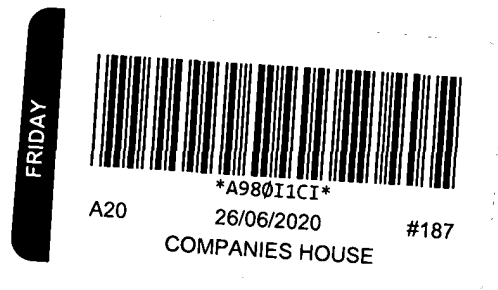


British Airways Plc

**Annual Report and Accounts
Year ended 31 December 2019**

Company registration number: 1777777



Contents

Officers and professional advisers	1
Strategic and Directors' reports	
Strategic report	
Management review and outlook	2
Financial review	6
Principal risks and uncertainties	10
Section 172 statement	15
Directors' report	19
Directors' responsibilities statement in relation to the financial statements	23
Independent auditor's report	24
Group financial statements	
Group consolidated income statement	27
Group consolidated statement of other comprehensive income	28
Balance sheets	29
Cash flow statements	30
Statements of changes in equity	31
Notes to the financial statements	32
Subsidiary undertakings and other investments	94
Operating and financial statistics	96
Fleet table	97
Glossary	98

Officers and professional advisers

Directors

Alex Cruz	(Chairman & CEO)
Alison Reed	(Deputy Chairman)
Rebecca Napier	(Chief Financial Officer)
Gavin Patterson	
Julia Simpson	
Lynne Embleton	

Secretary

Andrew Fleming

Registered office

Waterside
PO Box 365
Harmondsworth
UB7 0GB

Parent company

International Consolidated Airlines Group S.A. ('IAG')
El Caserío, Iberia Zona Industrial nº 2 (La Muñiza)
Camino de La Muñiza, s/n,
28042 Madrid
Spain

Independent auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Strategic report

The Directors present their strategic report for the year ended 31 December 2019.

British Airways Plc ('British Airways', 'BA', 'the airline' or 'the Group') is the UK's largest international scheduled airline and one of the world's leading global airlines. On 25 August 2019 British Airways celebrated its centenary. The Group's principal place of business is London with significant presence at Heathrow, Gatwick and London City airports. As part of IAG, and together with joint business, codeshare and franchise partners, British Airways operates one of the most extensive international scheduled airline networks. British Airways is a founding member of the oneworld alliance, whose member airlines serve more than 1,000 destinations in over 150 countries.

During the year the Group operated more than 300 aircraft, carrying about 48 million customers to over 200 destinations across the world. British Airways employs an average of 42 thousand people across the world.

The strategic report is presented in the following four sections:

- Management review and outlook;
- Financial review;
- Principal risks and uncertainties; and
- Section 172 statement.

Management review and outlook

Overview

- Total revenue: £13,290 million, up 2.5 % (2018: £12,965 million¹)
- Operating profit before exceptional items: £1,921 million, down 1.6 % (2018: £1,952 million)
- Passengers: 47.7 million, up 1.7 % (2018: 46.9 million)
- Punctuality: 76 % (2018: 76 %)
- Fuel efficiency (grammes CO₂ per passenger kilometre): 96.3 (2018: 97.2)

The Group delivered solid financial results, despite the disruption through the summer caused by industrial action from British Airline Pilots Association (BALPA) pilots, threatened strikes by Heathrow Airport employees, adverse weather and air traffic controller strikes in Europe.

Revenue increased 2.5 per cent to £13,290 million. Passenger revenue increased by £335 million, or 2.9 per cent. Available capacity (ASKs) increased by 0.9 per cent. Average hedged fuel costs in 2019 were higher than 2018. Group expenditure excluding fuel before exceptional items increased to £8,132 million (2018: £8,086 million) principally driven by higher handling and catering costs and selling costs. A focus on cost discipline, the full year effect of the closure of legacy pension schemes to future accrual and benefits of the implementation of a major restructuring programme which was completed in 2018 have contributed to a pre-exceptional operating profit of £1,921 million (2018: £1,952 million) for the year.

British Airways continues to invest in improving customer experience, environmental sustainability, cost competitiveness, safe and reliable operations, capital efficiency and employee development.

Investing and innovating where customers value it most

Passenger numbers increased 1.7 per cent to 47.7 million in 2019. British Airways remains committed to improving customer experience and in 2018 announced more than £6.5 billion to be invested over a five-year period to achieve this goal. Capital expenditure in 2019 was £1,571 million (2018: £1,218 million). During 2019, 14 new aircraft (excluding wet leases) were delivered, including four A350s, three A320neos and seven A321neos. Customers continue to respond positively to the newer aircraft models being introduced to the fleet and the refreshed interiors of the Boeing 777s. The delivery of the A350 aircraft saw the introduction of the new Club World suite. The suite has direct aisle access, gate-to-gate entertainment, increased storage, connectivity and greater privacy. The Club World suite will be on all new long-haul aircraft and is being retrofitted to the majority of the existing long-haul fleet by 2025. During the year the Group placed an order for 18 Boeing 777-9 aircraft, plus 24 options, to replace 14 Boeing 747-400s and four Boeing 777-200s between 2022 and 2025.

In June 2019, IAG, British Airways' parent company signed a letter of intent (LOI) with Boeing for 200 B737 aircraft to join its fleet. The LOI is subject to formal agreement. The mix of 737-8 and 737-10 aircraft would be delivered between 2023 and 2027 and would be powered by CFM Leap engines. It is anticipated that the aircraft would be used by a number of the IAG Group airlines including British Airways at London Gatwick airport.

The airline continues to enhance on-board customer experience. During 2019, the Group continued to roll out inflight WiFi across the fleet, recognising that staying connected in the air is becoming an increasingly important factor to customers and drives passenger loyalty. The roll out of the new inflight dining experience across all cabins continued in 2019. Along with cabin improvements, First and World Traveller Plus received enhanced catering in the first half of 2019 with the introduction of more food choices, new First cabin tableware, new amenity kits and bedding made from recycled plastic bottles. A third meal choice was added in the World Traveller Plus service. A revamped menu was launched on flights from Gatwick in December 2019.

¹Restated for the presentation of compensation payments for flight delays and cancellations as a deduction against revenue as detailed in note 36(b)

Strategic report continued

British Airways continues to invest in improving the pre-flight customer experience. The airline has over 30 dedicated British Airways departure lounges and more than 100 additional partner lounges worldwide. New partner lounges were introduced in Thessaloniki, Paphos, Heraklion, Dalaman, Olbia, Palermo and Split. In 2019, the airline unveiled a series of refurbished lounges in Johannesburg, San Francisco, Milan and Geneva.

British Airways will move to Terminal 8 at John F. Kennedy Airport in 2022 and is investing in the new terminal with American Airlines as part of a significant reinvestment by the Port Authority of New York and New Jersey. Changes will include additional aircraft stands, enhanced baggage systems, new lounges, premium check-in areas and upgraded concessions. The renovation of the First and Club lounges at the airline's existing home at New York JFK Terminal 7 was completed in 2019.

During September, BALPA industrial action scheduled for the 9th, 10th and 27th due to a dispute over pay led to an initial cancellation of 4,521 flights over a period of seven days. After the strike on the 27th was called off 2,196 flights were reinstated leaving 2,325 cancellations. British Airways introduced flexible commercial policies on 4,070 flights not directly affected by the industrial action. This enabled customers to re-book flights or receive a refund. British Airways apologised and enlisted the help of hundreds of colleagues from around the business to assist the Customer Service team in speedily resolving complaints and meeting compensation obligations. The dispute was brought to a close in December 2019 when members of BALPA reached a pay agreement with British Airways.

Network development: Expanding customer choice

The Group continues to expand its network, operating a dynamic schedule matched to customer demand. The new generation aircraft provide range and capacity to open new markets, while improving the performance of existing routes. In 2019, new routes from London Heathrow were launched to eight destinations including Osaka, Islamabad, Pittsburgh and Charleston. New services from London Gatwick to Milan Bergamo and Kos and from London City to Split and Munich were also added. The airline now serves 33 destinations in North America, the most of any European carrier and continues to explore opportunities with joint business partners, such as American Airlines, to service common routes that have sufficient demand.

In December 2019, British Airways signed a joint business agreement with China Southern Airlines, for travel from 2 January 2020. The agreement will benefit customers of both airlines by opening more destinations between the UK and China, with a greater choice of flights. It will allow the airlines to cooperate on scheduling and pricing, providing customers with more flexible flight options.

Operational performance: Sustainable, safe, reliable and responsible

In 2019 British Airways operated more flights than at any time in the last decade, offering customers more choice. Despite the knock-on effects of Rolls-Royce Trent 1000 engine issues, operational disruption caused by weather and more crowded airspace in Europe, 76 per cent (2018: 76 per cent) of flights departed punctually (measured as the percentage of flights departing within 15 minutes of schedule).

The Group is committed to enhancing and streamlining operations to improve the customer experience through technology, including introducing self-service and biometric technology for customers to enable them to board flights more quickly and automatic pushback vehicles. In 2019 British Airways achieved more than 100,000 aircraft pushbacks through its electric, remote-controlled pushback vehicles, Mototok tugs. Mototok tugs were introduced for shorthaul aircraft pushback at Heathrow during 2017. All shorthaul gates at Terminal 5 are serviced by Mototok tugs. The use of Mototok tugs enables the airline to reduce pushback delays, thereby improving punctuality. The airline also trialled autonomous baggage vehicles at the airport. Both of these initiatives use emissions-free vehicles to reduce airside emissions forming part of British Airways' wider environmental commitments and long-term plan to reduce emissions from all vehicles at Heathrow. The Mototok vehicles and baggage dollies improve air quality and carbon emissions compared to the traditional tugs they replace.

The airline also continues to explore the use of artificial intelligence in many areas of its business including within its airside operation at Heathrow Terminal 5 to help colleagues ensure every flight departs safely and on time. The Group is also trialling 3D printing, to establish whether this is a viable option to print non-essential airline parts at airports around the world, thereby helping to reduce the emissions produced by flying new parts in.

The Group has recognised the IT stability issues and cybersecurity challenges faced, and continues to invest in cybersecurity and cloud-based services, replacing legacy infrastructure. The Group follows the NIST framework and the UK government's board advice and guidance which details how to identify, protect, detect, respond and recover from cybersecurity incidents.

The Group is committed to managing its operations responsibly. British Airways is part of the IAG Modern Slavery Working Group, which monitors any potential high-risk areas and implements preventative measures. Through IAG, British Airways engages with suppliers on standards of quality, safety, environmental responsibility and human rights. Supplier audit priority is based on annual expenditure, factories located in high-risk geographies and the strategic importance of the supplier.

As outlined in the Directors' report on page 20, safety and security is a critical component of the British Airways' vision. Pilots, cabin crew and engineers receive safety and security training. Processes are in place that facilitate an open and transparent safety culture, encouraging employees to report any safety incidents. The Group continues to invest in technology that makes reporting safety and security issues easier by facilitating reporting issues from a mobile device or web browser anytime and providing real time data.

Strategic report continued

British Airways' parent company IAG became the first airline group worldwide to commit to achieving net zero CO₂ emissions by 2050, and British Airways will contribute to this strategic goal. Reducing aviation's environmental impact is a multi-faceted problem that requires a multi-faceted solution and the airline is implementing a variety of sustainable initiatives to achieve net zero carbon emissions by 2050.

British Airways is the first airline in Europe to invest in building a plant with renewable fuels company Velocys, which converts organic household waste into renewable jet fuel. In 2019, a subsidiary of Velocys submitted a planning application to develop the site in Immingham, North East Lincolnshire. The planned plant will initially produce enough fuel to power all British Airways' 787 Dreamliner operated flights from London to San Jose, California and New Orleans, Louisiana for a whole year. Additionally, in 2019 the Group set the BA 2119: Future of Fuels challenge, posing the question of how to power a long-haul flight for at least five hours and produce zero CO₂ emissions. This called on British universities to create new pathways in the development of sustainable aviation fuels.

British Airways' short-haul fleet was ranked in the top five in Heathrow's 'Fly Quiet and Green' league table, based on environmental performance. The airline has been improving its position in the league table because of the investment in new, more fuel-efficient aircraft, consistent adherence to routes designed to reduce noise for local communities and new landing procedures, optimised to reduce both noise and emissions. The league table takes into account emissions per seat, the amount of noise generated by a plane, aircraft age and emissions standards. Boeing 747s and A319s make up about 25 per cent of the airline's fleet. The Group is leveraging the fuel efficiency benefits of new generation aircraft and phasing out the older less fuel efficient aircraft. Newer planes such as Boeing 787s and Airbus 350s are among the most fuel efficient and produce lower noise levels.

From 2020, British Airways plans to offset carbon emissions for all UK domestic flights. The airline will invest in verified carbon reduction projects around the world. These projects which will be quality-assured include renewable energy, protection of rainforests and reforestation programmes. The airline operates up to 75 flights a day between London and 10 UK cities, including Manchester, Leeds, Newcastle, Isle of Man, Edinburgh, Glasgow, Aberdeen, Belfast City, Inverness and Jersey.

For European and long-haul flights, passengers can reduce their impact on the environment by using the new British Airways carbon offsetting tool. The carbon tool enables customers to calculate their emissions and then invest in carbon reduction projects including forestry and renewable energy projects in Peru, Sudan and Cambodia. In addition, from 2021, British Airways' carbon emissions on international flights will be capped under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a worldwide carbon pricing scheme.

People and communities

Employees are vital to the sustainable success of British Airways. Throughout the centenary year the airline has celebrated people who represent the values of the airline of being safe and secure always, passionate about service, confident and trusted advocates of British Airways. A significant highlight of the centenary celebrations was the visit from Her Majesty the Queen in May 2019. Hundreds of employees were invited to the airline's headquarters to enjoy this experience.

Significant progress has been made in 2019 to define and deliver the British Airways People Strategy. Focused around three pillars of Transform, Build and Engage, the strategy aims to develop a culture of service that delivers the new BA vision, purpose and commitments to "Connect Britain with the World". In addition, "Passionate about Service" training has been delivered to customer facing colleagues and linked into the roll out of first contact resolution in airports. This will continue in 2020 and beyond so that the unique British Airways service is consistently in place across customer facing colleagues and those who support them.

British Airways was awarded Best Airline Staff in Europe by Skytrax World Airline Awards in 2019. Cabin crew and airport colleagues were praised for their friendly welcome. The airline also won awards for Most Improved Airline in Europe, Best Airline Staff in the United Kingdom and Best Cabin Crew in the United Kingdom.

To enable front line employees to better respond to customer requirements a First Contact Resolution programme was launched at Heathrow in 2018. During 2019, the programme has been embedded into Heathrow operations. The roll out to the airports at which the airline operates around the world will continue in 2020. First Contact Resolution empowers airport colleagues to use their expertise, initiative and judgement to solve customer queries on the spot. This allows them to provide instant solutions and peace of mind for customers and send fewer issues to the remote Customer Relations teams.

The value of positive working relationships and engagement of colleagues is recognised by both British Airways and the unions. Following the industrial action in 2019 both British Airways and BALPA have committed to work collaboratively in order to re-build effective working relationships, both industrially and across the pilot community.

Pensions

In October 2019 British Airways reached agreement with the Trustee of its New Airways Pension Scheme (NAPS) on the scheme's regular triennial valuation. The valuation is based on the scheme's funding position as at 31 March 2018 and reflects the closure of the scheme to future accrual on that date. Refer to note 30 on page 82 for further details.

Strategic report continued

In April 2019, the Trustee Directors of the Airways Pension Scheme (APS) unanimously agreed with British Airways terms for an out-of-court settlement regarding the inflation measure to be applied for pension increases. On 11 November 2019 the High Court approved the settlement agreement. This brought to an end the litigation that commenced in 2013 and which was otherwise due to proceed to appeal at the Supreme Court. Refer to note 30 on page 83 for further details.

Government affairs

The airline sector is among the most heavily regulated industries in the world and British Airways together with IAG continues to monitor the development of national, regional and globally applied regulatory developments including the implementation of environmental regulations.

