership Plan.

12 Dividends

The Directors declare that no dividend be paid for the nine months ended 31 December 2010 (March 2010: £nil).

Notes to the accounts continued

13 Property, plant and equipment

a Group

£ million	Fleet	Property	Equipment	Group Total
Cost				
Balance at 1 April 2009	*11,836*	*1,516*	*783*	*14,135*
Additions (note 13d)	*518*	*10*	*26*	*554*
Disposals	*(231)*	*(6)*	*(64)*	*(301)*
Reclassifications	*(170)*		*(1)*	*(171)*
Exchange movements	*(1)*			*(1)*
Balance at 31 March 2010	*11,952*	*1,520*	*744*	*14,216*
Additions (note 13d)	545	8	10	563
Disposals	(73)	(2)	(8)	(83)
Reclassifications	(177)		(2)	(179)
Exchange movements	(3)			(3)
At 31 December 2010	**12,244**	**1,526**	**744**	**14,514**
Depreciation and impairment				
Balance at 1 April 2009	*5,840*	*545*	*517*	*6,902*
Charge for the year	*616*	*61*	*46*	*723*
Disposals	*(113)*	*(6)*	*(64)*	*(183)*
Reclassifications	*(130)*			*(130)*
Balance at 31 March 2010	*6,213*	*600*	*499*	*7,312*
Charge for the period	457	43	35	535
Impairment charge*	18			18
Disposals	(71)	(2)	(8)	(81)
Reclassifications	(131)		(3)	(134)
At 31 December 2010	**6,486**	**641**	**523**	**7,650**
Net book amounts				
31 December 2010	**5,758**	**885**	**221**	**6,864**
31 March 2010	*5,739*	*920*	*245*	*6,904*
Analysis at 31 December 2010				
Owned	3,290	874	199	**4,363**
Finance leased	2,114		16	**2,130**
Hire purchase arrangements	201			**201**
Progress payments	65	11	6	**82**
Assets not in current use**	88			**88**
	5,758	**885**	**221**	**6,864**
Analysis at 31 March 2010				
Owned	*2,685*	*904*	*225*	*3,814*
Finance leased	*2,092*		*17*	*2,109*
Hire purchase arrangements	*770*			*770*
Progress payments	*71*	*16*	*3*	*90*
Assets not in current use**	*121*			*121*
	5,739	*920*	*245*	*6,904*

£ million	Group **31 December 2010**	*31 March 2010*
The net book amount of property comprises:		
Freehold	**251**	*258*
Long leasehold improvements	**252**	*253*
Short leasehold improvements***	**382**	*409*
At period end	**885**	*920*

* The impairment charge relates to two Boeing 747-400 aircraft which were permanently written off to their realisable value during the period and the write down of the carrying values of property, plant and equipment relating to OpenSkies (note 17).

** As at 31 March 2010 eight Boeing 747-400 aircraft were in temporary storage (net book value £121 million). During the period, one of these aircraft was returned to service and two were permanently written down. Additionally, one Boeing 757-200 was stood down for disposal. The net book value of the remaining seven 747-400s and one 757-200 as at 31 December 2010 was £88 million.

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

13 Property, plant and equipment *continued*

a Group *continued*

As at 31 December 2010, bank and other loans of the Group are secured on fleet assets with a cost of £2,008 million (31 March 2010: £1,572 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (31 March 2010: £230 million).

Included in the cost of tangible assets for the Group is £343 million (31 March 2010: £345 million) of capitalised interest.

Property, plant and equipment with a net book value of £2 million was disposed of by the Group during the nine months ended 31 December 2010 (31 March 2010: £118 million) resulting in no gain or loss (March 2010: loss of £16 million).

b Company

£ million	Fleet	Property	Equipment	Company Total
Cost				
Balance at 1 April 2009	*11,464*	*1,430*	*714*	*13,608*
Additions	*419*	*10*	*24*	*453*
Disposals	*(149)*	*(6)*	*(31)*	*(186)*
Net transfers to subsidiary undertakings	*(23)*		*1*	*(22)*
Reclassifications	*(165)*		*(1)*	*(166)*
Balance at 31 March 2010	*11,546*	*1,434*	*707*	*13,687*
Additions	474	8	8	490
Disposals	(69)	(2)	(7)	(78)
Exchange	(2)			(2)
Reclassifications	(176)		1	(175)
At 31 December 2010	**11,773**	**1,440**	**709**	**13,922**
Depreciation and impairment				
Balance at 1 April 2009	*5,659*	*510*	*456*	*6,625*
Charge for the year	*598*	*59*	*43*	*700*
Disposals	*(86)*	*(6)*	*(31)*	*(123)*
Net transfers to subsidiary undertakings	*(19)*			*(19)*
Reclassifications	*(129)*			*(129)*
Balance at 31 March 2010	*6,023*	*563*	*468*	*7,054*
Charge for the period	441	41	34	516
Disposals	(67)	(2)	(7)	(76)
Impairment charge*	16			16
Reclassifications	(131)			(131)
At 31 December 2010	**6,282**	**602**	**495**	**7,379**
Net book amounts				
31 December 2010	**5,491**	**838**	**214**	**6,543**
31 March 2010	*5,523*	*871*	*239*	*6,633*
Analysis at 31 December 2010				
Owned	3,027	827	192	**4,046**
Finance leased	2,114		16	**2,130**
Hire purchase arrangements	202			**202**
Progress payments	60	11	6	**77**
Assets not in current use**	88			**88**
	5,491	**838**	**214**	**6,543**
Analysis at 31 March 2010				
Owned	*2,472*	*855*	*219*	*3,546*
Finance leased	*2,094*		*17*	*2,111*
Hire purchase arrangements	*770*			*770*
Progress payments	*66*	*16*	*3*	*85*
Assets not in current use**	*121*			*121*
	5,523	*871*	*239*	*6,633*

Notes to the accounts continued

13 Property, plant and equipment *continued*

b Company *continued*

£ million	Company 31 December 2010	Company 31 March 2010
The net book amount of property comprises:		
Freehold	**206**	*212*
Long leasehold improvements	**250**	*250*
Short leasehold improvements***	**382**	*409*
At period end	**838**	*871*

* The impairment charge relates to two Boeing 747-400 aircraft which were permanently written off to their realisable value during the period.

** As at 31 March 2010 eight Boeing 747-400 aircraft were in temporary storage (net book value £121 million). During the period, one of these aircraft was returned to service and two were permanently written down. Additionally, one Boeing 757-200 was stood down for disposal. The net book value of the remaining seven 747-400s and one 757-200 as at 31 December 2010 was £88 million.

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

As at 31 December 2010, bank and other loans of the Company are secured on fleet assets with a cost of £1,935 million (31 March 2010: £1,500 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (31 March 2010: £230 million).

Included in the cost of tangible assets for the Company is £343 million (31 March 2010: £344 million) of capitalised interest.

Property, plant and equipment with a net book value of £2 million was disposed by the Company during the nine months ended 31 December 2010 (March 2010: £63 million) resulting in no gain or loss (March 2010: loss of £8 million).

c Depreciation

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

Per cent	Group Nine months to 31 December 2010	Group 12 months to 31 March 2010
Boeing 747-400, 777-200 and 777-300	**3.7**	*3.7*
Boeing 767-300	**4.8**	*4.8*
Boeing 757-200	**4.4**	*4.4*
Boeing 737-400	**4.8**	*4.8*
Airbus A318, A319, A320 and A321	**4.9**	*4.9*
Embraer E170 and E190	**6.4**	*6.4*

For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to residual value over the average remaining life of the related fleet. Major overhaul expenditure is depreciated over periods ranging from 55-78 months, according to engine type.

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 Nine months to 31 December 2010	Group 12 months to 31 March 2010
Cash paid	492	9	9	**510**	*492*
Capitalised interest	1			**1**	*1*
Accrual movements	52	(1)	1	**52**	*61*
At period end	**545**	**8**	**10**	**563**	*554*

During the nine months ended 31 December 2010, the Group acquired property, plant and equipment with a cost of £563 million (March 2010: £554 million).

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,104 million for the Group commitments (31 March 2010: £4,267 million) and £4,069 million for the Company commitments (31 March 2010: £4,201 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 £4,074 million for the acquisition of one Boeing 777 (in 2012), 24 Boeing 787s (from 2012 to 2016), 14 Airbus A320s (from 2011 to 2014), 12 Airbus A380s (from 2013 to 2016) and two Embraer E-jets (both in 2011).

15 Non-current assets held for sale

The non-current assets held for sale of £33 million (31 March 2010: £30 million) comprise six Boeing 757 aircraft (31 March 2010: five Boeing 757 aircraft), these aircraft will exit the business within 12 months of 31 December 2010.

The sale of one further Boeing 757 aircraft has been agreed; this aircraft will exit the business during January 2012.

Assets with a net book value of £47 million were transferred to non-current assets held for sale during the nine months ended 31 December 2010 (March 2010 £30 million).

Non-current assets held for sale with a net book value of £44 million were disposed of by the Group during the nine month period ended 31 December 2010 (March 2010: £nil) resulting in a net loss on disposal of £3 million (March 2010: £nil).

Non-current assets held for sale with a net book value of £39 million were disposed of by the Company during the nine month period ended 31 December 2010 (March 2010: £nil) resulting in a net loss on disposal of £5 million (March 2010: £nil).

16 Intangible assets

a Group

				Group
£ million	Goodwill	Landing rights	Software	Total
Cost				
Balance at 1 April 2009	*40*	*254*	*150*	*444*
Additions			*13*	*13*
Reclassifications			*1*	*1*
Exchange movements*		*(3)*		*(3)*
Balance at 31 March 2010	*40*	*251*	*164*	*455*
Additions		18	17	35
Exchange movements*		(1)		(1)
At 31 December 2010	**40**	**268**	**181**	**489**
Amortisation				
Balance at 1 April 2009	*–*	*49*	*128*	*177*
Charge for the year			*9*	*9*
Balance at 31 March 2010	*–*	*49*	*137*	*186*
Charge for the period**			7	7
Impairment		*10*		10
At 31 December 2010	**–**	**59**	**144**	**203**
Net book amounts				
31 December 2010	**40**	**209**	**37**	**286**
31 March 2010	*40*	*202*	*27*	*269*

* Landing rights with a carrying value of £28 million (31 March 2010: £39 million) are associated with the acquisition of L'Avion, an airline operating services between Paris (Orly) and New York (Newark) airports. These landing rights are denominated in euro.

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

Notes to the accounts continued

16 Intangible assets *continued*

b Company

£ million	Landing rights	Software	Company Total
Cost			
Balance at 1 April 2009	*212*	*150*	*362*
Additions		*13*	*13*
Reclassifications		*1*	*1*
Balance at 31 March 2010	*212*	*164*	*376*
Additions	18	16	34
At 31 December 2010	**230**	**180**	**410**
Amortisation			
Balance at 1 April 2009	*49*	*128*	*177*
Charge for the year		*9*	*9*
Balance at 31 March 2010	*49*	*137*	*186*
Charge for the period*		7	7
At 31 December 2010	**49**	**144**	**193**
Net book amounts			
31 December 2010	**181**	**36**	**217**
31 March 2010	*163*	*27*	*190*

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

c Analysis of Group intangible asset additions (excluding goodwill)

£ million	Landing rights	Software	Group **31 December 2010**	*31 March 2010*
Cash paid	18	17	35	*13*
Total additions	**18**	**17**	**35**	*13*

17 Impairment of property, plant, equipment and intangible assets

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Goodwill and landing rights based within the EU are considered to have an indefinite economic life. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the Group's other cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on two CGU's. An impairment review was performed on the network airline operations CGU, including passenger and cargo operations out of all operated airports as well as all related ancillary operations as it contains both goodwill and landing rights within the EU. A separate impairment review has been conducted on the operations of OpenSkies CGU as it contains landing rights within the EU.

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

a Network airline operations

£ million	Landing rights	Goodwill	**31 December 2010 Total**	*Landing rights*	*Goodwill*	Group *31 March 2010 Total*
Network airline operations	181	40	**221**	*163*	*40*	*203*

The recoverable amount of the network airline operations has been measured based on its value in use, using a discounted cash flow model; cash flow projections are based on the business plan approved by the Board covering a five-year period. Cash flows beyond the five-year period are projected to increase in line with the UK long-term growth assumptions. The pre-tax discount rate applied to the cash flow projections is derived from the Group's post-tax weighted average cost of capital, adjusted for the risks specific to the assets.

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

17 Impairment of property, plant, equipment and intangible assets *continued*

Key assumptions

	Group	
	Nine months to 31 December 2010	*12 months to 31 March 2010*
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*	**5.0% – 7.1%**	*2.3% – 8.0%*
Fuel price range per barrel	**$89 – $95**	*$74 – $79*

* Although forecast operating margins are more conservative than the prior year, revised forecasts indicate a higher increase in the profitability outlook, thus increasing forecast cash generated in the near term.

Recoverable amount

	Group	
	Nine months to 31 December 2010	
£ million	Network airline	**Total**
Intangible assets	221	**221**
Tangible assets	6,858	**6,858**
Excess of recoverable amount over carrying amount	2,178	**2,178**

	Group	
		12 months to 31 March 2010
£ million	*Network airline*	*Total*
Intangible assets	*203*	*203*
Tangible assets	*6,896*	*6,896*
Excess of recoverable amount over carrying amount	*1,400*	*1,400*

The recoverable amount of the assets within the network airline operations exceeds the carrying value by £2.2 billion (31 March 2010: £1.4 billion). If the discount rate were increased by 530 basis points (31 March 2010: 350 basis points) or the operating margin were to decrease by 42 per cent (31 March 2010: 25 per cent), the headroom would amount to £nil.

b OpenSkies

						Group
			31 December 2010			*31 March 2010*
£ million	Landing rights	Goodwill	**Total**	*Landing rights*	*Goodwill*	*Total*
Carrying value of intangible assets (before impairment charges)	38		**38**	*39*		*39*
Impairment of OpenSkies landing rights	(10)		**(10)**			
Carrying value of intangible assets	28		**28**	*39*		*39*

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

The impairment review of OpenSkies resulted in a total impairment charge of £12 million (March 2010: £nil). This impairment charge was pro-rated to the CGU's non-current assets based on their respective carrying values. £10 million was allocated to landing rights, with the remainder being allocated to property, plant and equipment.

Notes to the accounts continued

17 Impairment of property, plant, equipment and intangible assets *continued*

Key assumptions

	Group	
	Nine months to 31 December 2010	*12 months to 31 March 2010*
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*	**(12.4%) – 3.9%**	*(11.4%) – 8.6%*
Fuel price range per barrel	**$89 – $95**	*$74 – $79*

The headroom between OpenSkies carrying value and the recoverable amount of its assets is currently nil, therefore any adverse change to the discount rate or the operating margin will result in further impairment.

At 31 March 2010, the recoverable amount of the assets within OpenSkies exceeded the carrying value by £200 million.

The operating margins of both CGU's are based on the estimated effects of planned business efficiency and business change programmes, approved and enacted at the balance sheet date. The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business.

c Impairment of Fleet

During the nine months ended 31 December 2010 two Boeing 747-400 aircraft were permanently stood down. As a result, the two aircraft were written down to their net realisable value and an impairment charge of £16 million was realised. These aircraft are included in assets not in current use at 31 December 2010.

The impairment review of OpenSkies resulted in a total impairment charge of £12 million. This impairment was pro-rated to the CGU's non-current assets based on their respective carrying values. £2 million was allocated to fleet, with the remainder being allocated to landing rights.

18 Investments

a Group

Investment in associates	*Group*	
£ million	**31 December 2010**	*31 March 2010*
Balance at 1 April	**197**	*209*
Exchange movements	**(7)**	*(14)*
Share of attributable results	**6**	*(32)*
Share of movements on other reserves	**48**	*34*
At period end	**244**	*197*

Market value of listed associates	*Group*	
£ million	**31 December 2010**	*31 March 2010*
At period end	**340**	*287*

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

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

* Held by a subsidiary company.

18 Investments *continued*

a Group *continued*

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. See note 37 for post balance sheet event relating to Iberia.

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:

		Group
£ million	**31 December 2010**	*31 March 2010*
Non-current assets	**343**	*276*
Current assets	**330**	*315*
Current liabilities	**(229)**	*(207)*
Non-current liabilities	**(216)**	*(203)*
Share of net assets	**228**	*181*
Goodwill attributable to investments in associates	**16**	*16*
Revenues	**405**	*528*
Net profit/(loss) after tax	**6**	*(32)*

b Company

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

				Company
£ million	Cost	Provisions	**Total 31 December 2010**	*Total 31 March 2010*
Balance at 1 April	3,387	(1,019)	**2,368**	*2,356*
Exchange movements	(8)		**(8)**	*(8)*
Additions				*9*
Dissolution of minor subsidiaries	(3)	3		
Provision		(27)	**(27)**	*11*
At period end	**3,376**	**(1,043)**	**2,333**	*2,368*

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 114.

The provision of £27 million at 31 December 2010 relates to the £15 million impairment of the Group's investment in The Plimsoll Line, which holds the investment in Flybe Group plc and the £12 million impairment of the Company's investment in BA European Limited, which holds the Group's investment in OpenSkies.

During the prior year, the Company invested £9 million in the subsidiary BA European Limited in order to fund the contingent purchase consideration of French airline L'Avion.

The Company reversed an impairment provision of £11 million relating to the write-up of the Company's investment in The Plimsoll Line Limited.

Notes to the accounts continued

19 Available-for-sale financial assets

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Available-for-sale financial assets	**65**	*76*	**18**	*21*

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

In December 2010 Flybe Ltd listed on the London Stock Exchange and became Flybe Group plc. The Group invested a further £9 million in Flybe Group plc in order to maintain a 15% holding, increasing the value of the holding in Flybe Group plc to £50 million. As a result of the listing, Flybe Group plc is now classified as a Level 1 financial asset and measured at its fair value (market price). The valuation at 31 December 2010 showed a decline in fair value and accordingly the Group recognised an impairment charge of £15 million in the income statement (note 18).

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

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

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

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Listed	**47**	*14*		
Unlisted	**18**	*62*	**18**	*21*
At period end	**65**	*76*	**18**	*21*

For a summary of the movement in available-for-sale financial assets, refer to note 30.

20 Inventories

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Expendables and consumables	**98**	*98*	**96**	*97*

21 Trade receivables

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Trade receivables	**393**	*509*	**377**	*496*
Provision for doubtful receivables	**(9)**	*(10)*	**(9)**	*(10)*
Net trade receivables	**384**	*499*	**368**	*486*

21 Trade receivables *continued*

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

£ million	Group	Company
At 1 April 2009	*13*	*13*
Provision for doubtful receivables	*7*	*7*
Receivables written off during the year	*(6)*	*(6)*
Unused amounts reversed	*(4)*	*(4)*
At 31 March 2010	*10*	*10*
Provision for doubtful receivables	2	2
Receivables written off during the period	(1)	(1)
Unused amounts reversed	(2)	(2)
At 31 December 2010	**9**	**9**

The ageing analysis of trade receivables is as follows:

£ million	**Total**	Neither past due nor impaired	Past due but not impaired		
			< 30 days	30 - 60 days	> 60 days
Group					
31 December 2010	**384**	**345**	**25**	**4**	**10**
31 March 2010	*499*	*473*	*12*	*7*	*7*
Company					
31 December 2010	**368**	**339**	**18**	**2**	**9**
31 March 2010	*486*	*471*	*5*	*3*	*7*

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

22 Other current assets

£ million	Group		Company	
	31 December 2010	*31 March 2010*	**31 December 2010**	*31 March 2010*
Amounts owed by subsidiaries			**172**	*144*
Other debtors	**99**	*77*	**99**	*76*
Prepayments and accrued income	**161**	*212*	**106**	*156*
At period end	**260**	*289*	**377**	*376*

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

a Cash and cash equivalents

£ million	Group		Company	
	31 December 2010	*31 March 2010*	**31 December 2010**	*31 March 2010*
Cash at bank and in hand	**614**	*562*	**589**	*535*
Short-term deposits falling due within three months	**165**	*224*	**164**	*221*
Cash and cash equivalents	**779**	*786*	**753**	*756*
Other current interest-bearing deposits maturing after three months	**1,173**	*928*	**1,153**	*908*

Notes to the accounts continued

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

a Cash and cash equivalents *continued*

Cash at bank is primarily held in AAA money market funds and bank deposits. 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 £779 million for the Group (31 March 2010: £786 million) and for the Company £753 million (31 March 2010: £756 million).