Brexit

The updated Withdrawal Agreement between the UK and the EU, reached in September, was ratified by both the UK Parliament (following the Conservative Party victory in the General Election in December) and by the European Parliament in January 2020. Accordingly, the UK left the EU on 31 January 2020 and entered a transition period that preserves the overall status quo until the end of December 2020. There is, therefore, no change to the status of air services between the EU and the UK until the end of the transition period. Attention now turns towards a future air services agreement to be put in place between the UK and EU relationship, including on air services and which will take place from March 2020.

During 2019 IAG continued to engage with regulators and policy makers to ensure that the needs of customers after Brexit are understood and in particular that policymakers recognise the importance of uninterrupted air services between the EU and the UK. This importance was reflected in the preparations for a potential "no-deal" scenario when both sides put in place separate plans to allow flights to continue and the way the preparations were made – the EU passed two Regulations, one on connectivity and one on aviation safety, with unprecedented speed – and both sides also activated procedures to the necessary operating permits. The nature and rapidity of these processes give the Group confidence that, should the anticipated EU-UK air services agreement not be ready by the end of the transition period, similar contingency plans would be put in place. In 2019 all the relevant national authorities (Austria, France, Ireland and Spain) confirmed that IAG's individual airlines complied with the relevant EU ownership rules if the relevant remedial plans are implemented. BA's assessment remains that, even in the event of no-deal after the transition period, Brexit will have no significant long-term impact on its business.

Non-financial information statement

Pursuant to Companies Act 2006 s.414CA (7), British Airways is not required to include a non-financial information statement as a consolidated management report containing non-financial information has been included in IAG's Annual Report and Accounts for the year ended 31 December 2019.

Strategic report continued

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2019. The Group has adopted the new accounting standard IFRS 16 'Leases' from 1 January 2019, and has used the modified retrospective transition approach, therefore the prior year comparatives have not been restated for IFRS 16. The results for 2018 have been restated for the presentation of compensation payments for flight delays and cancellations as a deduction against revenue following the clarification issued by the Interpretations Committee in September 2019 as detailed in note 36 (b).

Summary financial performance

£ million	2019	2018 Restated ¹	Better/(worse)
CONTINUING OPERATIONS			
Total revenue	13,290	12,965	2.5%
Total expenditure on operations before exceptional items	(11,369)	(11,013)	(3.2%)
Operating profit before exceptional items	1,921	1,952	(1.6%)
Exceptional items	(583)	394	nm
Operating profit after exceptional items	1,338	2,346	(43.0%)
Non-operating items	121	110	nm
Profit before tax	1,459	2,456	(40.6%)
Tax	(350)	(365)	4.1%
Profit after tax	1,109	2,091	(47.0%)

	2019	2018 Restated ¹	Better/(worse)
CONTINUING OPERATIONS			
Available seat kilometres (ASK) (m)	186,170	184,547	0.9%
Revenue passenger kilometres (RPK) (m)	155,580	152,177	2.2%
Passenger load factor (%)	83.6	82.5	1.1%
Passenger revenue per ASK (p) ¹	6.39	6.27	2.0%
Passenger revenue per RPK (p) ¹	7.65	7.60	0.6%
Non-fuel costs per ASK at constant currency* (p) ¹	4.35	4.40	1.1%

¹ Restated for the presentation of compensation payments for flight delays and cancellations as a deduction against revenue

*Stated before exceptional items

nm = not meaningful; m = millions; p = pence

Revenue

£ million	2019	2018 Restated ¹	Better/(worse)
CONTINUING OPERATIONS			
Passenger revenue	11,899	11,564	2.9%
Cargo revenue	711	769	(7.5%)
Total traffic revenue	12,610	12,333	2.2%
Other revenue	680	632	7.6%
Total revenue	13,290	12,965	2.5%

¹ Restated for the presentation of compensation payments for flight delays and cancellations as a deduction against revenue

Total revenue for the year was £13,290 million, up £325 million or 2.5 per cent compared to the previous year, despite ongoing competitive pressures and reduced capacity due to Trent engine issues. Passenger revenue increased by £335 million, or 2.9 per cent. Available capacity (ASKs) increased by 0.9 per cent, mainly a result of the seat densification programme. In addition, the number of passengers carried increased 1.7 per cent to 47.7 million. The increase in revenue was driven by an improvement in load factors which saw passenger revenue per ASK increase by 2.0 per cent and also aided by the US dollar strengthening against Sterling during 2019. The Group's revenues depend on discretionary spending which is reliant on the strength of the global economy. The passenger revenue result has been impacted by the effect of the strike action by BALPA pilots.

Strategic report continued

Revenue *continued*

A Global downturn in the cargo industry has resulted in a 7.5 per cent reduction in cargo revenue. The increase in other revenue by 7.6 per cent includes higher BA Holidays revenue following continued promotional activity.

Operating costs

£ million	2019	2018 Restated ¹	Better/(worse)
CONTINUING OPERATIONS			
Employee costs	2,529	2,535	0.2%
Depreciation, amortisation and impairment	1,106	786	(40.7%)
Aircraft operating lease costs	-	233	100.0%
Fuel, oil costs and emission charges	3,237	2,927	(10.6%)
Engineering and other aircraft costs	715	719	0.6%
Landing fees and en route charges	919	927	0.9%
Handling, catering and other operating costs	1,878	1,734	(8.3%)
Selling costs	516	509	(1.4%)
Currency differences	(9)	44	nm
Property, IT and other costs	478	599	20.2%
Total Group expenditure on operations before exceptional items	11,369	11,013	(3.2%)
Total Group expenditure excluding fuel before exceptional items	8,132	8,086	(0.6%)

¹ Prior year restatement relates to the presentation of passenger EC261 compensation costs in revenue as detailed in note 2

Fuel costs increased by £310 million, or 10.6 per cent, to £3,237 million compared to £2,927 million in the prior year. Average commodity fuel prices for the twelve months were lower than in the same period last year, an average of \$687 per metric ton in 2018 to \$628 per metric ton in 2019. However, effective fuel prices were higher than in 2018, due to the average price of the hedges being higher in 2019 compared to 2018. The strengthening of the US dollar also contributed to higher prices in Sterling. British Airways continues to benefit from the performance of next generation aircraft which are more fuel efficient.

The Group's focus on cost discipline, the benefits from the recent major restructuring programme, replacement of the NAPS and BARP post-employment benefit plans with a market-competitive flexible defined contribution scheme from 31 March 2018, and the decision not to pay bonuses to employees following the industrial action which had a significant impact on customers, resulted in a reduction in employee costs despite pay increases. The average number of employees has remained relatively constant, decreasing by only 0.1 per cent as shown in note 8.

Depreciation costs increased by £320 million or 40.7 per cent and this was partially offset by a decrease in aircraft operating lease costs of £233 million as a result of the adoption of IFRS 16 'Leases' from 1 January 2019. The decrease in property, IT and other costs was driven by the removal of property leasing costs following the implementation of IFRS 16 'Leases'. This reduction was partially offset by the Group's continued investment in its IT infrastructure. In 2018, leasing payments on property were recorded as a property operating expense. The financial reporting impact of IFRS 16 'Leases' is detailed in note 36.

Engineering and other aircraft costs decreased 0.6 per cent despite adverse foreign exchange effects. Compensation for Rolls-Royce Trent 1000 engine issues has offset increased wet leasing costs to compensate for the associated reduced capacity. The decrease in engineering costs is also due to lower contractual price rises following contract negotiations during 2019. Selling costs increased in line with the increase in revenue and adverse effect of foreign exchange over the twelve month period.

Handling, catering and other operating costs rose 8.3 per cent. The increase includes 2.8 per cent due to higher volumes from BA Holidays, 1.0 per cent due to additional investment in improving the in-flight catering and service delivery and at lounges, 1.4 per cent from disruption costs related to the BALPA pilot strike and 2.0 per cent from growth in passenger numbers as well as adverse exchange rates.

Exceptional items

The exceptional expense of £583 million related to the APS settlement agreement. This was a non-cash past service cost arising from the increase in the IAS 19 defined benefit obligation of APS following the settlement agreement between the Trustee Directors of the Airways Pension Scheme and British Airways, which was approved by the High Court in November 2019. The higher pensions in payment growth assumptions following the settlement agreement resulted in a non-cash increase to the IAS 19 defined benefit liability.

Strategic report continued

Exceptional items *continued*

In 2018, the exceptional gain of £394 million included the one-off reduction of the NAPS IAS 19 defined benefit liability of £770 million following the closure of NAPS to future accrual in March 2018. This was offset by other cash costs of £172 million linked to the closure of the NAPS and BARP schemes. The remaining 2018 exceptional cost related to the transformation programme, £121 million as detailed in note 5 and an £83 million cost of equalising for the effects of Guaranteed Minimum Pensions (GMP), as detailed in note 5 and note 30.

Non-operating items

Non-operating items increased by £11 million to a credit of £121 million. The year on year increase includes a £101 million net credit from the retranslation of long term borrowings, including IFRS 16 lease liabilities and associated hedging instruments. This was offset by an increase in finance costs of £103 million primarily due to the additional finance charge on lease liabilities following the implementation of IFRS 16 from 1 January 2019. Further information on the effect of adopting IFRS 16 'Leases' is detailed in note 36. The share of the Group's post tax profits in associates, accounted for using the equity method, increased by £5 million to £170 million.

Taxation

The tax charge on continuing operations for 2019 was £350 million (2018: £365 million), with no tax charge (2018: £28 million credit) relating to exceptional items. The Group profit before tax was £1,459 million (2018: £2,456 million) including a £170 million (2018: £165 million) post-tax share of associate's profits. After adjusting for this item the Group's effective tax rate was 18.7 per cent (2018: 15.9 per cent), compared to the UK corporation tax rate of 19.0 per cent (2018: 19.0 per cent).

During the year, the net deferred tax liability increased by £88 million to £423 million, driven primarily by the decrease in the fair value losses recognised on cash flow hedges.

Capital expenditure

Total capital expenditure in the year amounted to £1,571 million (2018: £1,218 million). This included £1,354 million (2018: £989 million) of fleet-related expenditure (aircraft, aircraft progress payments, spares, modifications and refurbishments). During the year the Group took delivery of three Airbus A320neos, seven Airbus A321neos and four Airbus A350-1000s.

Liquidity

The Group's liquidity position remains strong with £2.6 billion of cash, cash equivalents and other interest-bearing deposits (2018: £2.5 billion). At the end of the year, net debt excluding the effect of the adoption of IFRS 16 from 1 January 2019 was £1.6 billion (2018: £1.9 billion).

In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £0.5 billion (2018: £0.9 billion) and further committed general facilities of £1.0 billion (2018: £0.8 billion).

During the year, British Airways successfully launched a \$806 million Enhanced Equipment Trust Certificates (EETC) bond issue to fund aircraft deliveries. The bonds are combined with Japanese Operating Leases with Call Options of \$314 million, bringing the total raised to \$1,120 million. The transaction includes Class AA certificates with an annual coupon of 3.30 per cent and maturity of 13.4 years and Class A Certificates with an annual coupon of 3.35 per cent and a maturity of 9.9 years, supported by a collateral pool of Airbus A320 NEO and Airbus A350-1000 aircraft.

Pensions

The Group operates two significant defined benefit pension schemes, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. British Airways closed NAPS to future accrual from 31 March 2018. The main defined contribution scheme is the British Airways Pension Plan (BAPP).

In April 2019, the Trustee Directors of the Airways Pension Scheme (APS) unanimously agreed with British Airways terms for an out-of-court settlement as detailed in note 30 on page 83. On 11 November 2019 the High Court approved the settlement agreement. This brought to an end the litigation that commenced in 2013 and which was otherwise due to proceed to appeal at the Supreme Court. Under the terms of the proposed settlement, the Trustee of APS will be permitted, subject to some affordability tests, to award discretionary increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases tending towards RPI prior to 2021. British Airways will cease paying further deficit recovery contributions, including cash sweep payments. British Airways has provided a £40 million indemnity, payable in full or part as appropriate following the triennial valuation of the scheme as at 31 March 2027 if that valuation shows that the scheme is not able to pay pension increases at RPI for the remaining life of the scheme.

Strategic report continued

Pensions continued

The valuation of NAPS based on the scheme's funding position as at 31 March 2018 was agreed with the Trustee in October 2019. The main terms of the agreement were a technical deficit of £2.4 billion compared to £2.8 billion at 31 March 2015, which was the basis for the previous deficit recovery plan. British Airways will make fixed deficit contributions of £450 million per year until March 2023 from April 2020 compared with the previous arrangement of £300 million per year fixed deficit contributions and up to £150 million per year variable contributions ('cash sweep') based on British Airways' cash position. The fixed deficit contributions will be made until March 2023 compared with March 2027 under the previous recovery plan.

Consistent with the previous arrangements, following the approval of the APS settlement agreement British Airways paid a one-off contingency payment of £250 million in 2019 to NAPS. A new overpayment protection mechanism has been agreed, whereby deficit contributions would be suspended if the technical deficit is removed. British Airways has increased its flexibility to make dividend payments to IAG of up to 50 per cent of pre-exceptional profit after tax compared to 35 per cent of post-exceptional profit after tax previously. British Airways can pay a higher dividend than 50 per cent of pre-exceptional profit after tax in return for an agreed mechanism to either accelerate contributions to the scheme or provide a guarantee.

Strategic report continued

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks. The Group remains focused on mitigating these risks at all levels in the business although many remain outside our control, for example, changes in the political and economic environment, government regulation, external events causing operational disruption, fuel price and foreign exchange volatility and changes in the competitive landscape. The risks and uncertainties described below are the ones that are expected to have the most significant impact on the Group. The Group carries out detailed risk management reviews under the IAG risk management framework. Risks are maintained in a risk heatmap, which is reviewed semi-annually by the BA Board. As part of the risk management framework, potential emerging risks and longer term threats are considered to identify new trends, regulations or business disruptors that could impact our business strategy and plans. These emerging risks are monitored within the overall risk framework until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact can be made, and appropriate mitigations can be put in place. The list presented is not intended to be exhaustive.

Strategic	
Risk description	Mitigation
Airports, infrastructure and critical third parties	
BA is dependent on the timely entry of new aircraft and the engine performance of the aircraft to improve operational efficiency and resilience and support the delivery of the sustainability programme.	The Group mitigates engine and fleet performance risks to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.
BA is dependent on the timely, on budget delivery of infrastructure changes particularly at key airports.	The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports. BA is therefore particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports.
BA is dependent on resilience within the operations of the Air Traffic Control (ATC) services to ensure that its flight operations are delivered as scheduled.	London Heathrow has no spare runway capacity. In October 2016, the UK government confirmed a third runway expansion proposal at Heathrow and IAG continues to promote an efficient, cost effective, ready to use and fit for purpose third runway solution.
BA is dependent on the performance and cost of critical third party suppliers that provide services to customers such as airport operators, border control and caterers.	The Group participates in the slot trading market, including at London airports.
	IAG is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
	There is active supplier management including contingency plans.
Brand reputation	
BA's brand has significant commercial value. Erosion of the brand, through either a single event or series of events, may adversely impact the Group's leadership position with customers and could ultimately affect future revenue and profitability.	Brand initiatives have been identified and are aligned to the Strategic Business Plan. The Group continues to deliver the customer investment programme of more than £6.5 billion announced in 2018 to enhance the customer experience and support the brand proposition as detailed in the strategic report on pages 2 to 5.
If the airline is unable to meet the expectations of customers and does not engage effectively to maintain their emotional attachment to the brand, then the brand will be eroded and market share lost.	The Group continues to track and report internally on Net Promoter Score (NPS) to measure customer satisfaction.
	The Group launched new functionality on ba.com to help customers when their journeys are disrupted. Customer engagement through disruption and recovery processes have been a key area of focus for management, particularly the speed with which complaints are dealt with. Additional resource has been dedicated to reducing the number of outstanding complaints to record low levels.
	The Group's strategic business plans focus on the allocation of resources to safety, operational integrity and new aircraft to maintain brand leadership position.
	The Group's global loyalty strategy builds and maintains customer loyalty.