At 31 December 2010, the Group and Company had no outstanding bank overdrafts (31 March 2010: £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

		Group
£ million	**31 December 2010**	*31 March 2010*
(Decrease)/increase in cash and cash equivalents during the period	**(37)**	*344*
Net cash outflow from decrease in debt and lease financing	**449**	*769*
Increase/(decrease) in other current interest-bearing deposits	**245**	*(51)*
New loans and finance leases taken out and hire purchase arrangements made	**(368)**	*(1,053)*
Decrease in net debt resulting from cash flow	**289**	*9*
Exchange movements and other non-cash movements	**(2)**	*85*
Decrease in net debt during the period	**287**	*94*
Net debt at 1 April	**(2,288)**	*(2,382)*
Net debt at period end	**(2,001)**	*(2,288)*

c Analysis of net debt

					Group
£ million	Balance at 1 April	Net cash flow	Other non-cash	Exchange	Balance at period end
Cash and cash equivalents	*402*	*344*		*40*	*786*
Current interest-bearing deposits maturing after three months	*979*	*(51)*			*928*
Bank and other loans	*(848)*	*(625)*		*(11)*	*(1,484)*
Finance leases and hire purchase arrangements	*(2,915)*	*341*	*(24)*	*80*	*(2,518)*
At 31 March 2010	*(2,382)*	*9*	*(24)*	*109*	*(2,288)*
Cash and cash equivalents	786	(37)		30	**779**
Current interest-bearing deposits maturing after three months	928	245			**1,173**
Bank and other loans	(1,484)	(88)	(16)	(23)	**(1,611)**
Finance leases and hire purchase arrangements	(2,518)	169	(14)	21	**(2,342)**
At 31 December 2010	**(2,288)**	**289**	**(30)**	**28**	**(2,001)**

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

24 Trade and other payables

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Trade creditors	**717**	*623*	**679**	*581*
Unredeemed frequent flyer liabilities	**4**	*2*	**4**	*3*
Amounts owed to subsidiary companies			**2,672**	*2,737*
Other creditors:				
Other creditors	**475**	*567*	**471**	*560*
Other taxation and social security	**36**	*29*	**35**	*26*
	511	*596*	**506**	*586*
Accruals and deferred income:				
Sales in advance of carriage	**755**	*919*	**715**	*875*
Accruals and deferred income	**828**	*770*	**527**	*474*
	1,583	*1,689*	**1,242**	*1,349*
At period end	**2,815**	*2,910*	**5,103**	*5,256*

25 Other long-term liabilities

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Other creditors	**10**	*7*		
Accruals and deferred income	**296**	*225*	**265**	*194*
At period end	**306**	*232*	**265**	*194*

26 Long-term borrowings

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
a Current				
Bank and other loans*	**177**	*139*	**152**	*119*
Finance leases**	**217**	*129*	**230**	*140*
Hire purchase arrangements	**63**	*288*	**63**	*288*
Loans from subsidiaries			**11**	*7*
At period end	**457**	*556*	**456**	*554*
b Non-current				
Bank and other loans*	**1,434**	*1,345*	**1,120**	*1,069*
Finance leases**	**2,044**	*2,077*	**2,202**	*2,246*
Hire purchase arrangements	**18**	*24*	**18**	*24*
Loans from subsidiaries			**397**	*359*
At period end	**3,496**	*3,446*	**3,737**	*3,698*

* Bank and other loans are repayable up to the year 2024. Bank and other loans of the Group amounting to US$314 million (31 March 2010: US$231 million), €70 million (31 March 2010: €73 million), ¥53,939 million (31 March 2010: ¥45,474 million) and £332 million (31 March 2010: £350 million), and bank loans of the Company amounting to US$314 million (31 March 2010: US$81 million), €70 million (31 March 2010: €73 million), ¥53,939 million (31 March 2010: ¥45,474 million) and £146 million (31 March 2010: £154 million) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or other property, plant and equipment.

** Included in finance leases for the Company is £171 million (31 March 2010: £180 million) of finance leases with other subsidiaries of the Group, of which £13 million (31 March 2010: £11 million) is classified as current.

Notes to the accounts continued

26 Long-term borrowings *continued*

c Bank and other loans

Bank and other loans comprise the following:

	Group		Company	
£ million	**31 December 2010**	*31 March 2010*	**31 December 2010**	*31 March 2010*
£350 million fixed rate 5.8 per cent convertible bond 2014 (i)	**285**	*269*	**285**	*269*
£250 million fixed rate 8.75 per cent eurobonds 2016 (ii)	**248**	*248*	**248**	*248*
Floating rate sterling mortgage loans secured on aircraft (iii)	**171**	*175*	**128**	*132*
Floating rate US dollar mortgage loans secured on aircraft (iv)	**49**	*54*	**49**	*54*
Fixed rate sterling mortgage loans secured on aircraft (v)	**160**	*175*	**17**	*21*
Floating rate Japanese yen mortgage loans secured on aircraft (vi)	**415**	*321*	**415**	*321*
Floating rate US dollar mortgage loans secured on plant and equipment (vii)	**36**	*40*	**36**	*40*
Floating rate euro mortgage loan secured on aircraft (viii)	**60**	*65*	**60**	*65*
Fixed rate US dollar mortgage loan secured on aircraft (ix)	**153**	*99*		
European Investment Bank sterling loans secured on property (x)	**34**	*38*	**34**	*38*
	1,611	*1,484*	**1,272**	*1,188*
Less: current instalments due on bank loans	**177**	*139*	**152**	*119*
At period end	**1,434**	*1,345*	**1,120**	*1,069*

(i) £350 million fixed rate 5.8 per cent convertible bond, raising cash of £341 million (net of issue costs), convertible into ordinary shares at the option of the holder, before or upon maturity in August 2014. Conversion into ordinary shares will occur at a premium of 38 per cent on the Group's share price on the date of issuance. The Group hold an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfillment of certain pre-determined criteria. The equity portion of the convertible bond issue is included in other reserves. See note 37 for effective convertible after the merger.

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

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

(iv) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.40 per cent and 0.99 per cent above LIBOR. The loans are repayable between 2011 and 2016.

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

(vi) Floating rate Japanese yen mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.55 per cent above LIBOR. The loans are repayable in 2015.

(vii) Floating rate US dollar mortgage loans are secured on certain plant and equipment of the Group and bear interest of 0.75 per cent above LIBOR. The loans are repayable in 2014.

(viii) The floating rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 0.5 per cent above LIBOR. The loan is repayable in 2024.

(ix) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear an average interest of 4.63 per cent and are repayable in 2022.

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

26 Long-term borrowings *continued*

d Total loans, finance leases and hire purchase arrangements

£ million	Group 31 December 2010	Group 31 March 2010	Company 31 December 2010	Company 31 March 2010
Loans:				
Bank:				
US dollar	**$369**	$292	**$132**	$142
Euro	**€70**	€73	**€70**	€73
Japanese yen	**¥53,939**	¥45,474	**¥53,939**	¥45,474
Sterling	**£366**	£389	**£179**	£192
	£1,078	£967	**£739**	£671
Fixed rate bonds:				
Sterling	**£533**	£517	**£533**	£517
Loans from subsidiary undertakings:				
US dollar			**$237**	$150
Euro			**€300**	€300
			£408	£366
Finance leases:				
US dollar	**$1,940**	$1,777	**$1,940**	$1,777
Euro	**€ 130**	€116	**€130**	€116
Japanese yen	**¥3,268**	¥2,131	**¥3,268**	¥2,131
Sterling	**£876**	£915	**£1,047**	£1,095
	£2,261	£2,206	**£2,432**	£2,386
Hire purchase arrangements:				
US dollar	**$46**	$55	**$46**	$55
Japanese yen	**¥6,604**	¥38,997	**¥6,604**	¥38,997
	£81	£312	**£81**	£312
At period end	**£3,953**	£4,002	**£4,193**	£4,252

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 31 December 2010	Group *31 March 2010*	Company 31 December 2010	Company *31 March 2010*
Future minimum payments due:				
Within one year	**339**	*468*	**361**	*489*
After more than one year but within five years	**1,094**	*909*	**1,190**	*1,002*
In five years or more	**1,235**	*1,618*	**1,330**	*1,732*
	2,668	*2,995*	**2,881**	*3,223*
Less: Finance charges	**326**	*477*	**368**	*525*
Present value of minimum lease payments	**2,342**	*2,518*	**2,513**	*2,698*
The present value of minimum lease payments is analysed as follows:				
Within one year	**280**	*417*	**293**	*428*
After more than one year but within five years	**905**	*723*	**977**	*790*
In five years or more	**1,157**	*1,378*	**1,243**	*1,480*
At period end	**2,342**	*2,518*	**2,513**	*2,698*

Notes to the accounts continued

27 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 fall due as follows:

	Group		Company	
£ million	**31 December 2010**	*31 March 2010*	**31 December 2010**	*31 March 2010*
Within one year	**73**	*82*	**67**	*72*
Between one and five years	**265**	*348*	**261**	*335*
Over five years	**297**	*444*	**297**	*444*
At period end	**635**	*874*	**625**	*851*

b Property and equipment

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

	Group		Company	
£ million	**31 December 2010**	*31 March 2010*	**31 December 2010**	*31 March 2010*
Within one year	**89**	*98*	**86**	*95*
Between one and five years	**290**	*306*	**281**	*296*
Over five years, ranging up to the year 2145	**1,756**	*1,585*	**1,754**	*1,581*
At period end	**2,135**	*1,989*	**2,121**	*1,972*

c Sub-leasing

The Group and Company sub-lease surplus rental properties and aircraft assets held under non-cancellable leases to third parties and subsidiary companies. These leases have remaining terms of one to 27 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	**31 December 2010**	*31 March 2010*	**31 December 2010**	*31 March 2010*
Fleet				
Within one year	**4**	*6*	**1**	*3*
Between one and five years		*1*		
At period end	**4**	*7*	**1**	*3*
Property and equipment				
Within one year	**8**	*7*	**8**	*7*
Between one and five years	**26**	*25*	**26**	*25*
Over five years		*4*		*4*
At period end	**34**	*36*	**34**	*36*

28 Provisions for liabilities and charges

							Group
£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	**Total**
At 1 April 2010							
Current			10	28	222		260
Non-current	13	9	91		33	13	159
	13	9	101	28	255	13	419
Arising during the year	11	1	27	12	2	29	**82**
Utilised		(2)	(9)	(14)	(3)	(14)	**(42)**
Release of unused amounts		(1)	(5)	(6)		(7)	**(19)**
Exchange			(2)		(4)		**(6)**
Unwinding of discount			1		12		**13**
At 31 December 2010	**24**	**7**	**113**	**20**	**262**	**21**	**447**
Analysis:							
Current		1	24	20	230	8	**283**
Non-current	24	6	89		32	13	**164**
	24	**7**	**113**	**20**	**262**	**21**	**447**

28 Provisions for liabilities and charges *continued*

						Company
£ million	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	**Total**
At 1 April 2010						
Current		7	28	222		257
Non-current	6	89		33	13	141
	6	96	28	255	13	398
Arising during the year	1	27	12	2	29	**71**
Utilised	(1)	(7)	(14)	(3)	(14)	**(39)**
Release of unused amounts		(5)	(6)		(7)	**(18)**
Exchange		(2)		(4)		**(6)**
Unwinding of discount		1		12		**13**
At 31 December 2010	**6**	**110**	**20**	**262**	**21**	**419**
Analysis:						
Current		22	20	230	8	**280**
Non-current	6	88		32	13	**139**
	6	**110**	**20**	**262**	**21**	**419**

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

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

The Group recognised a restructuring provision of £20 million at 31 December 2010 (March 2010: £28 million) including targeted voluntary severance schemes previously announced. This provision is expected to be paid during the next financial year.

There are ongoing investigations into the Group's passenger fuel surcharges in the UK and into cargo fuel surcharges in South Africa and New Zealand. The Company is also subject to related class action claims in various jurisdictions. The final amount required to pay the remaining claims and fines is subject to uncertainty. A detailed breakdown of the remaining provision is not presented as it may seriously prejudice the position of the Company in these regulatory investigations and potential litigation.

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

29 Financial risk management objectives and policies

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

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

a Fuel price risk

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

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

Notes to the accounts continued

29 Financial risk management objectives and policies *continued*

a Fuel price risk *continued*

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

Group						Company					
31 December 2010			*31 March 2010*			**31 December 2010**			*31 March 2010*		
Increase/ (decrease) in fuel price	Effect on profit before tax	Effect on equity	*Increase/ (decrease) in fuel price*	*Effect on profit before tax*	*Effect on equity*	Increase/ (decrease) in fuel price	Effect on profit before tax	Effect on equity	*Increase/ (decrease) in fuel price*	*Effect on profit before tax*	*Effect on equity*
per cent	£ million	£ million	*per cent*	*£ million*	*£ million*	per cent	£ million	£ million	*per cent*	*£ million*	*£ million*
30	**(4)**	**420**	*30*	*4*	*432*	**30**	**(5)**	**420**	*30*	*4*	*432*
(30)	**(16)**	**(340)**	*(30)*	*(11)*	*(420)*	**(30)**	**(15)**	**(340)**	*(30)*	*(11)*	*(420)*

b Foreign currency risk

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

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

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

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

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

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

Group	Strengthening/ (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in euro rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in yen rate	Effect on profit before tax	Effect on equity
	per cent	£ million	£ million	per cent	£ million	£ million	per cent	£ million	£ million
31 December 2010	**20**	**(8)**	**(160)**	**20**	**(3)**	**(70)**	**20**	**(7)**	**(98)**
	(20)	**8**	**160**	**(20)**	**3**	**70**	**(20)**	**7**	**98**
31 March 2010	*20*	*5*	*(185)*	*20*	*1*	*(38)*	*20*	*(19)*	*(104)*
	(20)	*(5)*	*184*	*(20)*	*(1)*	*38*	*(20)*	*19*	*104*

Company	Strengthening/ (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in euro rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in yen rate	Effect on profit before tax	Effect on equity
	per cent	£ million	£ million	per cent	£ million	£ million	per cent	£ million	£ million
31 December 2010	**20**	**(12)**	**(160)**	**20**	**(4)**	**(70)**	**20**	**(7)**	**(98)**
	(20)	**12**	**160**	**(20)**	**4**	**70**	**(20)**	**7**	**98**
31 March 2010	*20*		*(185)*	*20*		*(38)*	*20*	*(19)*	*(104)*
	(20)		*184*	*(20)*		*38*	*(20)*	*19*	*104*

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Had there been a 100 basis point increase in interest rates, there would have been a £nil impact on the Group and Company's shareholders' equity, but a £1 million favourable impact to both the Group and Company's income statement. A 50 basis point decrease in interest rates would have resulted in a £nil impact to shareholder equity or the income statement for both Group and Company.

29 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 30.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 35.

e Liquidity risk

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

The Company's long-term corporate debt ratings at 31 December 2010 assigned by Moody's and Standard and Poor's respectively were B1 and BB-. The Group has adequate cash reserves to meet operating requirements for the next 12 months.

The stability of the liquidity position is maintained through the Group having no financial covenants or material adverse change clauses in its drawn and undrawn debt facilities. In addition, fuel and currency hedging is carried out on an open credit basis with no collateralisation or margin call requirements.

At 31 December 2010 the Group and Company had unused overdraft facilities of £10 million (31 March 2010: £10 million).

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

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

		31 December 2010
Million	Currency	£ equivalent
US dollar facility expiring June 2013	$708	456
US dollar facility expiring September 2016	$966	622
US dollar facility expiring October 2016	$509	327
US dollar facility expiring June 2012	$696	448
Japanese yen facility expiring January 2011	¥7,784	60

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

Notes to the accounts continued

29 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 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

						Group
£ million	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	**Total 2010**
Cash and cash equivalents	779					**779**
Other current interest-bearing deposits	917	256				**1,173**
Trade receivables	384					**384**
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(210)	(129)	(245)	(849)	(1,235)	**(2,668)**
Fixed rate borrowings	(42)	(48)	(90)	(509)	(459)	**(1,148)**
Floating rate borrowings	(85)	(68)	(145)	(375)	(120)	**(793)**
Trade and other payables	(1,228)					**(1,228)**
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(1)	**(4)**
Forward currency contracts	3	3				**6**
Fuel derivatives	82	44	19			**145**
Forward currency contracts	(8)	(2)				**(10)**
At 31 December	**592**	**56**	**(462)**	**(1,735)**	**(1,815)**	**(3,364)**

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

						Company
£ million	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	**Total 2010**
Cash and cash equivalents	753					**753**
Other current interest-bearing deposits	897	256				**1,153**
Trade receivables	368					**368**
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(221)	(140)	(267)	(923)	(1,330)	**(2,881)**
Fixed rate borrowings	(43)	(43)	(87)	(496)	(1,037)	**(1,706)**
Floating rate borrowings	(82)	(68)	(141)	(361)	(96)	**(748)**
Trade and other payables	(3,857)					**(3,857)**
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(1)	**(4)**
Forward currency contracts	3	3				**6**
Fuel derivatives	82	44	19			**145**
Forward currency contracts	(9)	(2)				**(11)**
At 31 December	**(2,109)**	**50**	**(477)**	**(1,782)**	**(2,464)**	**(6,782)**

29 Financial risk management objectives and policies *continued*

e Liquidity risk *continued*

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

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 23 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interests and net debt.

The gearing ratios at each period end were as follows:

		Group
£ million (except ratios)	**31 December 2010**	*31 March 2010*
Capital reserves	**2,200**	*1,913*
Add non-controlling interests	**200**	*200*
Total equity	**2,400**	*2,113*
Net debt (a)	**2,001**	*2,288*
Total capital (b)	**4,401**	*4,401*
Gearing ratio (a)/(b)	**45.5**	*52.0*

30 Financial instruments

a Fair values of financial assets and financial liabilities

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

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

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

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

Notes to the accounts continued

30 Financial instruments *continued*

a Fair values of financial assets and financial liabilities *continued*

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

					Group
				Fair value	Carrying value
£ million	Level 1	Level 2	Level 3	**Total**	**Total**
Financial assets:					
Available-for-sale financial assets	47		18	**65**	**65**
Forward currency contracts*		6		**6**	**6**
Fuel derivatives*		145		**145**	**145**
Financial liabilities:					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations		2,432		**2,432**	**2,342**
Fixed rate borrowings	675	346		**1,021**	**846**
Floating rate borrowings		765		**765**	**765**
Cross currency swaps**		4		**4**	**4**
Forward currency contracts**		10		**10**	**10**

* Current portion of derivative financial assets is £132 million.
** Current portion of derivative financial liabilities is £10 million.

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

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

* Current portion of derivative financial assets is £74 million.
** Current portion of derivative financial liabilities is £12 million.

The fair values of the Company's financial assets and liabilities at 31 December 2010 are set out below:

					Company
				Fair value	Carrying value
£ million	Level 1	Level 2	Level 3	**Total**	**Total**
Financial assets:					
Available-for-sale financial assets			18	**18**	**18**
Forward currency contracts*		6		**6**	**6**
Fuel derivatives*		145		**145**	**145**
Financial liabilities:					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations		2,621		**2,621**	**2,513**
Fixed rate borrowings	675	443		**1,118**	**958**
Floating rate borrowings		722		**722**	**722**
Cross currency swaps**		4		**4**	**4**
Forward currency contracts**		11		**11**	**11**
Fuel derivatives**		1		**1**	**1**

* Current portion of derivative financial assets is £132 million.
** Current portion of derivative financial liabilities is £11 million.

30 Financial instruments *continued*

a Fair values of financial assets and financial liabilities *continued*

The fair values of the Company's financial assets and liabilities at 31 March 2010 are set out below:

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

* Current portion of derivative financial assets is £74 million.
** Current portion of derivative financial liabilities is £13 million.

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

Available-for-sale financial assets and loan notes

Listed fixed asset investments (level 1) are stated at market value as at 31 December 2010. For other investments (level 3) the fair value cannot be measured reliably, as such these assets are stated at historic cost less accumulated impairment losses.

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

The repayments that the Group is committed to make have been discounted at the relevant market interest rates applicable at 31 December 2010 (level2).

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

These amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked-to-market basis. The carrying value of £51 million (31 March 2010: £276 million) is determined with reference to the effective interest rate (level 2).

Euro-sterling notes and Euro-sterling bond 2016

These are stated at quoted market value (level 1).

Convertible bond 2014

These are stated at quoted market value (level 1).

Forward currency transactions and over-the-counter (OTC) fuel derivatives

These are stated at the market value of instruments with similar terms and conditions at the balance sheet date (level 2).

b Level 3 financial assets reconciliation

The following table summarises key movements in level 3 financial assets:

		Group		Company
£ million	**31 December 2010**	*31 March 2010*	**31 December 2010**	*31 March 2010*
At 1 April	**62**	*57*	**21**	*27*
Write-up of available-for-sale financial assets (note 19)		*11*		
Repayment of loan notes (classified as available-for-sale financial assets)	**(4)**	*(7)*	**(4)**	*(7)*
Interest accrued on loan notes (classified as available-for-sale financial assets)	**1**	*1*	**1**	*1*
Reclassification of available-for-sale investment to level 1*	**(41)**			
At period end	**18**	*62*	**18**	*21*

* Investment in Flybe Limited was reclassified from Level 3 to Level 1 as a result of the instrument being listed on the London Stock Exchange in December 2010.