Strategic report continued

Principal risks and uncertainties continued

Strategic continued	
Risk Description	Mitigation
Competition, consolidation and government regulation	
BA operates in highly competitive markets. Competitor capacity growth in excess of demand growth could materially impact margins. Any failure of a joint business or a joint business partner could adversely affect business operations and financial performance. Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact operational and financial performance. The ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.	The Group has strong global market positioning, leadership in strategic markets, alliances and a diverse customer base. The Management Committee regularly reviews the commercial performance of joint business agreements. The airlines revenue management departments and systems optimise market share and yield through pricing and inventory management activity. The Group maintains rigorous cost control and targeted investment to remain competitive. The Group has the flexibility to react to market opportunities arising from competitors, leading to opportunities to capture market share and expand the Group. The Group has fleet flexibility to allow capacity to be deployed as needed. IAG's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.
Digital disruption	
Technology disruptors may use tools to position themselves between the airline's brands and its customers.	The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels. As part of IAG, BA benefits from the Hangar 51 programme which continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.
Sustainable aviation	
Increasing global concern about climate change and the impact of carbon affect performance as customers seek alternative methods of transport or reduce their levels of travel. New taxes and increasing price of carbon costs impact on demand for air travel. Customers may choose to reduce the amount they fly.	IAG has announced a Climate Change strategy to meet target of net zero carbon emissions by 2050 and is implementing plans to meet this goal as detailed in the strategic report on pages 2 to 5 including investment in sustainable fuels and participation in CORSIA. From 1 January 2020 BA has implemented a carbon offsetting scheme as detailed on page 4 of the strategic report. The Group is exploring the use of sustainable fuels to power aircraft as detailed on page 4 of the strategic report. As outlined in the strategic report on page 4, the Group's fleet replacement plan introduces more carbon efficient aircraft into the fleet. The Group continues to support and influence effective market-based policy measures, directly and through industry collaboration such as the UK Sustainable Aviation Group and Airlines for Europe.

Strategic report continued

Principal risks and uncertainties continued

Business and operational	
Risk Description	Mitigations
Cyberattack and data security	
The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists. If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust. The fast moving nature of this risk means that the Group will always retain a level of vulnerability. In relation to the theft of customer data in 2018, on 4 July 2019, the UK Information Commissioner's Office (ICO) notified British Airways that it proposed to impose a penalty. British Airways continues to make representations and as at the date of this report, the ICO had not issued a final penalty notice. See note 31 of financial statements.	IAG has a Cyber Strategy that drives investment and operational planning that is approved by the IAG Board. There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure and regulations are adhered to. A cyber risk management framework reviews the risk across the business and the Cyber Governance Board assesses the portfolio of cyber projects. Threat Intelligence is used to analyse cyber risks to the Group. BA has a Data Protection Officer in place. BA is subject to the requirements of the National Information Security Directive (NISD).
Event causing significant network disruption	
An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel.	The Group has business continuity plans to mitigate this risk to the extent feasible although many remain outside of the Group's control e.g. war; civil unrest; terrorism; adverse weather conditions or pandemic. Response plans to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place. The Group manages flight operations in such a way as to maintain resilience of the network schedule.
IT systems and IT infrastructure	
The failure of a critical system may cause significant disruption to the operation and lost revenue.	IAG Tech works with the Group to deliver digital and IT change initiatives to enhance security and stability. The BA IT Board reviews delivery timelines for IT systems and infrastructure provided by IAG Tech to the Group. Reversion plans are developed for migrations on critical IT infrastructure. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
Safety and security incident	
The safety and security of customers and employees are fundamental values for BA. A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brand, operations and financial performance.	The Board's Safety Review Committee satisfies itself that the Group has the appropriate resources and procedures which include compliance with Air Operator Certificate requirements. The Crisis Management Centre responds in a structured way in the event of a safety or security incident. Employees and key third parties take part in crisis management exercises. The Group has a Safety Board that meets regularly, ensuring lessons from incidents are fed into daily operations and operations are structured around the safety policies of the Group.

Strategic report continued

Principal risks and uncertainties continued

Business and operational continued	
Risk Description	Mitigations
People, culture and employee relations	
Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance Employees are vital to the sustainable success of BA. The Group may fail to attract, motivate or develop employees to deliver service and brand excellence.	Collective bargaining takes place on a regular basis led by human resources specialists with a strong skillset in industrial relations. As described on page 22 of the Directors' report, the BA people strategy focuses around the pillars to develop a culture of service that delivers the new BA vision to "Connect Britain with the World". Management and leadership development, talent strategy and focus on how we can create a talent pipeline of future leaders and emerging talent, attract more women and those from more socially diverse backgrounds into flying and engineering. This includes our Flying Futures, apprenticeship and work experience programmes. BA and BALPA have put in place a new working group to focus on both ways of working and the delivery of a 'Pilot Charter'. The Company is also rolling out a direct engagement programme with pilots. A 360 degree feedback programme through pulse surveys is in place. The results of these surveys are used to define action plans targeted to address those issues most important to our colleagues. Extensive work has been done to deliver a broad diversity and inclusion strategy. BA has signed the Time to Change Pledge and launched "Unmind" a mobile tool to provide personal support for those experiencing mental health challenges.
Political and economic environment	
Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange and interest rate movements create volatility. Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group, including Brexit.	The BA Board and Management Committee reviews the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. Reviews are used to drive the Group's financial performance through the management of capacity, together with the management of cost control, including management of capital expenditure. External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed as part of the business performance monitoring. IAG has an established Brexit Working Group which includes BA, to understand, plan and mitigate risk that could impact operations, including mechanisms to permit flights between the UK and the EU and recognition of each other's safety certification, approvals and security regimes.
Financial	
Debt funding	
The Group carries debt and needs to finance ongoing operations, committed aircraft orders and future fleet growth plans.	The Group's activities to mitigate debt funding risks are detailed in Note 25 <i>Financial risk management objectives and policies</i> on page 68.

Strategic report continued

Principal risks and uncertainties continued

Financial continued	
Risk Description	Mitigations
Financial risk	
The Group's financial position and performance is affected by volatility in the price of oil and petroleum products and foreign exchange risk on revenue, purchases and borrowings or currency devaluation risk of cash held in foreign currencies.	As detailed in Note 25 <i>Financial risk management objectives and policies</i> on page 68 fuel price currency risk is partially hedged with over the counter derivatives in line with the IAG hedging policy with IAG Group Treasury oversight. BA's commercial policy is to review routes when there are delays in the repatriation of cash as well as the risk of devaluation.
Pensions	
The Group has two significant employer funded defined benefit schemes, APS and NAPS. Negative movements in pension asset values and financial returns from these assets may adversely affect the funding level of the scheme. The Group is exposed to the risks of operating underfunded defined benefit schemes. The deficit in NAPS is also highly sensitive to small changes in bond yields.	Management regularly reviews the funding status of the pension schemes and is in regular dialogue with the schemes' Trustees on funding and investment decisions. As outlined in the strategic report on page 5, the Group reached agreement on the technical valuations of APS and NAPS in 2019.
Noncompliance with key regulation and laws	
The Group is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.	The Group has clear frameworks in place including comprehensive policies designed to ensure compliance. There are mandatory training programmes in place to educate employees in these matters. Compliance professionals specialising in competition law and anti-bribery legislation support and advise the business. IAG has a Code of Conduct framework and training that BA follows. A Data Protection Officer is in place.

Strategic report continued

Section 172 statement

During 2019, the Board and designated subcommittees acted in a way, they consider, in good faith, would most likely promote the success of British Airways for the benefit of its members as a whole based on information available to them at the time. The following disclosure describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Customers	
Why it is important to engage and what matters to them?	If the airline is unable to meet the expectations of customers and does not engage effectively to maintain their emotional attachment to the brand, then the brand will be eroded and market share lost. British Airways provides a loyalty scheme to customers through the acquisition of points from Avios Group (AGL) Limited which are then issued to Executive Club members as part of the ticket. Customers value the Tier benefits associated with the loyalty scheme, for example access to lounges and the ease of redeeming the points. Customers continue to value safety, reliability, value for money and a seamless and unique customer experience throughout their journey from booking to arrival at their destination. There is a growing trend in ethical and sustainability concerns being a factor in consumer choices.
How management and/or Directors engaged and what was the impact of the engagement?	The Board and Management Committee receive regular updates regarding customer relationships, development and engagement, including results of customer feedback surveys, net promoter score and complaints data. Investment in refining and improving customer experience is a key consideration of the Group's strategy. Financial plans reviewed by the Management Committee and approved by the Board include spend and income directly related to the Executive Club loyalty scheme including making the programme more flexible and giving more choice to customers. The airline remains committed to improving customer experience and announced in 2018 an investment programme of more than £6.5 billion over a five-year period to achieve this goal. The strategic report on pages 2 to 5 describes the investment in customer experience that the Group has continued to deliver during 2019. During 2019 the Group launched improvements to the service provided to customers with hidden or visible disabilities including the launch of a dedicated customer care team to assist more than half a million travellers with additional needs who fly with the airline each year.
Suppliers	
Why it is important to engage and what matters to them?	The Group's suppliers are fundamental to ensuring that the airline meets the high standards of conduct that customers and other key stakeholders expect. Suppliers are an extension of the airline, sometimes representing the brand and enabling the Group to run uninterrupted operations. Key suppliers include aircraft manufacturers, fuel suppliers and worldwide airports. Suppliers value operational stability ensuring predictable demand, transparency and integrity at all times in all business dealings and timely settlement avoiding liquidity challenges.
How management and/or Directors engaged and what was the impact of the engagement?	There is active supplier management including contingency planning. IAG GBS provides a centralised procurement function for the IAG Group and manages supplier engagement. The IAG Group Supplier Code of Conduct sets out the standards to which suppliers engaging with BA must apply. The Board receives updates regarding material developments in key supplier relationships, including updates through internal audit and risk management. The Board receives regular operational updates including updates on operational performance at Heathrow and the impact of the proposed Heathrow expansion plans. During 2019, the Board reviewed and approved the supply of fuel by rail to London Heathrow. The rail fuel supply requires close integration between British Airways, the fuel supplier, logistics supplier providing wagons to transport the fuel, Freightliner to provide motive power and Network Rail.

Strategic report continued

Section 172 statement continued

Workforce	
Why it is important to engage and what matters to them?	The Group's long-term success is predicated on the commitment of the workforce to the airline's purpose and demonstrating British Airways' values on a daily basis. To maintain a competitive advantage and meet the growing demands of the commercial aviation environment, the workforce needs to be adaptive and have a constantly evolving skill base. Engagement with the workforce is essential to ensure the Group fosters an environment that the workforce is motivated to work in and that best supports their wellbeing. Colleagues are concerned with opportunities for personal development and career progression, a culture of inclusion and diversity, compensation and benefits, and the ability to make a difference within British Airways.
How management and/or Directors engaged and what was the impact of the engagement?	The people and communities section of the strategic report on page 4 and the People section of the Directors' report on page 22 explain how the Company engages with the workforce. The Group invests in the workforce maintaining low turnover rates. During the year, the Executive Directors visited areas across the business to meet with colleagues and gain insight into the challenges faced by operational colleagues on a day to day basis. Colleagues are provided information that is of concern to them, including business and financial performance updates which are provided in person by the CEO and/or CFO at financial results forums, on the Company intranet and via email. Colleagues are encouraged to share their views on all matters with senior management. A pay deal of 11.5 per cent over three years, which is above the UK's current rate of inflation, was accepted by the members of the Unite and GMB trade unions in July 2019, which represent nearly 90 per cent of all British Airways colleagues including engineers, cabin crew and ground staff. In December 2019, members of the pilot's union BALPA formally accepted the pay deal bringing the dispute to a close. In response to the results of the latest pulse survey, the Board endorsed the launch of the updated people strategy designed to drive an improvement in colleague engagement across all areas of the business. An "Above and Beyond" recognition programme was also launched during the year in response to feedback from colleagues. In addition in response to survey results a new Leadership and Management Academy was launched in 2019.
Investors	
Why it is important to engage and what matters to them?	Continued access to capital is of vital importance to the long-term success of British Airways. The key investors of British Airways are the shareholders such as the parent company, IAG, and lenders that finance the acquisition of aircraft. Lenders value meeting coupon and repayment commitments on time. For IAG, return on invested capital (RoIC), operating margins and free cash generated are important as value is created by generating strong and sustainable results that translate into dividends and share price appreciation. In addition to these financial measures, operating within the Group's policies and maintaining and enhancing brand and reputation are also important.
How management and/or Directors engaged and what was the impact of the engagement?	The CEO is a member of the IAG Management Committee and attends weekly meetings for regular engagement with IAG management as well as the monthly IAG Management Committee meetings where the Group's operational and financial performance, strategic plans, risks and opportunities are reviewed. Challenges are raised and addressed by management ahead of approval. The British Airways Management Committee provides to IAG regular operational and financial performance communications such as quarterly trading results. The CFO attends monthly IAG operating company CFO meetings with the IAG Group CFO and CFOs from the other operating companies within the IAG Group. The CFO attends regular meetings with credit ratings agencies. As noted on page 8, during the year the Group launched a successful EETC bond issue to fund aircraft acquisitions.

Strategic report continued

Section 172 statement continued

Communities and environment	
Why it is important to engage and what matters to them?	The communities in which the airline operates require British Airways to operate in a socially responsible manner and protect the environment. Sustainability is crucial, and communities expect the Group to provide means to minimise the effect of flying on the environment from reduced noise levels, waste management and reducing or offsetting carbon emissions. Communities expect the airline to minimise the negative effects of globalisation, for example employing ethically responsible supply chains and preventing illegal global trafficking.
How management and/or Directors engaged and what was the impact of the engagement?	The Group continues to support charitable giving, through Flying Start and working closely with non-profit organisations delivering change. During 2019, BA partnered with The Diana Award as part of its commitment to making a positive impact in local communities, with a particular focus on supporting children and young people living challenging lives in the UK and overseas. The Group's culture and commitment to corporate responsibility continues to grow. Tackling the effect of aviation on the climate requires a multi-faceted response and British Airways is committed to this. Sustainability is embedded into the Group's business plans that are reviewed and approved by the Board and IAG. The Board Corporate Responsibility Committee meets at least twice a year to set and approve BA's corporate responsibility strategy and monitor progress on key initiatives. British Airways is contributing to IAG's commitment to achieving net zero CO₂ emissions by 2050 and, during 2019, became the first UK airline to announce it would offset carbon emissions on domestic flights from 2020 as described on page 4 of the strategic report. The Group continues to invest in new generation aircraft which tend to have at least 20 per cent lower carbon emissions and 50 per cent lower noise levels than the aircraft they replace. The Board, Management Committee and Capital Investment Committee reviewed progress of the Group's investment activities in sustainable aviation fuels. The Group is working with Velocys, which has now submitted a planning application to develop Europe's first plant to transform waste into sustainable fuels. As part of a long-term commitment to end 'exploitative tourism' that sees wild animals kept in captivity, British Airways Holidays announced a partnership with international wildlife charity Born Free which promotes animal welfare. The Board Corporate Responsibility Committee approved initiatives to save on waste from single use plastics. Head office catering changes have saved around one million single use plastic cups, bowls and cutlery.
Pension Trustees	
Why it is important to engage and what matters to them?	As described in note 30 of the annual report and accounts the Group has two main funded pension schemes, APS and NAPS which a significant number of current and former employees are members of. The Pension Trustees are concerned with the Group's covenant and the funding levels and deficit recovery plans of the defined benefit schemes, to ensure the schemes are able to meet their obligations in the future and the financial stability of the Group.
How management and/or Directors engaged and what was the impact of the engagement?	Senior management form part of the Trustee board. Additional management representatives attend Trustee investment strategy meetings. Senior management met with the Trustee board during the year to discuss the Group's financial performance and updated forecasts. The Board considers the Group's ability to fund the defined benefit pension schemes and funding commitments when passing resolutions to pay dividends. The Board received regular updates of the APS litigation which had been ongoing since 2013 and approved the settlement of the litigation and the valuation. Details of the settlement reached in 2019 are included on page 8. The Board reviewed and approved the NAPS 31 March 2018 triennial valuation and funding agreement reached in 2019. Details of the valuation settlement are described on pages 8 and 9.