Notes to the accounts continued

30 Financial instruments *continued*

c Hedges

i Cash flow hedges

At 31 December 2010 the Group and Company held four principal risk management activities that were designated as hedges of future forecast transactions. These were:

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

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 31 December 2010**
Debt repayments to hedge future revenue	20	27	53	145	51	**296**
Forward contracts to hedge future payments		(1)				**(1)**
Hedges of future fuel purchases	(78)	(44)	(23)	(1)		**(146)**
	(58)	(18)	30	144	51	**149**
Related deferred tax charge						**(40)**
Total amount included within equity						**109**

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		$508	$508
To hedge future operating payments in US dollars		$165	$165
Hedges of future fuel purchases		$2,352	$2,344
Debt repayments to hedge future revenue	– US dollars	$2,158	$2,158
	– euro	€200	€200
	– Japanese yen	¥63,811	¥63,811

						Group
£ million	*Within 6 months*	*6 –1 2 months*	*1 – 2 years*	*2 – 5 years*	*More than 5 years*	*Total 31 March 2010*
Debt repayments to hedge future revenue	*24*	*22*	*48*	*148*	*92*	*334*
Forward contracts to hedge future payments	*(15)*	*(5)*				*(20)*
Hedges of future fuel purchases	*(8)*	*(18)*	*(24)*			*(50)*
	1	*(1)*	*24*	*148*	*92*	*264*
Related deferred tax charge						*(74)*
Total amount included within equity						*190*

30 Financial instruments *continued*

c Hedges *continued*

i Cash flow hedges *continued*

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

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

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a loss of £2 million (March 2010: £14 million). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases. In the current period, £38 million (March 2010: £21 million) of cash flow hedging losses previously recognised in equity were transferred to the income statement.

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.

31 Share capital

	Group and Company			
	Nine months ended December 2010		*12 months ended March 2010*	
Ordinary shares of 25 pence each	**Number of shares 000s**	**£ million**	*Number of shares 000s*	*£ million*
Allotted, called up and fully paid				
At 1 April	**1,153,674**	**288**	*1,153,628*	*288*
Exercise of options under Employee Share Option Schemes	**15**		*46*	
At period end	**1,153,689**	**288**	*1,153,674*	*288*

32 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 43 to 51.

a Share Option Plan

The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three-year vesting period. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant with the exception of grants made during the year ended 31 March 2005, when there was a single re-test after a further year which measured performance of the Group over the four-year period from the date of grant. No further grants of options under the SOP will be made other than those during the year ended 31 March 2006, in relation to performance during the year ended 31 March 2005 (for which there will be no re-testing).

Notes to the accounts continued

32 Share options *continued*

b Long Term Incentive Plan

The British Airways Long Term Incentive Plan (1996) (LTIP) awarded options to senior executives conditional upon the Company's achievement of a performance condition measured over three financial years. If granted, all options may be exercised at any time until the seventh anniversary of the date of grant and no payment is due upon exercise of the options. No further awards under the LTIP have been made since 16 June 2004.

c Performance Share Plan

In 2005 the Group introduced the British Airways Performance Share Plan 2005 (PSP) for key senior executives and in 2009 this was extended to selected members of the wider management team. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made in 2010 will vest based 100 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years (pages 45-47). No payment is due upon vesting of the shares. Key senior executives awarded shares under the PSP will be expected to retain no fewer than 50 per cent of the shares (net of tax), which vest from the PSP until they have built up a shareholding equivalent to 100 per cent of base salary.

d Deferred Share Plan

In 2006 the Group introduced the British Airways Deferred Share Plan 2005 (DSP) granted to qualifying employees based on performance and service tests. It will be awarded when a bonus is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant management population will receive a percentage of their bonus in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent. In September 2010 the Group awarded options to selected members of management and non-management population.

e Share options summary

									Group and Company
	Deferred Share Plan		Performance Share Plan		Long Term Incentive Plan		Share Option Plan		
	Number of shares	Weighted average fair value	Number of shares	Weighted average fair value	Number of shares	Weighted average fair value	Number of shares	Weighted average exercise price	Weighted average fair value
	000s	*£*	*000s*	*£*	*000s*	*£*	*000s*	*£*	*£*
Outstanding at 1 April 2009*	*1,041*		*4,539*		*1,099*		*14,080*	*2.74*	
Granted in the year	*112*	*1.33*	*7,313*	*1.43*	*16*				
Exercised during the year **/***	*(614)*				*(436)*		*(46)*	*1.57*	
Expired/cancelled	*(40)*		*(1,150)*				*(5,155)*	*2.88*	
Outstanding at 1 April 2010*	*499*		*10,702*		*679*		*8,879*	*2.66*	
Granted in the period	5,145	2.35	6,758	1.49	14				
Exercised during the period **/***	(96)				(116)		(94)	2.19	
Expired/cancelled	(32)		(1,561)				(1,700)	3.48	
Outstanding at 1 January 2011	**5,516**		**15,899**		**577**		**7,085**	**2.56**	
Options exercisable:									
At 31 December 2010	**30**	**2.35**			**577**		**7,085**	**2.56**	
At 31 March 2010					*679*		*8,879*	*2.66*	

* Included within this balance are options over 636,073 (31 March 2010: 2,230,907) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The average share price at the date of exercise for the SOP exercised is £2.27 (31 March 2010: £2.16).

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

32 Share options *continued*

e Share option summary *continued*

Range of exercise prices December 2010 for Share Option Plan

	Options outstanding			Options exercisable	
Range of exercise prices	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £	Number of shares 000s	Weighted average exercise price £
£1.57 – £2.61	1,231	2.15	1.65	1,231	1.65
£2.62 – £3.20	5,218	4.02	2.70	5,218	2.70
£3.21	636	0.48	3.21	636	3.21
At 31 December 2010	**7,085**	**3.38**	**2.56**	**7,085**	**2.56**

Range of exercise prices March 2010 for Share Option Plan

	Options outstanding			Options exercisable	
Range of exercise prices	*Number of shares 000s*	*Weighted average remaining life (years)*	*Weighted average exercise price £*	*Number of shares 000s*	*Weighted average exercise price £*
£1.57 – £2.61	*1,573*	*2.87*	*1.66*	*1,573*	*1.66*
£2.62 – £3.20	*5,665*	*4.78*	*2.70*	*5,665*	*2.70*
£3.21 – £3.94	*1,641*	*0.75*	*3.50*	*1,641*	*3.50*
At 31 March 2010	*8,879*	*3.70*	*2.66*	*8,879*	*2.66*

For all outstanding share option schemes as at 31 December 2010, the weighted average remaining contractual life is one year (31 March 2010: three years). For options granted during the year the weighted average option life was three years (31 March 2010: three years).

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

	31 December 2010	*31 March 2010*
Expected share price volatility (per cent)	**56**	*38*
Historical volatility (per cent)	**56**	*54*
Expected comparator group volatility (per cent)	**27 – 119**	*24 – 118*
Expected comparator correlation (per cent)	**39**	*37*
Expected life of options (years)	**3**	*3*
Weighted average share price (£)	**2.35**	*1.85*

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:

	31 December 2010	*31 March 2010*
Employee costs	**6**	*1*

Notes to the accounts continued

33 Other reserves and non-controlling interests

a Group

£ million	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Total	Group Non-controlling interests*
Balance at 1 April 2009	*1,154*	*(784)*	*60*		*430*	*200*
Loss for the year attributable to shareholders	*(443)*				*(443)*	
Exchange differences and other movements			*(18)*		*(18)*	
Fair value of cash flow hedges transferred to passenger revenue		*27*			*27*	
Fair value of cash flow hedges transferred to fuel and oil costs		*(235)*			*(235)*	
Fair value of cash flow hedges transferred to currency differences		*4*			*4*	
Net change in fair value of cash flow hedges		*791*			*791*	
Exercise of share options	*(5)*				*(5)*	
Cost of share-based payment	*1*				*1*	
Held-to-maturity investments marked-to-market		*5*			*5*	
Share of other movements in reserves of associates	*34*				*34*	
Equity portion of convertible bond				*84*	*84*	
Net gain on available-for-sale financial assets		*17*			*17*	
Total income and expense for the year	*(413)*	*609*	*(18)*	*84*	*262*	
At 1 April 2010	*741*	*(175)*	*42*	*84*	692	*200*
Profit for the period attributable to shareholders	157				**157**	
Exchange differences and other movements	(6)		(2)		**(8)**	
Exercise of share options	(1)				**(1)**	
Cost of share-based payment	6				**6**	
Fair value of cash flow hedges transferred to passenger revenue		27			**27**	
Fair value of cash flow hedges transferred to fuel and oil costs		1			**1**	
Fair value of cash flow hedges transferred to currency differences		(11)			**(11)**	
Net change in fair value of cash flow hedges		67			**67**	
Share of other movements in reserves of associates	48				**48**	
Total income and expense for the period	204	84	(2)		**286**	
At 31 December 2010	**945**	**(91)**	**40**	**84**	**978**	**200**

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

33 Other reserves and non-controlling interests *continued*

b Company

£ million	Retained earnings	Unrealised gains and losses	Equity portion of convertible bond	Company Total
Balance at 1 April 2009	*787*	*(777)*		*10*
Loss for the year attributable to shareholders	*(407)*			*(407)*
Cost of share-based payment	*1*			*1*
Exercise of share options	*(1)*			*(1)*
Fair value of cash flow hedges transferred to passenger revenue		*27*		*27*
Fair value of cash flow hedges transferred to fuel and oil costs		*(235)*		*(235)*
Fair value of cash flow hedges transferred to currency differences		*4*		*4*
Net change in fair value of cash flow hedges		*790*		*790*
Equity portion of convertible bond			*84*	*84*
Total income and expense for the year	*(407)*	*586*	*84*	*263*
At 1 April 2010	*380*	*(191)*	*84*	*273*
Profit for the period attributable to shareholders	228			**228**
Exercise of share options	(1)			**(1)**
Cost of share-based payment	6			**6**
Fair value of cash flow hedges transferred to passenger revenue		27		**27**
Fair value of cash flow hedges transferred to fuel and oil costs		1		**1**
Fair value of cash flow hedges transferred to currency differences		(11)		**(11)**
Net change in fair value of cash flow hedges		67		**67**
Total income and expense for the period	233	84		**317**
At 31 December 2010	**613**	**(107)**	**84**	**590**

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

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

The equity portion of convertible bond reserve represents the equity portion of the £350 million fixed rate 5.8 per cent convertible bond (note 26) after deduction of transaction costs of £2 million.

Total shareholders' equity also includes the balance classified as share capital that includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 25 pence ordinary shares. Investment in own shares consists of shares held by British Airways Employee Benefits Trust (Jersey) Limited, a wholly-owned subsidiary, for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan. At 31 December 2010 the Group and Company held 795,733 shares for the Long Term Incentive Plan and other employee share schemes (31 March 2010: 1,086,001 shares).

Notes to the accounts continued

34 Pension costs

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

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the Government, which have historically been based on the Retail Price Index (RPI). The Government has now decided to use the Consumer Price Index (CPI) to set each ARO. Benefits 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 pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year. In NAPS, annual pensionable pay increases for active members are capped at RPI.

Pension contributions for APS and NAPS were determined by actuarial valuations made as at 31 March 2009 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 £5,925 million and £6,096 million respectively. The value of the assets represented 85.2 per cent (APS) and 69.4 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 for future service of an average of 34.7 per cent of pensionable pay for APS and 16.6 per cent of pensionable pay for NAPS.

In order to address the deficits in the schemes, BA committed to deficit payments until 2023 for APS and 2026 for NAPS which, taken together with future service costs, will see annual cash contributions maintained at approximately £330 million in real terms. In addition to cash contributions collateral was provided to APS, triggered in the event of BA's insolvency, of £230 million of guarantees (first issued in 2007) and a further £250 million issued in 2010. In NAPS the recovery plan included changes to future pension benefits, giving members a choice of lower accrual rates or higher contributions.

Based on the change from RPI to CPI in the Government's ARO, the Group has seen a reduction in the present value of the scheme liabilities for APS and NAPS of approximately £270 million and £500 million respectively, thereby reducing the Group's cumulative actuarial losses not recognised.

During the period the trustees of APS purchased an insurance contract with Rothesay Life, which covers 20 per cent of the pensioner liabilities as at 18 June 2010 for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. For the purpose of IAS 19 the insurance contract asset is valued at £1,066 million as at 31 December 2010. The insurance contract can only be used to pay or fund employee benefits under the pension scheme.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US. The Company participates in a multi-employer defined benefit plan operated in the US by the International Association of Machinists (IAM) and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were £1.5 million (March 2010: £2.2 million). The Company also operates a closed US defined benefit plan and the plan is forecast to make total contributions of £19 million in 2011.

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 period ended 31 December 2010 were £20 million (March 2010: £22 million).

34 Pension costs *continued*

a Employee benefit schemes recognised on the balance sheet

£ million	Employee benefit obligations		Employee benefit assets	
	31 December 2010	*31 March 2010*	**31 December 2010**	*31 March 2010*
Arising under defined benefit pension plans and post-retirement benefits	**65**	*66*	**575**	*483*
Arising under post-retirement medical benefit plans	**143**	*132*		
Total arising under post-retirement benefits	**208**	*198*	**575**	*483*
Other employee benefit obligations	**11**	*10*		
At period end	**219**	*208*	**575**	*483*

At 31 December 2010, NAPS was recognised on the balance sheet as an asset. However, due to the level of unrecognised losses it holds, its net position is a liability and therefore on all future tables within this note, it is included as an employee benefit obligation.

Employee benefit assets refer to the Group and Company in all instances. Employee benefit obligations include £7 million (31 March 2010: £8 million) relating to British Airways Holidays Limited; with the remainder relating to the Company.

b Scheme assets and liabilities

	31 December 2010					
	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	**Total**	APS	Other schemes	**Total**
Scheme assets at fair value						
Equities	5,616	183	**5,799**	881	19	**900**
Bonds	1,874	70	**1,944**	3,827	17	**3,844**
Others*	1,142	10	**1,152**	1,677		**1,677**
Fair value of scheme assets	8,632	263	**8,895**	6,385	36	**6,421**
Present value of scheme liabilities	9,633	623	**10,256**	5,853	33	**5,886**
Net pension (liability)/asset	**(1,001)**	**(360)**	**(1,361)**	**532**	**3**	**535**
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	204	(208)	**(4)**	363	8	**371**
Restriction on APS surplus due to the asset ceiling				123		**123**
Cumulative actuarial (losses)/gains not recognised	(1,205)	(152)	**(1,357)**	46	(5)	**41**
	(1,001)	**(360)**	**(1,361)**	**532**	**3**	**535**

* Included within the APS balance is the insurance contract with Rothesay Life.

	31 March 2010					
	Employee benefit obligations			*Employee benefit assets*		
£ million	*NAPS*	*Other schemes*	*Total*	*APS*	*Other schemes*	*Total*
Scheme assets at fair value						
Equities	*5,245*	*174*	*5,419*	*1,082*	*19*	*1,101*
Bonds	*1,831*	*74*	*1,905*	*4,774*	*17*	*4,791*
Others	*948*	*5*	*953*	*587*		*587*
Fair value of scheme assets	*8,024*	*253*	*8,277*	*6,443*	*36*	*6,479*
Present value of scheme liabilities	*9,969*	*579*	*10,548*	*6,247*	*31*	*6,278*
Net pension (liability)/asset	*(1,945)*	*(326)*	*(2,271)*	*196*	*5*	*201*
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	*158*	*(198)*	*(40)*	*317*	*8*	*325*
Restriction on APS surplus due to the asset ceiling				*50*		*50*
Cumulative actuarial losses not recognised	*(2,103)*	*(128)*	*(2,231)*	*(171)*	*(3)*	*(174)*
	(1,945)	*(326)*	*(2,271)*	*196*	*5*	*201*

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.

Notes to the accounts continued

34 Pension Costs *continued*

c Amounts recognised in the income statement

						31 December 2010
	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	**Total**	APS	Other schemes	**Total**
Current service cost	124	6	**130**	7		**7**
Recognised in arriving at operating profit	**124**	**6**	**130**	**7**		**7**
Expected return on scheme assets	(434)	(14)	**(448)**	(245)	(1)	**(246)**
NAPS administration expense	8		**8**			
Interest costs on scheme liabilities	410	23	**433**	250	1	**251**
Amortisation of actuarial losses in excess of the corridor	57	5	**62**			
Immediate recognition of net actuarial gains (APS)				(84)		**(84)**
Effect of the APS asset ceiling				73		**73**
Other finance cost	**41**	**14**	**55**	**(6)**		**(6)**

						31 March 2010
	Employee benefit obligations			*Employee benefit assets*		
£ million	*NAPS*	*Other schemes*	*Total*	*APS*	*Other schemes*	*Total*
Current service cost	*105*	*6*	*111*	*10*	*1*	*11*
Past service cost	*1*		*1*			
Recognised in arriving at operating profit	*106*	*6*	*112*	*10*	*1*	*11*
Expected return on scheme assets	*(418)*	*(14)*	*(432)*	*(269)*	*(1)*	*(270)*
Interest costs on scheme liabilities	*489*	*30*	*519*	*345*	*2*	*347*
Amortisation of actuarial losses in excess of the corridor	*31*	*6*	*37*			
Effect of the APS asset ceiling				*(85)*		*(85)*
Other finance cost	*102*	*22*	*124*	*(9)*	*1*	*(8)*

d Unrecognised cumulative actuarial gains and losses

	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	Total	APS	Other schemes	Total
Amount of unrecognised actuarial (losses)/gains at 1 April 2009	*(1,193)*	*(114)*	*(1,307)*	*421*	*(10)*	*411*
Actual return on scheme assets	*1,970*	*61*	*2,031*	*930*	*11*	*941*
Less: Expected return on scheme assets	*(418)*	*(14)*	*(432)*	*(269)*	*(1)*	*(270)*
Actuarial gains on plan assets	*1,552*	*47*	*1,599*	*661*	*10*	*671*
Actuarial losses on plan liabilities	*(2,493)*	*(67)*	*(2,560)*	*(1,253)*	*(3)*	*(1,256)*
Amortisation of actuarial losses in excess of the corridor	*31*	*6*	*37*			
Cumulative unrecognised actuarial losses at 31 March 2010	*(2,103)*	*(128)*	*(2,231)*	*(171)*	*(3)*	*(174)*
Actual return on scheme assets	596	17	**613**	173	2	**175**
Less: Expected return on scheme assets	(434)	(14)	**(448)**	(245)	(1)	**(246)**
Actuarial gains/(losses) on plan assets	162	3	**165**	(72)	1	**(71)**
Actuarial gains/(losses) on plan liabilities	679	(32)	**647**	373	(3)	**370**
Amortisation of actuarial losses in excess of the corridor	57	5	**62**			
Immediate recognition of net actuarial gains (APS)				(84)		**(84)**
Cumulative unrecognised actuarial (losses)/gains at 31 December 2010	**(1,205)**	**(152)**	**(1,357)**	**46**	**(5)**	**41**

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.

34 Pension Costs *continued*

e Actuarial assumptions

	31 December 2010			*31 March 2010*		
Per cent per annum	NAPS	APS*	Other schemes	*NAPS*	*APS**	*Other schemes*
Inflation (CPI)	3.0	2.9				
Inflation (RPI)	3.5	3.4	0.5 – 4.6	*3.7*	*3.6*	*2.3 – 5.3*
Rate of increase in pensionable pay*	3.5	3.4	2.8 – 8.5	*3.7*	*3.6*	*2.0 – 8.5*
Rate of increase of pensions in payment	2.9	2.9	1.5 – 4.6	*3.5*	*3.6*	*1.5 – 9.0*
Discount rate	5.5	5.5	1.8 – 8.3	*5.6*	*5.5*	*2.0 – 9.0*
Expected rate of return on scheme assets	7.0	5.0	3.0 – 8.5	*7.3*	*5.2*	*4.0 – 9.0*

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

Rate of increase in healthcare costs are based on medical trend rates of 8.5 per cent grading down to 5.0 per cent over seven years (March 2010: 9.0 per cent to 5.0 per cent over eight years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the PPA11 mortality tables. If the post-retirement mortality tables used for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by approximately £210 million in APS and approximately £220 million in NAPS.