Strategic report continued

Section 172 statement continued

Principal decisions

Principal decisions are those that are material to the Group and significant to any of the key stakeholder groups. In making the principal decisions outlined in the section 172 statement, the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company. Principal decisions taken during the year include:

Pay deal

As described in the 'Workforce' section on page 16, a pay deal of 11.5 per cent over three years, which is above the UK's current rate of inflation, was accepted by the members of the Unite and GMB trade unions in July 2019, which represent nearly 90 per cent of all British Airways colleagues including engineers, cabin crew and ground staff. In December 2019, members of the pilot's union BALPA formally accepted the pay deal bringing the dispute to a close. As described on page 22 a new working group has been established to develop a structured framework and governance process to rebuild effective working relationships across the pilot community.

Investment in technology

The Board recognises the importance of investment in IT to the long-term success of the business and, accordingly, approved increased expenditure during 2019. This focus is further recognised by the decision to appoint the new role of Chief Information and Digital Officer to the Company's Management Committee, effective March 2020.

Acquisition of Boeing 777-9 aircraft

As outlined on page 2, during 2019 the Group placed an order for 18 Boeing 777-9 aircraft, plus 24 options, to replace 14 Boeing 747-400s and four Boeing 777-200s between 2022 and 2025. In making its decision, the Board had particular regard to the environmental improvements offered by the new fleet. This included fuel burn and noise, together with improvements in customer experience including a wider cabin enabling comfortable ten abreast seating in Economy and more width for premium cabins. The Boeing 777-9 aircraft were chosen for their enhanced cabin features such as larger and higher windows, improved lighting and electronics including connectivity and high definition inflight entertainment and a more comfortable cabin environment with lower cabin altitude, improved temperature control and lower cabin noise. The fuel efficiency benefits contribute to IAG's commitment to achieve net zero CO₂ emissions by 2050.

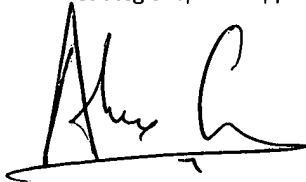
HR transformation

With a focus on increased employee engagement, it is important that the people strategy is supported by robust, resilient and efficient systems. The Board approved investment in a transformation programme to replace outdated systems with a simplified cloud-based solution providing colleagues with a mobile, modern user-friendly colleague experience which will enable direct and tailored communication between British Airways and its employees to drive engagement.

APS settlement

Details of this principal decision are included in the Pensions section of the strategic report on pages 8 to 9.

The strategic report is approved by the Board and signed on its behalf by:



Alex Cruz
Chairman and CEO
27 February 2020



Rebecca Napier
Chief Financial Officer
27 February 2020

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019.

Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 18 of the strategic report.

The Group flies to a number of destinations around the world. In addition to the overseas branches established in many of these countries, there are also branches in countries to which BA does not fly. A full list of destinations can be found on the website www.ba.com.

Results and dividends

The pre-exceptional operating profit for the year ended 31 December 2019 amounted to £1,921 million (2018: £1,952 million). The operating profit for the year ended 31 December 2019 was £1,338 million (2018: £2,346 million).

The Company paid a total dividend of £585 million as follows;
First interim dividend of £130 million paid in March 2019
Second interim dividend of £130 million paid in May 2019
Third interim dividend of £100 million paid in September 2019
Fourth interim dividend of £225 million paid in December 2019

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: £nil).

Going concern

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 10 to 14) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on pages 6 to 9). Further information is provided in note 25 of the financial statements.

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

Events after the balance sheet date

No significant events have taken place post the balance sheet date.

Directors

The Directors who served during the year and since the year end are as follows:

Alex Cruz
Alison Reed
Steve Gunning (resigned 20 June 2019)
Rebecca Napier (appointed 20 June 2019)
Gavin Patterson
Julia Simpson
Lynne Embleton

Company Secretary

Andrew Fleming

Directors' and Officers' liability insurance and indemnities

LAG purchases insurance against Directors' and Officers' liability covering the LAG Group, as permitted by the Companies Act 2006, for the benefit of the Directors and Officers.

The Company has granted rolling indemnities to the 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. The indemnities were in force during the whole of the financial year or from the date of appointment in respect of Officers who joined during 2019 and remain in force.

The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the Directors of four companies, British Airways Pension Trustees Limited, British Airways Pension Trustees (No 2) Limited, Airways Pension Scheme Trustee Limited and New Airways Pension Scheme Trustee Limited, that act as trustees of the Company's UK pension schemes. These indemnities were in force throughout the last financial year or from the date of appointment in respect of Officers who joined during 2019 and remain in force.

Directors' report continued

Corporate Governance

Effective corporate governance is a key requirement for the Group. For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, British Airways has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") as its framework for disclosure regarding its corporate governance arrangements.

Principle 1 – Purpose and Leadership

BA's purpose is to connect Britain to the world, and the world to Britain. This is supported by the Company's business plan, which is refreshed and reviewed annually by the Board.

BA has four commitments to drive behaviours to achieve the Company's vision; to be the best airline in the world:

- Be safe and secure, always
- Be passionate about service
- Be confident
- Be trusted advocates of BA

BA's purpose is underpinned by three strategic anchors:

- Customer Experience – delighting customers at every step of their journey;
- Network – growing our network profitably; and
- Efficiency – using all our resources to the best effect.

Further detail on the activity during the year to meet these objectives is included in the management review section on pages 2 to 5 of the strategic report.

During the year IAG launched a new Group Code of Conduct which applies to all employees and Directors of BA and the other operating companies within IAG. This Code outlines the key behaviours expected of all employees and provides guidance on how to identify and report concerns. The Code outlines the IAG commitment to placing integrity at the core of all our business activities. The Code has been promoted to all employees by the Chairman & CEO of British Airways Plc.

Principle 2 – Board Composition

The Board comprises of four Non-Executive Directors and two Executive Directors (the Chairman & CEO and the CFO). Two of the Non-Executive Directors have other executive roles within IAG and two are external to IAG. The roles of Chairman and CEO have not been separated as it is considered that the two external Non-Executive Directors (one of whom is appointed as Deputy Chair) provide appropriate challenge and scrutiny to the Board's decision making process. In addition, significant financial decisions must be approved by IAG Management Committee and the IAG Board. In accordance with the Articles of Association, the Chairman & CEO is appointed by the shareholders. Four Directors are female and there is a diverse range of experience and skills to enable the Board to effectively fulfil its responsibilities. In accordance with the obligations for appointments and succession set out in the Articles of Association, the majority of members of the Board are United Kingdom nationals. The Directors have equal voting rights.

The Board is collectively responsible for the management and effective oversight of the Company's business. The Chairman leads the Board and is responsible for ensuring the overall effectiveness of the Board and to ensure that Directors have access to information in order to inform Board decision making. Some of the duties of the Board are executed partially through committees of the Board. There are three Board Committees; the Board Safety Review Committee, the Remuneration Committee and the Corporate Responsibility Committee. Membership of each committee is drawn from both the Non-Executive Directors and Executive Directors and includes non-Director attendees.

In order to inform the Board of the operations and performance of the business, the Board has access to members of senior management who attend Board meetings. All Directors have access to professional advice and services of the Company Secretary. Directors update their skills, knowledge and familiarity of the business by meeting with employees and by attending appropriate external seminars and training courses. There is an induction programme for all new Directors which provides access to all parts of the business, including IAG.

Principle 3 – Director Responsibilities

Whilst the Board maintains effective oversight of the Company's business and has ultimate responsibility for major policy and financial expenditure issues, some key decisions are made by members of the Board, committees and senior management with the appropriate knowledge and experience. Company policies on governance, decision making and delegation ensure that every decision is taken with the right safeguards in place and is underpinned by appropriate considerations and processes. At the IAG level further oversight and direction is provided by the IAG Board, IAG Management Committee and the IAG Audit and Compliance Committee. IAG carries out detailed risk management reviews under the IAG risk management framework.

The Board delegates authority for day-to-day management of the Company to the Management Committee which meets weekly and is chaired by the CEO and whose membership includes the CFO and leaders of each business area. The Management Committee is responsible for considering and recommending to the Board the BA Group's business plans, financial plans, strategic matters, major projects and programmes (including acquisitions, disposals, joint ventures), other capital investment or divestment decisions and other significant matters affecting the Company. The Board retains responsibility for reviewing the recommendations of the Management Committee and exercises an oversight role, constructively challenging recommendations and the decisions. Where financial approval is also required, this must also be obtained via the Capital Investment Committee approval process.

Directors' report continued

Corporate Governance continued

The Board aims to meet eight times per year. During 2019, there were nine Board meetings (of which, three meetings were primarily to facilitate approval of business cases). Board meetings were well attended during 2019 with all in-person meetings attended by every Director. Apologies for absence were accepted from one Director for each of the business case approval meetings, however, documentation was circulated in advance of each meeting and any comments were addressed at the meeting ahead of approval.

The Board receives regular and timely information on all key aspects of the business, including business risks and opportunities, the financial performance of the business, strategy, operational matters, safety, market conditions and sustainability supported by Key Performance Indicators. Key financial information is collated from the Group's accounting systems and the finance function is appropriately qualified to ensure the integrity of this information. Financial information is currently externally audited by Ernst & Young LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function.

The Board agrees on how conflicts of interest should be identified and managed by the Company Secretary, with the conflicts register being reviewed regularly and interests authorised at each meeting of the Board.

Principle 4 – Opportunity and Risk

Opportunities

Long term strategic opportunities are identified through the business planning process which includes input from all areas of the business. The three-year business plan is presented to the Board for approval each year.

Internal control framework

IAG complies with the Spanish corporate governance requirement regarding reporting on internal controls. The Group has an internal control framework to ensure it maintains a strong and effective internal control environment. This is independently assessed by the Group's Internal Audit function on an annual basis with results reported to the IAG Audit Committee. The Board is responsible for ensuring findings are remediated and the effectiveness of the framework was regularly reviewed by the Management Committee during the year.

Business controls are reviewed on an ongoing basis by the IAG internal audit function through 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 Group, is approved by the IAG Audit Committee half-yearly.

The Board considers significant control matters raised by management and both the internal and external auditors. Where weaknesses are identified, the BA Board ensures that management takes appropriate action.

Risk management

IAG has an Enterprise Risk Management policy which sets out a framework for a comprehensive risk management process and methodology, ensuring a robust assessment of the risks, including emerging risks. BA manages its risks within the IAG framework, supported by risk management professionals in IAG. Risk owners are responsible for identifying risks in their area of responsibility. All risks are assessed for likelihood and impact against the Group business plan and strategy and are plotted on a risk heatmap. Key controls and mitigations are documented including appropriate response plans. Every risk has appropriate Management Committee oversight. Internal control and risk management systems in relation to the Group's financial reporting process and the process for the preparation of consolidated financial statements are in place. The Group implemented a new financial reporting system in July 2019. There were no other changes in risk management and internal control systems over financial reporting that have occurred during the year that have materially affected, or are reasonably likely to materially affect, the Group's financial reporting.

The risk heatmap is reviewed every six months by the BA Management Committee and the IAG Head of Enterprise Risk Management to ensure that risks are appropriately evaluated and any further actions identified. This is then reported to the BA Board to assist in the management of risk. This comprehensive risk management process and methodology has been in place throughout the reporting period to which these statements apply and up to their date of approval. The principal risks and uncertainties that are reviewed by the Board are detailed further on pages 10 to 15 of the strategic report.

Principle 5 – Remuneration

The Remuneration Committee is responsible for setting remuneration for the Management Committee (excluding the Chairman & CEO and the Chief Financial Officer which are set by IAG). Remuneration is aligned to individual performance and behaviours, as well as achievement of BA's purpose, value and strategies and is set at a market competitive level to ensure that BA can attract and retain quality senior management.

The Remuneration Committee is chaired by a Non-Executive Director and has clearly defined terms of reference. Further information relating to remuneration is set out in the People section on page 22.

Principle 6 – Stakeholder Relationships and Engagement

Information related to the Board's engagement with key stakeholders is set out in the Section 172 statement on pages 15 to 18 and in the People section below. The Group has an independent whistleblowing hotline through which stakeholders are encouraged to report any concerns for investigation by senior management.

Directors' report continued

People

The Group's employment policies aim to balance the rights of colleagues along with the responsibilities of the Group in order to drive the business forward. The policies are regularly reviewed and updated with input from colleagues that represent different areas of the business. The overall aim is to have policies that are fair, legally compliant and cost effective as well as empowering line managers.

British Airways continues to drive genuine and effective engagement with colleagues, putting the customer at the forefront of everything it does and maintaining a high performing organisation. The Group's people strategy is outlined on page 4. Every manager in British Airways has been trained in how to bring this purpose to life with their teams and over 75% of the colleagues have gone through this engagement process with more planned in 2020. There is a framework in place for consultation with colleagues, through direct engagement as well as collective bargaining. Regular briefings (including updates on financial and economic factors affecting the performance of the Group) are held across the airline. Other communication channels include live online forums, a personalised intranet, mobile SMS and video messages and a range of Group-wide and local newsletters. To assess levels of employee engagement regular pulse surveys are conducted. The results of these surveys are used to define action plans targeted to address those issues most important to our colleagues.

Following the industrial action in 2019, a new working group has been established to put in place a structured framework and governance to rebuild effective working relationships across the pilot community, with the support of an independent facilitator. This will focus on both ways of working and the delivery of a 'Pilot Charter'. The Pilot Charter provides an opportunity for British Airways and BALPA to work collaboratively together and will focus on delivering specific initiatives for pilots to build trust and engagement with the airline.

British Airways is committed to remuneration packages that reward colleagues for their performance and contribution to the business and allow the Group to attract, retain and grow existing and future talent. This includes an employee bonus scheme, the IAG performance share plan for eligible employees and a recognition programme that was launched during the year.

British Airways aims to promote diversity in employment regardless of gender, ethnicity, sexual orientation, disability, religion or age. The Group's diversity and inclusion policy covers British Airways' employees in all parts of the business. Employees complete mandatory training on diversity and inclusion to foster dignity and respect in the workplace. Additional information and support for managers, including an online diversity and inclusion toolkit is also available on the intranet. British Airways is accredited at level 2 of the Disability Confident Scheme as recognition both of commitment to encourage job applications from disabled people and to support disabled colleagues.

As part of the Group's diversity and inclusion strategy, the Group is committed to increasing the gender balance in engineering and pilot communities through working with schools and colleges to promote opportunities in science, technology, engineering and mathematics (STEM) related careers. The airline launched a series of 'Future of Flying' events at which pilots, including female pilots, talk about a career as a pilot and inspire local young people to join the aviation industry. British Airways works in partnership with industry networks, including Women in Science and Engineering (WISE), to promote the recruitment, retention and development of women in STEM related roles.

The Group's workforce consists of 46 per cent (2018: 46 per cent) women, with 32 per cent (2018: 31 per cent) of senior leadership positions held by women. Females make up 66 per cent (2018: 50 per cent) of the Board and 37 per cent (2018: 25 per cent) of the British Airways Management Committee.

The Group's latest gender pay figures were released in March 2019. The median hourly pay difference between men and women has increased from 10 per cent in 2017 to 13 per cent in 2018, compared to the national average of 17.9 per cent. The increase in the pay gap reported this year was due to the launch of a new flexible benefits scheme in April 2018, which gave colleagues an opportunity to either spend their allowance on a variety of benefits or increase their take home pay.

Political donations

The Group does not make political donations or incur political expenditure and has no intention of doing so.

Auditors

In accordance with Section 489 of the Companies Act 2006, resolutions concerning the re-appointment of the auditor, Ernst & Young LLP and authorising the Directors to set their remuneration will be proposed at the next Annual General Meeting.

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 above. Having made enquiries of fellow Directors and of the Group'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 Group's auditor is unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to make himself or herself aware of relevant audit information and to establish that the Group'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.