If the discount rate were to be decreased by 0.1 per cent without changing any other assumptions, the defined benefit obligation would increase by approximately £80 million in APS and £200 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	(46)	36

f Present value of scheme liabilities

	Employee benefit obligations			Employee benefit assets		
£ million	NAPS	Other schemes	Total	APS	Other schemes	Total
As at 1 April 2009	*7,216*	*497*	*7,713*	*5,065*	*28*	*5,093*
Current service cost	*105*	*6*	*111*	*10*	*1*	*11*
Past service cost	*1*		*1*			
Interest cost	*489*	*30*	*519*	*345*	*2*	*347*
Benefits paid	*(390)*	*(22)*	*(412)*	*(429)*	*(3)*	*(432)*
Employee contributions	*55*	*1*	*56*	*3*		*3*
Actuarial losses	*2,493*	*67*	*2,560*	*1,253*	*3*	*1,256*
As at 31 March 2010	*9,969*	*579*	*10,548*	*6,247*	*31*	*6,278*
Current service cost	124	6	**130**	7		**7**
Interest cost	410	23	**433**	250	1	**251**
Benefits paid	(229)	(18)	**(247)**	(280)	(2)	**(282)**
Employee contributions	38	1	**39**	2		**2**
Actuarial gains	(679)	32	**(647)**	(373)	3	**(370)**
At 31 December 2010	**9,633**	**623**	**10,256**	**5,853**	**33**	**5,886**

The defined benefit obligation comprises £248 million (March 2010: £220 million) arising from unfunded plans and £10,008 million (March 2010: £10,328 million) from plans that are wholly or partly funded.

Notes to the accounts continued

34 Pension Costs *continued*

g Fair value of scheme assets

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
As at 1 April 2009	*6,049*	*203*	*6,252*	*5,925*	*28*	*5,953*
Expected return on plan assets	*418*	*14*	*432*	*269*	*1*	*270*
Employer contributions	*340*	*10*	*350*	*14*		*14*
Employee contributions	*55*	*1*	*56*	*3*		*3*
Benefits paid	*(390)*	*(22)*	*(412)*	*(429)*	*(3)*	*(432)*
Actuarial gains	*1,552*	*47*	*1,599*	*661*	*10*	*671*
As at 31 March 2010	8,024	253	8,277	6,443	36	6,479
Expected return on plan assets	434	14	**448**	245	1	**246**
NAPS administration expense	(8)		**(8)**			
Employer contributions	211	10	**221**	47		**47**
Employee contributions	38	1	**39**	2		**2**
Benefits paid	(229)	(18)	**(247)**	(280)	(2)	**(282)**
Actuarial gains/(losses)	162	3	**165**	(72)	1	**(71)**
At 31 December 2010	**8,632**	**263**	**8,895**	**6,385**	**36**	**6,421**

h History of experience gains and losses

£ million	Employee benefit obligations NAPS	Other schemes	Total	Employee benefit assets APS	Other schemes	Total
As at 31 December 2010						
Fair value of scheme assets	8,632	263	**8,895**	6,385	36	**6,421**
Present value of defined benefit obligation	(9,633)	(623)	**(10,256)**	(5,853)	(33)	**(5,886)**
(Deficit)/surplus in the scheme	(1,001)	(360)	**(1,361)**	532	3	**535**
Experience adjustments arising on plan liabilities	(679)	32	**(647)**	(373)	3	**(370)**
Experience adjustments arising on plan assets	162	3	**165**	(72)	1	**(71)**
As at 31 March 2010						
Fair value of scheme assets	8,024	253	8,277	6,443	36	6,479
Present value of defined benefit obligation	(9,969)	(579)	(10,548)	(6,247)	(31)	(6,278)
(Deficit)/surplus in the scheme	(1,945)	(326)	(2,271)	196	5	201
Experience adjustments arising on plan liabilities	2,493	67	2,560	1,253	3	1,256
Experience adjustments arising on plan assets	1,552	47	1,599	661	10	671
As at 31 March 2009						
Fair value of scheme assets	6,049	203	6,252	5,925	28	5,953
Present value of defined benefit obligation	(7,216)	(497)	(7,713)	(5,065)	(28)	(5,093)
(Deficit)/surplus in the scheme	(1,167)	(294)	(1,461)	860		860
Experience adjustments arising on plan liabilities	(980)	98	(882)	(372)	(1)	(373)
Experience adjustments arising on plan assets	(1,964)	(25)	(1,989)	(723)	(9)	(732)
As at 31 March 2008 (restated)						
Fair value of scheme assets	7,348	221	7,569	6,668	35	6,703
Present value of defined benefit obligation	(7,705)	(384)	(8,089)	(5,432)	(29)	(5,461)
(Deficit)/surplus in the scheme	(357)	(163)	(520)	1,236	6	1,242
Experience adjustments arising on plan liabilities	(873)	(28)	(901)	(616)	3	(613)
Experience adjustments arising on plan assets	(489)	(26)	(515)	182	1	183
As at 31 March 2007						
Fair value of scheme assets	6,553	238	6,791	6,491	34	6,525
Present value of defined benefit obligation	(8,110)	(397)	(8,507)	(6,076)	(27)	(6,103)
APS irrecoverable surplus				(306)		(306)
(Deficit)/surplus in the scheme	(1,557)	(159)	(1,716)	109	7	116

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.

35 Contingent liabilities

There were contingent liabilities at 31 December 2010 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group and the Company have guaranteed certain borrowings, liabilities and commitments, which at 31 December 2010 amounted to £391 million (31 March 2010: £119 million) and £645 million (31 March 2010: £385 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.

36 Related party transactions

The Group and Company had transactions in the ordinary course of business during the nine months to 31 December 2010 (March 2010: 12 months) under review with related parties.

	Group		Company	
£ million	**31 December 2010**	*31 March 2010*	**31 December 2010**	*31 March 2010*
Associates:				
Sales to associates	**37**	*36*	**37**	*36*
Purchases from associates	**42**	*47*	**42**	*47*
Amounts owed by associates	**1**	*1*	**1**	*1*
Amounts owed to associates	**7**	*2*	**7**	*2*
Subsidiaries:				
Sales to subsidiaries			**67**	*65*
Purchases from subsidiaries			**95**	*123*
Amounts owed by subsidiaries			**314**	*236*
Amounts owed to subsidiaries			**3,252**	*3,283*

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 £4 million in relation to the costs of the Pension Protection Fund levy (March 2010: £3.3 million).

Associates

a Iberia Líneas Aéreas de España S.A. (Iberia)

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

During the year the Company contracted with Iberia to purchase ten new Airbus A320 aircraft, the commitment arising has been included in note 14.

As at 31 December 2010 the net trading balance owed to Iberia by the Group amounted to £6 million (March 2010: £1 million).

b Other associates

There was a remaining net trading balance under £1 million as at 31 December 2010 due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited (March 2010: under £1 million).

Subsidiaries

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

Notes to the accounts continued

36 Related party transactions *continued*

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with Directors or officers of the Company at 31 December 2010 or arose during the nine month period that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006.

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

Neither the Group nor Company have provided or benefited from any guarantees for any related party receivables or payables. During the period ended 31 December 2010 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (March 2010: £nil).

Compensation of key management personnel (including Directors):

	Group		Company	
£ million	**Nine months to 31 December 2010**	*12 months to 31 March 2010*	**Nine months to 31 December 2010**	*12 months to 31 March 2010*
Short-term employee benefits	**3**	*4*	**3**	*4*
Share-based payments	**1**	*1*	**1**	*1*
At period end	**4**	*5*	**4**	*5*

37 Post balance sheet events

On 21 January 2011, British Airways Plc and Iberia Líneas Aéreas de España, S.A. (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction of the two companies to create a new, leading European airline group. As a result of the merger, International Consolidated Airlines Group, known as IAG was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid incorporated on 8 April 2010.

IAG has a premium listing on the FTSE's UK index series. IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the "Spanish Stock Exchanges"), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

The Group is expecting to generate annual synergies of approximately €400 million by the end of its fifth year and benefit shareholders, customers and employees. IAG will combine the two companies leading positions in the UK and Spain and enhance their strong presence in the international longhaul markets, while retaining the individual brands and operations of both airlines.

Principal terms

Under the terms of the merger, British Airways ordinary shareholders received one new ordinary share of IAG for every existing British Airways ordinary share and Iberia shareholders received 1.0205 new ordinary shares for every existing Iberia ordinary share. Upon completion of the transaction, British Airways' shareholders held 56 per cent of IAG and Iberia's shareholders 44 per cent.

Prior to 21 January 2011, British Airways owned 13.15 per cent of the issued share capital of Iberia and Iberia owned 9.98 per cent of the issued share capital of British Airways. Subsequent to the merger, the cross holdings between British Airways and Iberia were maintained or recreated with the same economic and voting rights.

For the purposes of accounting British Airways is deemed to be the acquirer of Iberia. IAG's value was determined based on British Airways' fair value, calculated from British Airways quoted market price at the close of business on 20th January 2011 of €3.346 (or £2.825) for its 1,154 million outstanding ordinary shares. The purchase price of Iberia was calculated based on the agreed merger ratios and IAG's value on the transaction date.

37 Post balance sheet events *continued*

€ million (except percentages)	**21 January 2011**
IAG value	
British Airways fair value	3,862
Iberia stake in British Airways	(385)
	3,477
British Airways ownership in IAG (per cent)	56
IAG value	**6,209**
Purchase price	
IAG value	6,209
Iberia ownership in IAG (per cent)	44
	2,732
British Airways stake in Iberia at market value	370
Purchase price	3,102

The purchase price allocation has not yet been finalised. It is expected to be completed within 12 months of the date of the merger in accordance with the period allowed to review estimations under IFRS.

IAG will consolidate and report the first results of the IAG group for the three months ended 31 March 2011. IAG's first quarter results will include British Airways results for the three months ended 31 March 2011 and Iberia's results from the Merger effective date.

Convertible bond

In August 2009, British Airways issued a £350 million fixed rate 5.8 per cent convertible bond, convertible into ordinary shares at the option of the holder, before or on maturity in August 2014. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in British Airways. In order to facilitate the issuing of IAG equity, a guarantee was issued from IAG to British Airways whereby IAG have guaranteed the payment of the principal and interest to the bondholders. In addition, IAG issued a written call option to British Airways whereby British Airways will pay for shares in IAG on behalf of the bondholders in the event of a conversion, at a predetermined price of £1.89 to allow British Airways to meet the conversion obligation.

As a result, the equity portion of the convertible bond will be reclassified as a derivative financial liability. It represents British Airways' obligation to deliver a fixed number of shares in IAG to the bondholders, and as such, represents a derivative financial liability with an underlying value driven by the share price of IAG.

In addition, British Airways will recognise the written call option and guarantee acquired from IAG. The written call option was recognised at its fair value (purchase price on acquisition) and will be revalued at each reporting date, the movement being recorded in the income statement. The guarantee represents an expense to British Airways and as such will be recognised in the income statement.