Directors' report continued

Directors' responsibilities statement in relation to the financial statements

The Directors as listed are responsible for preparing the strategic report, Directors' report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

The Directors are required to prepare financial statements for each financial period, 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 are responsible for keeping adequate 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 as listed confirm that, to the best of each person's knowledge:

- The Group financial statements in this report, which have been prepared in accordance with IFRS as adopted by the European Union, IFRIC interpretations 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 or loss of the Group 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 Group 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



Andrew Fleming
Company Secretary
27 February 2020
Company registration number - 1777777

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

Opinion

We have audited the financial statements of British Airways Plc ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Group consolidated income statement, the Group statement of other comprehensive income, the Group and Parent Company balance sheet, the Group and Parent Company cash flow statements, the Group and Parent Company statement of changes in equity and the related notes 1 to 36, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year 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 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 February 2020

Notes:

1. The maintenance and integrity of the British Airways Plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This page has been intentionally left blank

Group consolidated income statement

For the year ended 31 December

For the year ended 31 December					Group		
£ million	Note	Before exceptional items 2019	Exceptional items	Total 2019	Before exceptional items restated 2018 ¹	Exceptional items	Total restated 2018 ¹
Passenger revenue		11,899		11,899	11,564		11,564
Cargo revenue		711		711	769		769
Traffic revenue		12,610		12,610	12,333		12,333
Other revenue		680		680	632		632
Total revenue	4	13,290		13,290	12,965		12,965
Employee costs	8	2,529	583	3,112	2,535	(406)	2,129
Depreciation, amortisation and impairment	6	1,106		1,106	786		786
Aircraft operating lease costs	6	-		-	233		233
Fuel, oil costs and emission charges		3,237		3,237	2,927		2,927
Engineering and other aircraft costs		715		715	719		719
Landing fees and en route charges		919		919	927		927
Handling, catering and other operating costs		1,878		1,878	1,734		1,734
Selling costs		516		516	509		509
Currency differences		(9)		(9)	44		44
Property, IT and other costs		478		478	599	12	611
Total expenditure on operations		11,369	583	11,952	11,013	(394)	10,619
Operating profit	6	1,921	(583)	1,338	1,952	394	2,346
Finance costs	9	(219)		(219)	(116)		(116)
Finance income	9	36		36	33		33
Share of post-tax profits in associates accounted for using the equity method	17	170		170	165		165
Net financing credit relating to pensions	30b	23		23	24		24
Net currency retranslation credits		101		101	1		1
Other non operating credits	9	10		10	3		3
Total net non-operating costs		121		121	110		110
Profit before tax		2,042	(583)	1,459	2,062	394	2,456
Tax	10	(350)		(350)	(365)		(365)
Profit after tax		1,692	(583)	1,109	1,697	394	2,091
Attributable to:							
Equity holders of the parent		1,692		1,109	1,686		2,080
Non-controlling interest		-		-	11		11
		1,692		1,109	1,697		2,091

¹Please refer to note 36 for further details on the effect of restatement.

In 2019 the Group has presented the income statement using a three column approach to show the results of the business on a pre and post exceptional basis to enable users to better understand the performance of the Group. The 2018 comparative has also been re-presented.

Consolidated statement of other comprehensive income

For the year ended 31 December

£ million	Note	2019	2018
Profit after tax for the year		1,109	2,091
Other comprehensive income:			
Items that will not be reclassified to net profit			
Remeasurement of post-employment benefit obligations	30c	(787)	(740)
Fair value movements on cash flow hedges that will subsequently be transferred to the balance sheet	29a	(37)	39
Equity investments - fair value movements in equity	29a	(6)	(4)
Income taxes	10	144	125
		(686)	(580)
Items that may be reclassified to net profit			
Currency translation differences	29a	(22)	6
Fair value movements on cash flow hedges	29a	448	(387)
Fair value of cash flow hedges reclassified to net profit	29a	106	(315)
Other movements in comprehensive income of associates	17	6	(29)
Income taxes	10	(102)	113
		436	(612)
Total other comprehensive loss		(250)	(1,192)
Total comprehensive income for the year (net of tax)		859	899
Attributable to:			
Equity holders of the parent		859	888
Non-controlling interest	29a	-	11
		859	899

The statement of total other comprehensive income does not include any other income or expense in relation to the discontinued operations.

Balance sheets

As at 31 December

As at 31 December		Group		Company	
£ million	Note	2019	2018	2019	2018
Non-current assets					
Property, plant and equipment ¹ :					
Fleet	12	8,838	7,111	8,636	6,915
Property	12	1,406	810	1,364	777
Equipment	12	244	213	231	207
		10,488	8,134	10,231	7,899
Intangibles:					
Goodwill	15	40	40	-	-
Landing rights	15	693	693	693	693
Emissions allowances	15	36	34	36	34
Software	15	325	300	312	289
		1,094	1,067	1,041	1,016
Investments in subsidiaries	17	-	-	1,278	1,278
Investments in associates	17	1,838	1,701	1,563	1,563
Equity investments	18	49	56	40	40
Employee benefit assets	30a	443	1,016	443	1,016
Derivative financial instruments	26	59	120	60	120
Other non-current assets	19	191	300	190	300
Total non-current assets		14,162	12,394	14,846	13,232
Current assets and receivables					
Inventories		156	175	152	171
Trade receivables	19	1,202	901	1,186	886
Other current assets	19	683	644	716	647
Derivative financial instruments	26	91	65	96	65
Other current interest-bearing deposits	20	1,330	1,175	1,330	1,175
Cash and cash equivalents	20	1,258	1,327	1,158	1,249
		2,588	2,502	2,488	2,424
Total current assets and receivables		4,720	4,287	4,638	4,193
Total assets		18,882	16,681	19,484	17,425
Shareholders' equity					
Issued share capital	27	290	290	290	290
Share premium	27	1,512	1,512	1,512	1,512
Other reserves ²	29	4,005	3,865	4,416	4,486
Total shareholders' equity		5,807	5,667	6,218	6,288
Total equity		5,807	5,667	6,218	6,288
Non-current liabilities					
Interest-bearing long-term borrowings	23	5,378	3,953	5,360	3,953
Employee benefit obligations	30a	276	258	248	232
Deferred tax liabilities	10	423	335	344	243
Provisions	24	423	380	415	345
Derivative financial instruments	26	156	210	157	213
Other non-current liabilities	22	29	40	18	26
Total non-current liabilities		6,685	5,176	6,542	5,012
Current liabilities					
Current portion of long-term borrowings	23	932	473	918	476
Trade and other payables	21	2,104	1,893	2,445	2,190
Deferred revenue on ticket sales	21	2,934	2,807	2,969	2,824
Derivative financial instruments	26	105	341	107	347
Current tax payable	10	142	144	146	119
Provisions	24	173	180	139	169
Total current liabilities		6,390	5,838	6,724	6,125
Total equity and liabilities		18,882	16,681	19,484	17,425

¹Please refer to note 36 for further details on the effect of the transition to IFRS 16.

²The profit for the year for the Company was £870 million (2018: £1,835 million).

Approved by the Board and signed on its behalf by

Alex Cruz
Chairman and Chief Executive Officer
27 February 2020

Rebecca Napier
Chief Financial Officer
27 February 2020

Cash flow statements

For the year ended 31 December

For the year ended 31 December		Group		Company	
£ million	Note	2019	2018	2019	2018
Cash flow from operating activities					
Operating profit from continuing operations after exceptional items		1,338	2,346	1,252	2,253
Exceptional items		583	(394)	583	(394)
Operating profit before exceptional items from continuing operations		1,921	1,952	1,835	1,859
Depreciation, amortisation and impairment		1,106	786	1,059	760
Employer contributions to defined benefit pension schemes net of service cost	30d	(754)	(583)	(745)	(579)
Movement in working capital and other non-cash movements		(9)	1	85	120
<i>Increase in trade and other receivables, prepayments, inventories and current assets</i>		(414)	(234)	(443)	(254)
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>		405	235	528	374
Payments related to restructuring	24	(52)	(82)	(52)	(82)
Payments related to NAPS closure		(1)	(161)	(1)	(161)
Interest paid		(194)	(87)	(194)	(100)
Interest received		34	26	34	26
Tax paid		(195)	(137)	(195)	(137)
Net cash generated from operating activities		1,856	1,715	1,826	1,706
Cash flow from investing activities					
Purchase of property, plant and equipment and intangible assets		(1,571)	(1,218)	(1,550)	(1,208)
Sale of property, plant and equipment and intangible assets		475	149	475	149
Dividends received	17	26	15	3	1
Loan repaid by fellow group undertaking		180	89	180	89
Loan repaid by/(paid to) parent company		9	(115)	9	(115)
Other investing movements		3	5	2	4
(Increase)/Decrease in other current interest-bearing deposits		(155)	665	(155)	665
Disposal of Openskies		-	(17)	-	-
Net cash used in investing activities		(1,033)	(427)	(1,036)	(415)
Cash flow from financing activities					
Proceeds from long-term borrowings		406	636	406	636
Repayments of borrowings		(48)	(167)	(44)	(413)
Repayment of asset financed liabilities		(3)	-	(3)	-
Repayment of lease liabilities (2018: repayment of finance leases)		(669)	(558)	(661)	(585)
Dividends paid	11	(585)	(575)	(585)	(575)
Distributions made to holders of perpetual securities		-	(279)	-	-
Net cash flow used in financing activities		(899)	(943)	(887)	(937)
(Decrease)/Increase in cash and cash equivalents		(76)	345	(97)	354
Net foreign exchange differences		7	9	6	9
Cash and cash equivalents at 1 January		1,327	973	1,249	886
Cash and cash equivalents as at 31 December		1,258	1,327	1,158	1,249
Interest-bearing deposits maturing after more than three months					
		1,330	1,175	1,330	1,175
Cash, cash equivalents and other interest-bearing deposits at 31 December		2,588	2,502	2,488	2,424

Statements of changes in equity

For the year ended 31 December 2019

€ million	Group					
	Issued share capital	Share premium	Other reserves (note 29)	Total shareholders' equity	Non-controlling interest (note 29)	Total equity
Balance at 1 January 2019	290	1,512	3,865	5,667	-	5,667
IFRS 16 transition adjustment	-	-	(124)	(124)	-	(124)
Balance at 1 January 2019 including IFRS 16	290	1,512	3,741	5,543	-	5,543
Profit for the year	-	-	1,109	1,109	-	1,109
Other comprehensive loss for the year	-	-	(250)	(250)	-	(250)
Total comprehensive income for the year	-	-	859	859	-	859
Dividends	-	-	(585)	(585)	-	(585)
Cash flow hedges transferred to the balance sheet (net of tax)	-	-	(9)	(9)	-	(9)
Cost of share-based payment (net of tax)	-	-	(1)	(1)	-	(1)
As at 31 December 2019	290	1,512	4,005	5,807	-	5,807

For the year ended 31 December 2018

€ million	Group					
	Issued share capital	Share premium	Other reserves (note 29)	Total shareholders' equity	Non-controlling interest (note 29)	Total equity
Balance at 1 January 2018	290	1,512	3,621	5,423	200	5,623
Profit for the year	-	-	2,080	2,080	11	2,091
Other comprehensive loss for the year	-	-	(1,192)	(1,192)	-	(1,192)
Total comprehensive income for the year	-	-	888	888	11	899
Dividends	-	-	(575)	(575)	-	(575)
Cash flow hedges transferred to the balance sheet (net of tax)	-	-	(1)	(1)	-	(1)
Distributions made to holders of perpetual securities	-	-	-	-	(11)	(11)
Realised foreign exchange loss on redemption of perpetual securities	-	-	(68)	(68)	-	(68)
Redemption of perpetual securities	-	-	-	-	(200)	(200)
As at 31 December 2018	290	1,512	3,865	5,667	-	5,667

For the year ended 31 December 2019

€ million	Company			
	Issued share capital	Share premium	Other reserves (note 29)	Total equity
Balance at 1 January 2019	290	1,512	4,486	6,288
IFRS 16 transition adjustment	-	-	(125)	(125)
Balance at 1 January 2019 including IFRS 16	290	1,512	4,361	6,163
Profit for the year	-	-	870	870
Other comprehensive income for the year	-	-	(220)	(220)
Total comprehensive income for the year	-	-	650	650
Dividends	-	-	(585)	(585)
Cash flow hedges transferred to the balance sheet (net of tax)	-	-	(9)	(9)
Cost of share-based payment (net of tax)	-	-	(1)	(1)
As at 31 December 2019	290	1,512	4,416	6,218

For the year ended 31 December 2018

€ million	Company			
	Issued share capital	Share premium	Other reserves (note 29)	Total equity
Balance at 1 January 2018	290	1,512	4,394	6,196
Profit for the year	-	-	1,835	1,835
Other comprehensive loss for the year	-	-	(1,167)	(1,167)
Total comprehensive income for the year	-	-	668	668
Dividends	-	-	(575)	(575)
Cash flow hedges transferred to the balance sheet (net of tax)	-	-	(1)	(1)
As at 31 December 2018	290	1,512	4,486	6,288

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 27 February 2020 and the balance sheets were signed on the Board's behalf by Alex Cruz and Rebecca Napier. British Airways Plc is a public limited company limited by shares incorporated, registered and domiciled in England. The Company's registered office is Waterside, PO Box 365, Harmondsworth, UB7 0GB.

The Group has prepared the consolidated financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union (IFRSs as endorsed 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 the individual income statement and related notes.

2 Significant accounting policies

Basis of preparation

The basis of preparation and accounting policies set out in this Annual Report and Accounts have been prepared in accordance with the recognition and measurement criteria of IFRSs, which also include International Accounting Standards ('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 equity investments that are measured at fair value.

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.

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 10 to 14) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on pages 7 to 9). Further information is provided in note 25 of the financial statements.

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

Change in accounting policy

The Group has applied IFRS 16 'Leases' and IFRIC 23 'Uncertainty over tax treatments' for the first time for the year ended 31 December 2019. There has been no impact arising from the application of IFRIC 23. Further details on the impact of these standards on the Group accounting policies and financial position and performance are provided in note 36.

There are no other standards, amendments or 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.

In September 2019, the IFRS Interpretations Committee clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group has restated the comparative period for 2018 to reflect £56 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The revenue component of segmental reporting has accordingly been restated. Further details are given in note 36.

Presentation of results

The Group has presented results in the income statement to separately identify exceptional items in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business; see note 5, page 42.

Basis of consolidation

The consolidated financial statements include those of the Company and its subsidiaries, each made up to 31 December, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform with the Group's accounting policies. Subsidiaries are all entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling 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. Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intra-group account balances, including intra-group profits, have been eliminated in preparing the consolidated financial statements.

2 Significant accounting policies continued

Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in investments accounted for using the equity method in the balance sheet and its interest in their results is included in the income statement, below the operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

In the Company balance sheet, investments in associates are recognised at cost subject to any impairment.

Revenue from contracts with customers

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided. Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as deferred revenue on ticket sales in current liabilities until the customer has flown. Unused tickets are recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. Revenue is stated net of compensation for flight delays and cancellations, taking into consideration the level of expected claims.

The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. The Group acts as an agent where (i) it collects various taxes and fees assessed on the sale of tickets to passengers and remits these to the relevant taxing authorities; and (ii) where it provides interline services to airline partners outside of the Group.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligations are satisfied (over time), being where the control of the goods or services are transferred to the customer.

Revenue recognition – customer loyalty programmes

BA provides a loyalty scheme to customers through the acquisition of points from Avios Group (AGL) Limited which are then issued to Executive Club members as part of the ticket. The revenue recognised when the transportation service is provided is reduced by the price of the loyalty points issued.

The Group also operates other smaller loyalty programmes. In accordance with IFRS 15 'Revenue from contracts with customers', the standalone selling price attributed to the awarded loyalty points is deferred as a liability and recognised as revenue on redemption of the points and provision of service to the participants to whom the points were issued. The stand-alone selling price of the loyalty points is based on the value of the awards for which the points could be redeemed. The Group also recognises revenue associated with the proportion of award credits which are not expected to be redeemed, based on the results of statistical modelling.

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 Committee. The Management Committee is made up of the Executive Directors and other key management personnel and is responsible for the day-to-day running of the Group and discharging managerial responsibility.

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

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the income statement. For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

b Landing rights

Landing rights acquired from other airlines are capitalised at cost on acquisition (or fair value when acquired through a business combination). 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 provide that these landing rights are perpetual.

c Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to ten years.

d Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

2 Significant accounting policies continued

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 are adjusted accordingly on a prospective basis.

a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned. All other borrowing costs are recognised in the income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or right of use assets, are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, with useful economic lives of 11 and 29 years. 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 its residual value over the average remaining life of the related fleet. Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rate.

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

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

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

c Other property, plant and equipment

Provision is made for the depreciation of all property and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the expected duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

a Property, plant and equipment

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.

b Intangible assets

Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. The cumulative impairment losses are shown as a reduction in the carrying value of intangible assets.

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 achieved within twelve months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Assets are not depreciated or amortised once classified as held for sale.

Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value, determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

2 Significant accounting policies continued

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.

Employee benefits

Employee benefits, including pensions and other post-retirement benefits (principally post-retirement healthcare benefits) are presented in these financial statements in accordance with IAS 19 'Employee Benefits'.

a Pension obligations

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 years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rate corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset to the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of scheme assets is based on market price information and, in the case of quoted securities, is the published bid price. 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. Longevity swaps are measured at their fair value.

Current service costs are recognised within employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises the related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the income statement. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in the statement of other comprehensive income. Re-measurements are not reclassified to the income statement in subsequent periods.

b Severance obligations

Severance obligations are recognised 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 a provision for severance payments when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing severance payments as a result of an offer made to encourage voluntary redundancy.

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

Share-based payments

LAG has a number of equity-settled share-based employee incentive plans in which certain of the Group's employees participate. Prior to the merger with Iberia, the awards were made under schemes operated by the Company and represented rights over its ordinary shares. These awards rolled over into awards in respect of shares in LAG at the merger. The awards are made under schemes operated by LAG and represent rights over its ordinary shares. The cost of these awards is recharged from LAG to the Group and recognised in intercompany payables to LAG.

2 Significant accounting policies continued

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 or other comprehensive income.

Provisions

Provisions are made when an obligation exists for a present 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 provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Foreign currency translation

a Functional and presentational currency of the group

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency, sterling, using the rate of exchange prevailing at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and translations as at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except where hedge accounting is applied and on the translation of foreign operations. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the balance sheet are recognised within 'net currency retranslation credits' in the income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

c Group companies

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

Financial instruments

In accordance with IFRS 9 'Financial Instruments', financial instruments are recorded initially at fair value. Subsequent remeasurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition.

a Loans and receivables

Loans and receivables are non-derivative financial assets which are held within the business model to collect contractual cash flows. The contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such assets are carried at amortised cost using the effective interest method. This category of financial assets includes trade and other receivables.

b Equity investments

Equity investments are non-derivative financial assets including listed and unlisted investments, excluding interests in associates and joint ventures. On initial recognition, these equity investments are irrevocably designated as measured at fair value through other comprehensive income. They are subsequently measured at fair value, with changes in fair value recognised in other comprehensive income with no recycling of these gains and losses to the income statement when the investment is sold. Dividends received on other equity investments are recognised in the income statement.

2 Significant accounting policies continued

Financial instruments continued

b Equity investments continued

The fair value of quoted investments is determined by reference to published 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.

c Derivatives financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and forwards), are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at fair value on the Group balance sheet. They are classified as financial instruments through profit and loss. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The time value of options is excluded from the designated hedging instrument and accounted for as the time value of options. Movements in the time value of options are recognised in other comprehensive income until the underlying transaction affects the income statement.

Exchange gains and losses on monetary investments are taken to the income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity.

d Long term borrowings

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.

e Other interest-bearing deposits

Other interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are solely payments of principal and interest, are carried at amortised cost using the effective interest method.

f Cash flow hedges

Changes in the fair value of derivative financial instruments are reported in the income statement, 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, are recorded in equity. Gains and losses recorded in equity are reflected in the income statement when either the hedged cash flow impacts the income statement or the hedged item is no longer expected to occur. Ineffectiveness on cash flow hedges is recognised in the income statement as derivatives not qualifying for hedge accounting.

Certain loan repayment instalments denominated in US dollars, euro, Chinese yuan 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 IFRS 9 requirements and subsequently recorded in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

g Impairment of financial assets

At each balance sheet date, the Group recognises provisions for expected credit losses on financial assets measured at amortised cost, based on 12-month or lifetime losses depending on whether there has been a significant increase in credit risk since initial recognition. The simplified approach, based on the calculation and recognition of lifetime expected credit losses, is applied to contracts that have a maturity of one year or less, including trade receivables.

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 are recognised in the income statement.

Exceptional items

Exceptional items (disclosed in note 5) are those that in management's view need to be disclosed separately by virtue of their size or incidence. The exceptional items recorded in the income statement include items such as significant restructuring and one off past service costs and gains arising from defined benefit plan amendments.

Leases

The Group leases various aircraft, properties and equipment. The lease terms of these assets are consistent with the determined useful economic life of similar assets within property, plant and equipment.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is discussed in note 36.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognised as a right of use (ROU) asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

2 Significant accounting policies continued

Leases continued

Right of use (ROU) assets

At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs to return the asset to its original condition.

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that are based on an index or a rate; amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used.

Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and those leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less that do not contain a purchase option. Low-value assets comprise IT-equipment and small items of office furniture.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the ROU asset. Extension options are included in a number of aircraft, property and equipment leases across the Group and are reflected in the lease payments where the Group is reasonably certain that it will exercise the option.

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised and a ROU asset and lease liability is recognised. The ROU asset recognised is based on proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Any gains or losses are restricted to the amount that relates to the rights that have been transferred to the counter party to the transaction. Where a sale has not occurred, the asset is retained on the balance sheet within property, plant and equipment, and an asset financed liability recognised equal to the financing proceeds.

Under the transitional requirements of IFRS 16 applying the modified retrospective method, the assets and liabilities on all finance leases prior to 1 January 2019 were transferred into ROU assets and associated lease liabilities. From 1 January 2019 onwards, those new financing arrangements with the following features that do not meet the recognition criteria as a sale under IFRS 15 are therefore not eligible for recognition under IFRS 16: the lessor has legal ownership retention as security against repayment and interest obligations; the Group initially acquired the aircraft or took a major share in the acquisition process from the manufacture and in the view of the contractual conditions, it is virtually certain that the aircraft will be purchased at the end of the lease term. Where new financing arrangements do not meet these recognition criteria due to the fact they are 'in substance purchases' and not leases, the related liability is recognised as an asset financed liability and the asset as an owned asset within property, plant and equipment.

Policy applicable before 1 January 2019

Where assets are financed through finance leases, 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 term. The corresponding obligation, reduced by the appropriate proportion of lease 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 on fleet and the interest element of lease payments made is included as an interest expense 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, 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.

In determining the appropriate classification, the substance of the transaction rather than the legal form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

2 Significant accounting policies continued

Critical accounting judgements, estimates and assumptions

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 judgements, estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from judgements and estimates upon which financial information has been prepared. 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.

Estimates

The estimates and assumptions that affect the current year or have a significant risk of causing a material adjustment within the next financial year are as follows.

a Impairment of non-financial assets

At 31 December 2019 the Group recognised £769 million (2018: £767 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in notes 15 and 16.

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 amount of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 16.

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

b Employee benefit obligations, employee leaving indemnities, other employee related restructuring

At 31 December 2019 the Group recognised £443 million in respect of employee benefit assets (2018: £1,106 million) and £276 million in respect of employee benefit obligations (2018: £258 million). Further information on employee benefit obligations is disclosed in note 30.

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve 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. The assumptions relating to these schemes are disclosed in note 30. The Group determines the assumptions to be adopted in discussion with qualified actuaries. Any difference between these assumptions and the actual outcome will impact future net assets and OCI. The sensitivity to changes in pension increase assumptions is disclosed in note 30.

Under Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS) increases to pensions are based on the annual Government Pension Increase (Review) Orders, which since 2011 have been based on the Consumer Prices Index (CPI). Additionally, in APS there is provision for the Trustee to pay increases up to the level of the Retail Prices Index (RPI), subject to certain affordability tests. Historically market expectations for RPI could be derived by comparing the prices of UK government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices.

In February 2019, following the UK House of Lords Economic Affairs Committee report on measuring inflation, the National Statistician concluded that the existing methodology was unsatisfactory and proposed a number of options to the UK Statistics Authority (UKSA). In March 2019, the UKSA recommended to the UK Chancellor of the Exchequer that the publication of the RPI cease at a point to be determined in the future and in the intervening period, the RPI be addressed by bringing in the methods of the CPIH (a proposed variant to CPI). In September 2019, the UK Chancellor of the Exchequer announced his intention to consult with the Bank of England and the UKSA on whether to implement these proposed changes to RPI in the period of 2025 to 2030. On 13 January 2020, it was confirmed that the period of consultation will commence on 11 March 2020 for a period of six weeks.

Following the aforementioned announcement in September 2019, market-implied break-even RPI inflation forward rates for periods after 2030 have reduced in the investment market. Therefore, in assessing RPI and CPI from investment market data, allowance has been made for partial alignment between RPI and CPI from 2030 onwards.

On 26 October 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Banking Group plc and others as defendants (collectively referred to as the 'Lloyds Bank case') regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment in the Lloyd's Bank case confirmed that pension schemes are required to equalise, with immediate application, for the effects of unequal Guaranteed Minimum Pension (GMP) benefits accrued over the period since 17 May 1990 ("GMP equalisation"). As at 31 December 2018, given the limited timescale from the High Court judgment, the Group undertook a simplified approach to estimating the impact of the GMP. The APS and NAPS estimated DBO as at 31 December 2019 includes allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

2 Significant accounting policies continued

Critical accounting judgements, estimates and assumptions continued

Estimates continued

c Passenger revenue recognition

At 31 December 2019 the Group recognised £2,934 million in respect of deferred revenue on ticket sales (2018: £2,807 million) of which £43 million (2018: £61 million) related to customer loyalty programmes, as disclosed in note 21.

Passenger revenue is recognised when the transportation service 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.

d Income taxes

At 31 December 2019 the Group recognised £423 million (2018: £335 million) in respect of deferred tax liabilities. Further information on current and deferred tax liabilities is disclosed in note 10.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management considers the operating performance in the current year and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. The business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

e Residual values and useful lives of assets

At 31 December 2019 the Group recognised £10,488 million (2018: £8,134 million) in respect of property, plant and equipment. Further information on these assets is included in note 12.

The Group estimates useful lives and residual values of property, plant and equipment, including fleet assets. Useful lives and residual values are reassessed annually taking into consideration the latest fleet plans and other business plan information. The assets are depreciated to their residual values over their estimated useful lives.

Judgements

a Investment in associates

At 31 December 2019 the Group recognised £1,838 million (2018: £1,701 million) in respect of investments in associates. Further information on these assets is included in note 17.

The Group owns 13.55 per cent of the equity of IB Opco Holding S.L. ('Iberia') and 86.26 per cent of the equity of Avios Group (AGL) Limited ('AGL'). The Group uses the equity method of accounting for its investments in these entities because under IFRS it is considered to have significant influence but not control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. The Group has significant influence over Iberia, even though it holds less than 20 per cent of the voting power of Iberia, due to its representation on the IAG Management Committee, the management committee of Iberia's ultimate parent company. The Group has significant influence over AGL due to representation on the AGL board as provided for by the governance agreement, but not control as it does not have the power to direct the activities of AGL even though it holds more than 50 per cent of the voting power of AGL.

b Engineering and other aircraft costs

At 31 December 2019, the Group recognised £445 million provisions (2018: £369 million) in respect of maintenance, restoration and handback. Movements on the provisions are disclosed in note 24.

The Group has a number of contracts with service providers to replace or repair engine parts and for other maintenance checks. These agreements are complex and generally cover a number of years. The Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition.

c Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans, and historic experience regarding the extension of leases. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances and affects the Groups ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 13.

3 Changes in accounting policy and disclosures

a New standards, amendments and interpretations not yet effective

The IASB and IFRIC have issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- Amendments to references to conceptual framework in IFRS standards, effective for periods beginning on or after 1 January 2020;
- Definition of a business (amendments to IFRS 3), effective for periods beginning on or after 1 January 2020;
- Definition of material (amendments to IAS 1 and IAS 8), effective for periods beginning on or after 1 January 2020; and
- IFRS 17 Insurance contracts, effective for periods beginning on or after 1 January 2021.

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, effective 1 January 2020, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. There is no current scheduled timescale for adoption by the EU. The Group is currently assessing the impact of these amendments.

4 Segment information

a Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Management Committee 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 certain subsidiaries are considered to be separate operating businesses, their activities are considered to be sufficiently similar in nature to aggregate all segments. The primary financial information reviewed by the Management Committee is based on the consolidated results of the Group. Based on the way the Group manages its operating business, and the manner in which resource allocation decisions are made, the Group has only one reportable segment for financial reporting purposes, being the consolidated results of the Group's airline operations.

b Geographical analysis - by area of original sale

£ million	Group restated	
	2019	2018 ¹
UK	6,575	6,269
USA	2,731	2,627
Rest of the world	3,984	4,069
Revenue	13,290	12,965

¹Please refer to note 36 for further details on the effect of restatement

The total of non-current assets excluding equity investments, employee benefit assets, other non-current assets and derivative financial instruments located in the UK is £13,012 million (2018: £10,649 million), USA is £174 million (2018: £30 million) and the total of these non-current assets located in other countries is £234 million (2018: £223 million).

5 Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence. The following items are deemed to be exceptional:

£ million	Group	
	2019	2018
APS litigation settlement past service cost	(583)	-
Restructuring costs	-	(121)
Net gain relating to closure of pension schemes	-	598
Guaranteed minimum pension past service cost	-	(83)
Exceptional items	(583)	394

The exceptional items noted above relate to the following consolidated income statement categories:

£ million	Group	
	2019	2018
Employee costs	(583)	406
Property, IT and other costs	-	(12)
Exceptional items	(583)	394

The exceptional expense of £583 million relates to the past service cost of the APS settlement agreement described in note 30 on page 83. This amount arose from the increase in the IAS 19 defined benefit liability of APS following the settlement agreement between the Trustee Directors of APS which was approved by the High Court in November 2019. The settlement agreement established higher pensions in payment growth assumptions in future years, resulting in a non-cash increase to the IAS 19 defined benefit liability.

In 2018, the exceptional gain of £394 million included the one-off reduction of the NAPS IAS 19 defined benefit liability of £770 million following the closure of NAPS to future accrual in March 2018. This was offset by other cash costs of £172 million linked to the closure of the NAPS and BARP schemes. The remaining 2018 exceptional cost related to the transformation programme costs of £121 million and an £83 million cost of equalising for the effects of Guaranteed Minimum Pensions (GMP). On 26 October 2018 the High Court of Justice of England and Wales issued a judgment in a claim by Lloyds Banking Group Pension Trustees Limited as claimant to Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to Guaranteed Minimum Pension (GMP) benefits.

6 Expenses by nature

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

Depreciation, amortisation and impairment of non-current assets:

£ million	Group	
	2019	2018
Owned assets	523	516
Right of use assets (2018: Finance leased aircraft) ¹	488	184
Other leasehold interests	40	28
Amortisation of intangible assets	55	58
Depreciation, amortisation and impairment	1,106	786

Operating leases costs²:

£ million	Group	
	2019	2018
Minimum lease rentals - aircraft	-	233
- property and equipment	-	130
Property and equipment sub-lease rentals received	-	(4)
Operating lease costs	-	359

¹ All finance leased assets were transferred into right of use assets on 1 January 2019 on transition to IFRS 16. See note 13 for details.