38 Foreign currency translation rates

	At period end		Average	
£1 equals	**31 December 2010**	*31 March 2010*	**Nine month average 2010**	*12 month average 2010*
US dollar	**1.55**	*1.51*	**1.54**	*1.60*
Euro	**1.18**	*1.12*	**1.18**	*1.13*
Japanese yen	**130**	*141*	**134**	*148*

Operating and financial statistics

Total Group operations (note 1)		Nine months to 31 December 2010	2010	2009	12 months to 31 March 2008*	2007
Traffic and capacity						
Revenue passenger km (RPK)	m	**81,971**	*110,851*	*114,346*	*118,395*	*112,851*
Available seat km (ASK)	m	**104,415**	*141,178*	*148,504*	*149,576*	*148,321*
Passenger load factor	%	**78.5**	*78.5*	*77.0*	*79.1*	*76.1*
Cargo tonne km (CTK)	m	**3,478**	*4,537*	*4,638*	*4,892*	*4,695*
Total revenue tonne km (RTK)	m	**11,736**	*15,588*	*16,054*	*16,797*	*16,112*
Total available tonne km (ATK)	m	**15,973**	*21,278*	*22,293*	*22,872*	*22,882*
Overall load factor	%	**73.5**	*73.3*	*72.0*	*73.4*	*70.4*
Passengers carried	'000	**24,088**	*31,825*	*33,117*	*34,613*	*33,068*
Tonnes of cargo carried	'000	**570**	*760*	*777*	*805*	*762*
Revenue aircraft km	m	**461**	*618*	*644*	*644*	*637*
Revenue flights	'000	**191**	*257*	*279*	*281*	*276*
Operations						
Average manpower equivalent (MPE)		**35,778**	*37,595*	*41,473*	*41,745*	*42,683*
RTKs per MPE		**328.0**	*414.6*	*387.1*	*402.4*	*377.5*
ATKs per MPE		**446.4**	*566.0*	*537.5*	*547.9*	*536.1*
Aircraft in service at year end		**240**	*238*	*245*	*245*	*242*
Aircraft utilisation (average hours per aircraft per day)		**10.48**	*10.43*	*10.68*	*10.91*	*10.82*
Unduplicated route km	'000	**630**	*628*	*621*	*629*	*589*
Punctuality – within 15 minutes	%	**76**	*81*	*77*	*63*	*67*
Regularity	%	**92.9**	*98.0*	*98.6*	*98.2*	*98.5*
Financial						
Passenger revenue per RPK	p	**7.11**	*6.30*	*6.85*	*6.42*	*6.44*
Passenger revenue per ASK	p	**5.58**	*4.94*	*5.28*	*5.08*	*4.90*
Cargo revenue per CTK	p	**15.27**	*12.12*	*14.51*	*12.57*	*12.74*
Average fuel price (US cents/US gallon)		**222.64**	*189.24*	*284.06*	*245.26*	*209.60*
Interest cover (note 2)	times	**2.5**	*(2.9)*	*(3.6)*	*15.4*	*16.7*
Dividend cover	times	**n/a**	*n/a*	*(5.9)*	*n/a*	*n/a*
Operating margin (note 3)	%	**5.1**	*(2.9)*	*(2.4)*	*10.0*	*7.1*
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	**1,024**	*642*	*645*	*1,780*	*1,549*
Net debt/total capital ratio (note 4)	%	**45.5**	*52.0*	*56.3*	*28.7*	*29.1*
Net debt/total capital ratio including operating leases	%	**55.1**	*63.1*	*62.8*	*38.2*	*39.6*
Total traffic revenue per RTK	p	**54.21**	*48.31*	*53.00*	*48.91*	*48.79*
Total traffic revenue per ATK	p	**39.83**	*35.39*	*38.17*	*35.92*	*34.35*
Total operating expenditure per RTK (note 5)	p	**54.03**	*52.76*	*57.38*	*46.91*	*49.26*
Total operating expenditure per ATK (note 5)	p	**39.70**	*38.65*	*41.32*	*34.45*	*34.68*

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

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

£ million (except ratios)	**Nine months to 31 December 2010**	*12 months to 31 March 2010*
Profit/(loss) before tax	**157**	*(531)*
Net Interest payable (a)	**(107)**	*(137)*
Profit/(loss) adjusted for interest payable (b)	**264**	*(394)*
Interest cover (b)/(a)	**2.5**	*(2.9)*

3. Operating margin is defined as operating profit as a percentage of revenue. Revenue comprises: passenger revenue (scheduled services and non scheduled services), cargo services and other revenue.
4. Net debt as a percentage of total capital. Net debt is defined as the total of loans, finance leases and hire purchase liabilities, net of short-term loans and deposits and cash less overdrafts. See note 23 to the financial statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interests, and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. Similarly, net debt adjusted to include obligations under operating leases is not a financial measure under IFRS. However, management believes these measures are useful to investors when analysing the extent to which the Group is funded by debt rather than by shareholders' funds. The following table shows a reconciliation of total capital to total shareholders' funds and the net debt/capital ratio for each of the two most recent financial period:

£ million (except ratios)	**Nine months to 31 December 2010**	*12 months to 31 March 2010*
Capital and reserves	**2,200**	*1,913*
Add non-controlling interests	**200**	*200*
Total shareholders' equity	**2,400**	*2,113*
Net debt (a)	**2,001**	*2,288*
Total capital (b)	**4,401**	*4,401*
Net debt/total capital percentage (a)/(b)	**45.5**	*52.0*

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 period:

£ million (except ratios)	**Nine months to 31 December 2010**	*12 months to 31 March 2010*
Total expenditure on operations	**6,341**	*8,225*
RTKs	**11,736**	*15,588*
ATKs	**15,973**	*21,278*
Total expenditure on operations per RTKs (p)	**54.03**	*52.76*
Total expenditure on operations per ATKs (p)	**39.70**	*38.65*

Principal investments

At 31 December 2010

Investments in subsidiaries

The following table includes those principal investments which significantly impact the results or assets of the Group. These subsidiaries are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
The Mileage Company (formerly Air Miles Travel Promotions Limited)	Airline marketing	England
BA and AA Holdings Limited	Holding company	England
BA Cityflyer Limited	Airline operations	England
OpenSkies SASU*	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 E-Jets Leasing Limited	Aircraft financing	Bermuda
British Airways Holdings Limited	Airline finance	Jersey
British Airways Holidays Limited	Package holidays	England
British Airways Interior Engineering Limited	Aircraft maintenance	England
British Airways Leasing Limited	Aircraft financing	England
British Airways Maintenance Cardiff Limited	Aircraft maintenance	England
Speedbird Cash Management Limited	Investment	Bermuda
Speedbird Insurance Company Limited	Insurance	Bermuda
The Plimsoll Line Limited	Holding company	England

Investments in associates

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

Available-for-sale investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Comair Limited*	9.6	Airline operations	South Africa
Flybe Group plc*	14.6	Airline operations	England
The Airline Group Limited	16.7	Air traffic control holding company	England

* Not owned directly by British Airways Plc.

Glossary

Airline operations	This includes British Airways Plc, BA Cityflyer Limited, Flyline Tele Sales & Services GmbH and OpenSkies.
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown
Cargo tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Dividend cover	The number of times profit for the year covers the dividends paid and proposed.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rentals.
Frequent flyer RPKs as a percentage of total RPKs	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year.
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income.
JBA	Is our Joint Business Agreement with American Airlines Inc. and Iberia Líneas Aéreas de España S.A.
Load factor	The percentage relationship of revenue load carried to capacity available.
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors.
Merger	Merger of British Airways Plc and Iberia Líneas Aéreas de España S.A. to create International Consolidated Airlines Group S.A.
Merger Effective Date	21 January 2011, the date British Airways and Iberia signed a Merger agreement to create International Consolidated Airlines Group S.A.
Net debt	Loans, finance leases and hire purchase arrangements net of other current interest-bearing deposits and cash and cash equivalents less overdrafts.
Net debt/total capital ratio	Net debt as a ratio of total capital.
Net debt/total capital ratio (including operating leases)	Net debt as a ratio of total capital, adjusted to include the discounted value of future operating lease commitments.
Overall load factor	RTK expressed as a percentage of ATK.
Operating margin	Operating profit/(loss) as a percentage of revenue.
Passenger load factor	RPK expressed as a percentage of ASK.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.
Revenue passenger kilometres (RPK)	The number of revenue passengers carried multiplied by the distance flown.
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown.
Revenue per RPK	Passenger revenue divided by RPK.
Total capital	Total equity plus net debt.
Total traffic revenue per RTK	Revenue from total traffic divided by RTK.
Total traffic revenue per ATK	Revenue from total traffic divided by ATK.
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction.
n/a	Not applicable.

Subsidiary undertakings

List of subsidiary undertakings for British Airways Plc as at 24 February 2011.

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Country of incorporation
BA and AA Holdings Limited	England
BA Call Centre India Private Limited (callBA)	India
BA Cityflyer Limited	England
BA European Limited	England
BritAir Holdings Limited	England
British Airways (España) Limited	England
British Airways (European Operations at Gatwick) Limited	England
British Airways 777 Leasing Limited	England
British Airways Associated Companies Limited	England
British Airways Avionic Engineering Limited	England
British Airways Capital Limited	Jersey
British Airways Ejets Leasing Limited	Bermuda
British Airways Holdings BV	Netherlands
British Airways Holdings Limited	Jersey
British Airways Holidays Limited	England
British Airways Interior Engineering Limited	England
British Airways Leasing Limited	England
British Airways Maintenance Cardiff Limited	England
British Airways Pension Trustees (No 2) Limited	England
British Airways Plc Employee Benefits Trustees (Jersey) Limited	Jersey
British Airways Regional Limited	England
British Caledonian Airways Limited	England
British Caledonian Group Limited	Scotland
Caledonian Aviation Investments Limited	England
Deutsche BA Holding GmbH	Germany
Flyline Tele Sales & Services GmbH	Germany
Illiad Inc	USA
OpenSkies Aviation Limited	England
OpenSkies SASU	France
Overseas Air Travel Limited	England
Remotereport Trading Limited	England
Speedbird Cash Management Limited*	Bermuda
Speedbird Insurance Company Limited	Bermuda
Speedwing International Limited	England
Teleflight Limited	England
The Mileage Company Limited	England
The Plimsoll Line Limited	England

Associated holdings

Name of company	Percentage of equity owned	Country of incorporation
Dunwoody Airline Services (Holdings) Limited	40	England

Significant holdings

Name of company	Percentage of equity owned	Country of incorporation
oneworld Management Company Limited	25.56	Canada

* Has ordinary and non-redeemable preference shares.

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