² These are not applicable for 2019 following transition to IFRS16 on 1 January 2019. See note 13 for amounts recognised in the consolidated income statement.

Cost of inventories:

£ million	Group	
	2019	2018
Cost of inventories recognised as an expense, mainly fuel	2,138	1,850

7 Auditor's remuneration

£ '000	Group	
	2019	2018
Fees payable to the Group's auditor for the audit of the Group's accounts	1,486	1,434
Fees payable to the Group's auditor and its associates for other services:		
Audit of the Group's subsidiaries pursuant to legislation - UK	181	169
Audit of the Group's subsidiaries pursuant to legislation - Worldwide	29	29
Other services pursuant to legislation	163	150
Other assurance services	438	318
Services relating to corporate finance transactions	139	80
	2,436	2,180

Fees payable to the Group's auditor for the audit of the Group's pension schemes total £50,000 (2018: £39,000).

Remuneration receivable by the Company's auditor for the supply of services to associates of the IAG Group to support the opinion on the Group accounts have not been included as these are included within the Group audit fee disclosure of the Parent Company, International Consolidated Airlines Group S.A.

8 Employee costs and numbers

a Employee costs

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

Number	Group		Company	
	2019	2018	2019	2018
UK	38,562	38,539	36,273	36,240
Overseas	3,760	3,845	2,515	2,634
	42,322	42,384	38,788	38,874

£ million	2019	2018	2019	2018
Wages and salaries	1,657	1,667	1,551	1,566
Social security costs	206	200	196	189
Costs related to pension scheme benefits (note 30b)	162	184	161	176
Other employee costs	504	484	483	463
Total employee costs	2,529	2,535	2,391	2,394

Included in 'other employee costs' is a total expense for share-based payments of £7 million (2018: £6 million) that arises from transactions accounted for as equity-settled share-based payments (see note 28). Other employee costs include allowances and accommodation for crew.

Note 5 shows an exceptional charge of £583 million relating to the APS litigation settlement past service cost. Including this exceptional item results in total employee costs of £3,112 million. In 2018, including the exceptional items that related to NAPS scheme closure as described in note 5 resulted in total employee costs of £2,129 million.

b Directors' emoluments

£ million	Group	
	2019	2018
Directors' remuneration	2	2

During the year, five Directors (2018: four) of the Company were employed and remunerated by IAG and three (2018: two) were recharged to the Company accordingly.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £996,000 (2018: £1,287,000).

During the year no Directors (2018: none) accrued benefits under a defined benefit pension scheme and one Director (2018: none) accrued benefits under a defined contribution pension scheme. There were pension contributions of £27,000 made during the year (2018: £nil).

Five Directors (2018: four) participated in IAG's Long Term Incentive Schemes and five exercised awards during the year (2018: four).

c Remuneration of key management personnel

Compensation of key management personnel (which includes the Directors and Management Committee of the Group):

£ million	Group and Company	
	2019	2018
Short-term employee benefits	6	6
Share-based payments	2	2
At 31 December	8	8

9 Finance costs and income

a Finance costs

	Group	
£ million	2019	2018
Interest expenses on:		
Bank borrowings	(6)	(10)
Asset financing liabilities	(2)	-
Lease liabilities (2018: finance lease obligations) ¹	(220)	(108)
Provisions unwinding of discount	(1)	(1)
Other borrowings	(5)	(9)
Capitalised interest on progress payments ²	15	12
Finance costs	(219)	(116)

¹ Associated with IFRS 16 which became effective as at 1 January 2019.

² Interest costs on progress payments were capitalised at a rate based on the London Interbank Offered Rate (LIBOR) plus the rate specific to the borrowings.

b Finance income

	Group	
£ million	2019	2018
Interest on other investments and interest-bearing deposits (financial assets not at fair value through income statement)	36	26
Other finance income	-	7
Finance income	36	33

c Other non-operating credits/(charges)

	Group	
£ million	2019	2018
Gain/(loss) on sale of property, plant and equipment and investments	3	(11)
Credit relating to equity investments	3	5
Realised gains on derivatives not qualifying for hedge accounting	4	10
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	-	(1)
Finance income	10	3

10 Tax

a Tax on ordinary activities

Tax charge in the income statement, other comprehensive income and Statement of changes in equity

£ million	2019				2018			
	Income statement	Other comprehensive income	Statement of changes in equity	Total	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax								
Movement in respect of prior years	12	(7)	-	5	7	-	-	7
Movement in respect of current year	(341)	141	-	(200)	(291)	120	-	(171)
Total current tax	(329)	134	-	(195)	(284)	120	-	(164)
Deferred tax								
Movement in respect of prior years	(7)	-	-	(7)	7	-	-	7
Movement in respect of current year	(16)	(94)	(1)	(111)	(91)	130	-	39
Rate change	2	2	-	4	3	(12)	-	(9)
Total deferred tax	(21)	(92)	(1)	(114)	(81)	118	-	37
Total tax	(350)	42	(1)	(309)	(365)	238	-	(127)

The tax charge on continuing operations for 2019 includes Enil tax charge in relation to exceptional items (see note 5, 2018: £28 million tax charge). Current tax in other comprehensive income relates to employee benefit plans.

b Current tax (liability)

£ million	2019	2018
Balance at 1 January	(144)	(116)
Income statement	(329)	(284)
Other comprehensive income	134	120
Cash	195	137
Exchange movements and other	2	(1)
Balance at 31 December	(142)	(144)
Current tax liability	(142)	(144)
Balance at 31 December	(142)	(144)

10 Tax continued

C Deferred tax

Deferred tax asset/(liability)									
£ million	Fixed assets	Right of use assets	Deferred tax deductions on IFRS 16 transition	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/losses	Share-based payment schemes	Other temporary differences	Total
Balance at 1 January 2019	(568)	-	-	21	32	178	3	(1)	(335)
Adjustments arising on adoption of IFRS 16	235	(235)	26	-	-	-	-	-	26
Income statement	8	(16)	(6)	(9)	1	-	-	1	(21)
Other comprehensive income	-	-	-	-	2	(94)	-	-	(92)
Statement of changes in equity	-	-	-	-	-	-	(1)	-	(1)
Exchange movements and other	1	-	-	(2)	(1)	-	1	1	-
Balance at 31 December 2019	(324)	(251)	20	10	34	84	3	1	(423)
Balance at 1 January 2018	(581)	-	-	12	114	58	4	21	(372)
Income statement	13	-	-	9	(81)	1	(1)	(22)	(81)
Other comprehensive income	-	-	-	-	(1)	119	-	-	118
Balance at 31 December 2018	(568)	-	-	21	32	178	3	(1)	(335)

Within tax in Other comprehensive income is a tax charge of £102 million (2018: tax credit of £113 million) that may be reclassified to the income statement and a tax credit of £144 million (2018: tax credit of £125 million) that may not.

d Reconciliation of the total tax charge in the income statement

In accordance with bilateral tax treaties the Group's profits are mainly taxed in the UK. Therefore, the tax charge is calculated at the standard rate of UK corporation tax. The tax charge on the profit for the year to 31 December 2019 is higher (2018: lower) than the expected tax charge at the UK rate. The Group's effective tax rate is 24.0% (2018: 14.9%) and the differences to the UK rate are explained below:

£ million	2019	2018
Accounting profit before tax	1,459	2,456
Tax calculated at the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(277)	(467)
Effect of tax rate changes	2	3
Employee benefit plans accounted for net of withholding tax - non-recurring	(111)	46
Employee benefit plans accounted for net of withholding tax - recurring	5	2
Euro preferred securities accounted for as non-controlling interests	-	2
Investment credit	-	4
Movement in respect of prior years	5	14
Non-deductible expenses - recurring items	(7)	(2)
Other items	1	2
Tax on associates' profits	32	31
Tax charge in the income statement	(350)	(365)

10 Tax continued

e Other taxes

The Group was also subject to other taxes and charges paid are as follows:

£ million	2019	2018
Payroll related taxes	206	200
UK Air Passenger Duty	783	720
	989	920

f Factors that may affect future tax charges

Unrecognised temporary differences - losses

£ million	2019	2018
UK capital losses	284	284

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of £990 million (2018: £855 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

Tax rate changes

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015 and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax on temporary differences as at 31 December 2019 has been calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

g Tax contingent liabilities

The Group has certain contingent tax liabilities which at 31 December 2019 amounted to £69 million (31 December 2018: £54 million). The Group files income and other tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

11 Dividends

£ million	Company	
	2019	2018
First interim dividend:		
A1 Ordinary shares: £113.64 per share (2018: £109.27)	102	98
A2 Ordinary shares: £113.64 per share (2018: £109.27)	11	11
C Ordinary shares: £113.64 per share (2018: £109.27)	17	16
Second interim dividend:		
A1 Ordinary shares: £113.64 per share (2018: £109.27)	102	98
A2 Ordinary shares: £113.64 per share (2018: £109.27)	11	11
C Ordinary shares: £113.64 per share (2018: £109.27)	17	16
Third interim dividend:		
A1 Ordinary shares: £87.41 per share (2018: £218.54)	78	196
A2 Ordinary shares: £87.41 per share (2018: £218.54)	9	22
C Ordinary shares: £87.41 per share (2018: £218.54)	13	32
Fourth interim dividend:		
A1 Ordinary shares: £196.68 per share (2018: £65.56)	176	59
A2 Ordinary shares: £196.68 per share (2018: £65.56)	20	6
C Ordinary shares: £196.68 per share (2018: £65.56)	29	10
	585	575

12 Property, plant and equipment

a Group

£ million				Group
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2018	14,829	1,637	923	17,389
Additions	990	64	31	1,085
Disposals	(653)	-	(37)	(690)
Balance as at 31 December 2018	15,166	1,701	917	17,784
Adoption of IFRS 16 ¹	2,152	583	25	2,760
Balance at 1 January 2019	17,318	2,284	942	20,544
Additions	1,772	54	52	1,878
Modification of leases	97	82	-	179
Disposals	(825)	(31)	(10)	(866)
As at 31 December 2019	18,362	2,389	984	21,735
Depreciation and impairment				
Balance at 1 January 2018	7,894	852	705	9,451
Charge for the year	654	39	35	728
Disposals	(493)	-	(36)	(529)
Balance as at 31 December 2018	8,055	891	704	9,650
Adoption of IFRS 16 ¹	958	-	2	960
Balance at 1 January 2019	9,013	891	706	10,610
Charge for the year	884	124	43	1,051
Disposals	(373)	(32)	(9)	(414)
As at 31 December 2019	9,524	983	740	11,247
Net book amounts				
31 December 2019	8,838	1,406	244	10,488
31 December 2018	7,111	810	213	8,134
Analysis as at 31 December 2019				
Owned	2,716	718	172	3,606
Right of use assets ^{1,2}	4,912	594	28	5,534
Asset financed	402	-	-	402
Progress payments	808	94	44	946
	8,838	1,406	244	10,488
Analysis as at 31 December 2018				
Owned	2,936	704	169	3,809
Finance leases ²	3,731	-	8	3,739
Progress payments	444	106	36	586
	7,111	810	213	8,134

£ million			Group
	2019	2018	
The net book amount of property comprises:			
Freehold	325	223	
Right of use assets ¹	594	-	
Long-leasehold improvements	272	297	
Short-leasehold improvements ³	215	290	
As at 31 December	1,406	810	

¹ Refer to note 13 for right of use assets and Note 36 for transition as on 1 January 2019

² All finance leases were transferred into right of use on 1 January 2019 on transition to IFRS 16. See note 13 for details.

³ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2019, bank and other loans of the Group are secured on fleet assets with a net book amount of £275 million (2018: £311 million).

12 Property, plant and equipment continued

b Company

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2018	14,298	1,553	900	16,751
Additions	986	64	29	1,079
Disposals	(572)	-	(37)	(609)
Balance as at 31 December 2018	14,712	1,617	892	17,221
Adoption of IFRS 16 ¹	1,994	579	24	2,597
Balance at 1 January 2019	16,706	2,196	916	19,818
Additions	1,756	48	43	1,847
Modification of leases	97	82	-	179
Disposals	(820)	(31)	(10)	(861)
As at 31 December 2019	17,739	2,295	949	20,983
Depreciation and impairment				
Balance at 1 January 2018	7,585	802	688	9,075
Charge for the year	634	38	34	706
Disposals	(422)	-	(37)	(459)
Balance as at 31 December 2018	7,797	840	685	9,322
Adoption of IFRS 16 ¹	828	-	2	830
Balance at 1 January 2019	8,625	840	687	10,152
Charge for the year	849	121	41	1,011
Disposals	(371)	(30)	(10)	(411)
As at 31 December 2019	9,103	931	718	10,752
Net book amounts				
31 December 2019	8,636	1,364	231	10,231
31 December 2018	6,915	777	207	7,899
Analysis as at 31 December 2019				
Owned	2,538	685	158	3,381
Right of use assets ^{1,2}	4,889	585	27	5,501
Asset financed	402	-	-	402
Progress payments	807	94	46	947
	8,636	1,364	231	10,231
Analysis as at 31 December 2018				
Owned	2,740	671	163	3,574
Finance leases ²	3,731	-	8	3,739
Progress payments	444	106	36	586
	6,915	777	207	7,899

£ million	Company	
	2019	2018
The net book amount of property comprises:		
Freehold	292	190
Right of use assets ¹	585	-
Long-leasehold improvements	272	297
Short-leasehold improvements ³	215	290
As at 31 December	1,364	777

¹ Refer to note 13 for right of use assets and Note 36 for transition on 1 January 2019

² All finance leases were transferred into right of use on 1 January 2019 on transition to IFRS 16. See note 13 for details.

³ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2019, bank and other loans of the Company are secured on fleet assets with a net book amount of £275 million (2018: £288 million).

13 Leases

a Group

(i) Amounts recognised in the balance sheet

£ million				Group
	Fleet	Property	Equipment	Total
Cost				
Balance as at 1 January 2019 ¹	7,051	583	49	7,683
Additions	384	7	6	397
Modification of leases	97	82	-	179
Disposals	(4)	-	-	(4)
Reclassifications	(201)	-	-	(201)
As at 31 December 2019	7,327	672	55	8,054
Depreciation				
Balance as at 1 January 2019 ¹	2,126	-	18	2,144
Charge for the year	401	78	9	488
Disposals	(4)	-	-	(4)
Reclassifications	(108)	-	-	(108)
As at 31 December 2019	2,415	78	27	2,520
Net book value				
1 January 2019	4,925	583	31	5,539
31 December 2019	4,912	594	28	5,534

¹The net book value of ROU assets recognised at 1 January 2019 includes £3.7 billion in respect of assets previously financed through finance leases before the adoption of IFRS 16 (split between £4.9 billion at cost and £1.2 billion of accumulated depreciation). In 2018 the Group only recognised lease assets and liabilities in relation to leases that were classified as finance leases under IAS 17 Leases. The assets were presented in property, plant and equipment and the lease liabilities in long term borrowings.

Interest-bearing long-term borrowings includes the following amounts relating to lease liabilities:

£ million	Group
	Total
Finance lease liabilities 31 December 2018	4,108
IFRS 16 liability 1 January 2019 ¹	1,891
Additions	378
Modification of leases	146
Repayments	(850)
Interest expense	220
Exchange movements	(246)
Lease liabilities 31 December 2019	5,647
Current	869
Non-current	4,778

¹See note 36 for impact on transition.

13 Leases continued

a Group continued

(ii) Amounts recognised in the consolidated income statement

	Group
£ million	2019
Variable lease payments	4
Short-term leases	36
Interest on lease liabilities	220
Gains arising from sale and leaseback transactions	(3)
Depreciation	488

(iii) Amounts recognised in the Group consolidated cash flow statements

The Group had total cash outflows for leases of £669 million in 2019.

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2019, for which no amount has been recognised, in relation to leases not yet commenced to which the Group is committed of £448 million.

(iv) Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 25.

(v) Operating lease commitments

From 1 January 2019, the Group has recognised ROU assets and lease liabilities for the leases it has entered into (except for short-term and low-value lease) and accordingly, no longer presents operating lease commitments. Having applied the modified retrospective approach to the implementation of IFRS 16, the Group has continued to present the comparative financial information for the aggregate payments, for which there were commitments under operating leases as follows as at 31 December 2018:

		2018 Property, plant and equipment	
£ million	Fleet		Total
Within one year	241	106	347
Between one and five years	665	237	902
Over five years	400	1,690	2,090
Total	1,306	2,033	3,339

13 Leases continued

a Group continued

(vi) Obligations under finance leases

On implementation of IFRS 16, those leases previously recognised as finance leases were reclassified to ROU assets and lease liabilities and are included in section (i) of this note. Accordingly, the Group no longer presents obligations under finance leases. Having applied the modified retrospective approach to the implementation of IFRS 16, the Group has continued to present the comparative financial information for the aggregate payments, for which there were future minimum lease payments as follows:

£ million	2018
Future minimum payments due:	
Within one year	543
After more than one year but within five years	2,261
In five years or more	1,899
	4,703
Less: finance charges	595
Present value of minimum lease payments	4,108
The present value of minimum lease payments is analysed as follows:	
Within one year	425
After more than one year but within five years	1,911
In five years or more	1,772
As at 31 December 2018	4,108

(vii) Extensions

The Group has certain leases which contain extension options exercisable by the Group prior to the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options.

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2019, for which no amount has been recognised, for potential extension options of £635 million due to it not being reasonably certain that these leases will be extended.

13 Leases
b Company
(i) Amounts recognised in the balance sheet

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance as at 1 January 2019 ¹	6,893	579	48	7,520
Additions	373	1	6	380
Modification of leases	97	82	-	179
Disposals	(4)	-	-	(4)
Reclassifications	(201)	-	-	(201)
As at 31 December 2019	7,158	662	54	7,874
Depreciation				
Balance as at 1 January 2019 ¹	1,996	-	18	2,014
Charge for the year	385	77	9	471
Disposals	(4)	-	-	(4)
Reclassifications	(108)	-	-	(108)
As at 31 December 2019	2,269	77	27	2,373

Net book value

1 January 2019	4,897	579	30	5,506
31 December 2019	4,889	585	27	5,501

¹The net book value of ROU assets recognised at 1 January 2019 includes £3.7 billion in respect of assets previously financed through finance leases before the adoption of IFRS 16 (split between £4.9 billion at cost and £1.2 billion of accumulated depreciation). In 2018 the Company only recognised lease assets and liabilities in relation to leases that were classified as finance leases under IAS 17 Leases. The assets were presented in property, plant and equipment and the lease liabilities in the Company's long term borrowings.

Interest-bearing long-term borrowings includes the following amounts relating to lease liabilities:

£ million	Company
	Total
Finance lease liabilities 31 December 2018	4,115
IFRS 16 liability 1 January 2019 ¹	1,860
Additions	361
Modification of leases	146
Repayments	(842)
Interest expense	219
Exchange movements	(244)
Lease liabilities 31 December 2019	5,615
Current	855
Non-current	4,760

¹See note 36 for impact on transition.

13 Leases continued
b Company continued
(ii) Amounts recognised in the income statement

	Company
£ million	2019
Short-term leases	28
Interest on lease liabilities	219
Gains arising from sale and leaseback transactions	(3)
Depreciation	471

(iii) Amounts recognised in the company cash flow statements

The Company had total cash outflows for leases of £661 million in 2019.

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2019, for which no amount has been recognised, in relation to leases not yet commenced to which the Company is committed of £423 million.

(iv) Maturity profile of the lease liabilities

The maturity profile of the lease liabilities are disclosed in note 25.

(v) Operating lease commitments

From 1 January 2019, the Company has recognised ROU assets and lease liabilities for the leases it has entered into (except for short-term and low-value lease) and accordingly, no longer presents operating lease commitments. Having applied the modified retrospective approach to the implementation of IFRS 16, the Company has continued to present the comparative financial information for the aggregate payments, for which there were commitments under operating leases as follows as at 31 December 2018:

		2018	
£ million	Fleet	Property, plant and equipment	Total
Within one year	228	100	328
Between one and five years	651	227	878
Over five years	400	1,689	2,089
Total	1,279	2,016	3,295

(vi) Obligations under finance leases

On implementation of IFRS 16, those leases previously recognised as finance leases were reclassified to ROU assets and lease liabilities and are included in section (i) of this note. Accordingly, the Company no longer presents obligations under finance leases. Having applied the modified retrospective approach to the implementation of IFRS 16, the Company has continued to present the comparative financial information for the aggregate payments, for which there were future minimum lease payments as follows:

£ million	2018
Future minimum payments due:	
Within one year	550
After more than one year but within five years	2,261
In five years or more	1,899
	4,710
Less: finance charges	595
Present value of minimum lease payments	4,115
The present value of minimum lease payments is analysed as follows:	
Within one year	432
After more than one year but within five years	1,911
In five years or more	1,772
As at 31 December 2018	4,115

13 Leases continued

b Company continued

(vii) Extensions

The Company has certain leases which contain extension options exercisable by the Company prior to the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options.

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2019, for which no amount has been recognised, for potential extension options of £635 million due to it not being reasonably certain that these leases will be extended.

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £6,497 million for the Group (2018: £4,889 million) and £6,484 million for the Company (2018: £4,881 million). The majority of capital expenditure commitments are denominated in US dollars and as such the commitments are subject to exchange movements.

The outstanding commitments include £6,369 million for the acquisition of 17 Airbus A320s and A321 neos (from 2020 to 2022), 14 Airbus A350s (from 2020 to 2022), 12 Boeing B787s (from 2020 to 2023) and 18 Boeing B777s (from 2020 to 2025).

15 Intangible assets

a Group

£ million					Group
	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 January 2018	40	693	16	583	1,332
Additions	-	49	28	68	145
Disposals	-	-	(10)	(4)	(14)
Balance as at 31 December 2018	40	742	34	647	1,463
Additions	-	-	36	80	116
Disposals	-	-	(34)	(4)	(38)
As at 31 December 2019	40	742	36	723	1,541
Amortisation					
Balance at 1 January 2018	-	49	-	292	341
Charge for the year	-	-	-	58	58
Disposals	-	-	-	(3)	(3)
Balance as at 31 December 2018	-	49	-	347	396
Charge for the year	-	-	-	55	55
Disposals	-	-	-	(4)	(4)
As at 31 December 2019	-	49	-	398	447
Net book amounts					
31 December 2019	40	693	36	325	1,094
31 December 2018	40	693	34	300	1,067

15 Intangible assets continued

b Company

£ million	Company			
	Landing rights	Emissions allowances	Software	Total
Cost				
Balance at 1 January 2018	693	16	559	1,268
Additions	49	28	63	140
Disposals	-	(10)	(4)	(14)
Balance as at 31 December 2018	742	34	618	1,394
Additions	-	36	74	110
Disposals	-	(34)	(4)	(38)
As at 31 December 2019	742	36	688	1,466
Amortisation				
Balance at 1 January 2018	49	-	278	327
Charge for the year	-	-	55	55
Disposals	-	-	(4)	(4)
Balance as at 31 December 2018	49	-	329	378
Charge for the year	-	-	51	51
Disposals	-	-	(4)	(4)
As at 31 December 2019	49	-	376	425
Net book amounts				
31 December 2019	693	36	312	1,041
31 December 2018	693	34	289	1,016

16 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 cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on one (2018: one) CGU. 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.

An impairment review involves the comparison of the carrying value of the CGU to the recoverable amount. An impairment charge is recognised to the extent that the carrying value exceeds the recoverable amount.

a Network airline operations

£ million	2019				2018			
	Emissions allowances	Landing rights	Goodwill	Total	Emissions allowances	Landing rights	Goodwill	Total
Network airline operations	36	693	40	769	34	693	40	767

The recoverable amount of the network airline operations has been measured based on the value-in-use, using a discounted cash flow model. Cash flow projections are based on the business plan approved by the Board covering a three-year period. Cash flow projections are prepared for a five year period for the purposes of impairment review. This is projected to increase in line with the long-term growth rate of the main economies in which BA operates. 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. No reasonable possible change in the key assumptions for the network airline operation would cause the carrying amount of goodwill and intangible assets with indefinite economic life to exceed the recoverable amount.

16 Impairment of property, plant, equipment and intangible assets continued

a Network airline operations continued

Key assumptions

	2019	2018
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	8.0%	8.3%
Long-term growth rate	2.2%	2.3%

The operating margins 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.

b Impairment of fleet

During the year ended 31 December 2019 no impairment charge was recognised.

17 Investments

a Group

A summary of the Group's investments in associates accounted for using the equity method is shown below:

	Group	
£ million	2019	2018
Balance at 1 January	1,701	1,577
Exchange differences	(13)	3
Share of attributable results	170	165
Share of movements in comprehensive income of associates	6	(29)
Dividends received ¹	(26)	(15)
As at 31 December	1,838	1,701

¹The Group received dividends, net of withholding tax, of £26 million (2018: £15 million) from Iberia and Dunwoody.

	Percentage of equity owned	Measurement basis	Principal activities	Holding	Country of incorporation and principal operations
IB Opco Holding, S.L. ('Iberia')	13.55	Equity method	Airline operations	Ordinary shares	Spain
Avios Group (AGL) Limited ('AGL')	86.26	Equity method	Airline marketing	Ordinary shares	England

At 31 December 2019 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

17 Investments continued

The following summarised financial information of the Group's investment in material associates is shown below:

£ million	2019		Group 2018	
	Iberia	AGL	Iberia	AGL
Non-current assets	4,851	229	3,614	36
Current assets	2,542	1,675	2,532	1,813
Current liabilities	(2,529)	(1,871)	(2,401)	(1,962)
Non-current liabilities	(3,346)	(5)	(2,330)	(2)
Net equity	1,518	28	1,415	(115)
Group's share of net equity	206	24	192	(99)
Goodwill attributable to investments in associates	8	1,598	8	1,598
Total investment in associates	214	1,622	200	1,499

The Group's carrying amount of investments in other associates was £2 million (2018: £2 million).

Revenues	5,083	817	4,676	760
Operating costs	(4,660)	(641)	(4,291)	(604)
Other income and costs (including tax)	(92)	(32)	(19)	(27)
Net profit after tax	331	144	366	129
Other comprehensive income/(expense)	92	(1)	(200)	(2)
Total comprehensive income for the year (net of tax)	423	143	166	127

The Group's share of total comprehensive income of other associates was £1 million (2018: less than £1 million)

17 Investments continued

b Company

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

£ million	Cost	Provisions	Company	
			2019	2018
Balance at 1 January	1,652	(374)	1,278	1,278
As at 31 December	1,652	(374)	1,278	1,278

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 94 and 95.

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

£ million	Company	
	Total	Total
	2019	2018
As at 31 December	1,563	1,563

18 Equity investments

£ million	Group		Company	
	2019	2018	2019	2018
Listed securities				
Comair Limited	9	16	-	-
Unlisted securities (see note 26b)	40	40	40	40
Equity investments	49	56	40	40

Equity investments are measured at fair value through other comprehensive income, with no recycling of gains and losses to the income statement.

19 Trade receivables and other assets

Other non-current assets are set out below:

£ million	Group		Company	
	2019	2018	2019	2018
Prepayments and accrued income	84	92	84	92
Other receivables	12	10	11	10
Loans owed by parent	95	108	95	108
Loans owed by fellow group undertakings	-	90	-	90
Other non-current assets	191	300	190	300

Trade receivables and other current assets are set out below:

£ million	Group		Company	
	2019	2018	2019	2018
Trade receivables	1,232	922	1,216	907
Provision for expected credit losses	(30)	(21)	(30)	(21)
Net trade receivables	1,202	901	1,186	886
Prepayments and accrued income	538	419	511	402
Other receivables	136	125	131	124
Loans owed by ultimate parent	9	9	9	9
Loans owed by fellow group undertakings	-	91	-	91
Amounts owed by subsidiaries	-	-	65	21
Trade receivables and other current assets	1,885	1,545	1,902	1,533

The credit risk exposure on the Group and Company's trade receivables is set out below. Trade receivables are generally non-interest bearing and on 30 day terms (2018: 30 days).

2019	Group				
	Current	<30 days	30-60 days	>60 days	Total
Trade receivables	755	141	48	288	1,232
Expected credit loss rate	0.01%	0.44%	0.02%	10.17%	2.43%
Net trade receivables	755	141	48	258	1,202

2018	Group				
	Current	<30 days	30-60 days	>60 days	Total
Trade receivables	824	19	10	69	922
Expected credit loss rate	0.01%	0.06%	19.69%	28.21%	2.33%
Net trade receivables	824	19	8	50	901

19 Trade receivables and other assets continued

The credit risk exposure on the Company's trade receivables is set out below:

2019	Company				
	Current	<30 days	30-60 days	>60 days	Total
Trade receivables	741	140	47	288	1,216
Expected credit loss rate	0.01%	0.44%	0.02%	10.18%	2.46%
Net trade receivables	741	139	47	259	1,186

2018	Company				
	Current	<30 days	30-60 days	>60 days	Total
Trade receivables	810	19	9	69	907
Expected credit loss rate	0.01%	0.06%	19.78%	28.33%	2.37%
Net trade receivables	810	19	7	50	886

Trade receivables are generally non-interest-bearing and on 30 day terms (2018: 30 days).

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

a Cash and cash equivalents

£ million	Group		Company	
	2019	2018	2019	2018
Cash at bank and in hand	1,243	1,192	1,143	1,114
Short-term deposits falling due within three months	15	135	15	135
Cash and cash equivalents	1,258	1,327	1,158	1,249
Other current interest-bearing deposits maturing after three months	1,330	1,175	1,330	1,175

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 money market rates at the time the deposits are made. The fair value of cash and cash equivalents is £1,258 million for the Group (2018: £1,327 million) and £1,158 million for the Company (2018: £1,249 million).

At 31 December 2019, the Group and Company had no outstanding bank overdrafts (2018: Enil).

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

b Reconciliation of net cash flow to movement in net debt

							Group
	Balance at 1 January 2019	IFRS16 Opening adjustments	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2019
Bank, other loans and asset financed liabilities	(318)	-	(355)	42	-	(32)	(663)
Lease liabilities ¹	(4,108)	(1,891)	669	246	(556)	(7)	(5,647)
Liabilities from financing activities	(4,426)	(1,891)	314	288	(556)	(39)	(6,310)
Cash and cash equivalents	1,327	-	(76)	7	-	-	1,258
Other current-interest bearing deposits	1,175	-	155	-	-	-	1,330
Net debt	(1,924)	(1,891)	393	295	(556)	(39)	(3,722)

¹Finance leases in 2018, now right of use liabilities associated with right of use assets. See note 36 for impact on transition.

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

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

	Group				
	Balance at 1 January 2018	Cash flows	Disposal of subsidiary, net of cash disposed	Exchange movements	Balance at 31 December 2018
Bank and other borrowings	(476)	167	-	(9)	(318)
Finance leases	(3,812)	(78)	-	(179)	(4,108)
Interest-bearing borrowings	(4,288)	89	-	(188)	(4,426)
Cash and cash equivalents	956	345	17	9	1,327
Other current-interest bearing deposits	1,840	(665)	-	-	1,175
Net debt	(1,492)	(231)	17	(179)	(1,924)

	Company					
	Balance at 1 January 2019	IFRS16 Opening adjustments	Cash flows	Exchange movements	New leases and modifications	Balance at 31 December 2019
Bank, other loans and asset financed liabilities	(314)	-	(359)	42	-	(663)
Lease liabilities ¹	(4,115)	(1,860)	661	244	(539)	(5,615)
Liabilities from financing activities	(4,429)	(1,860)	302	286	(539)	(6,278)
Cash and cash equivalents	1,249	-	(97)	6	-	1,158
Other current-interest bearing deposits	1,175	-	155	-	-	1,330
Net debt	(2,005)	(1,860)	360	292	(539)	(3,790)

¹Finance leases in 2018, now right of use liabilities associated with right of use assets. See note 36 for impact on transition.

	Company				
	Balance at 1 January 2018	Cash flows	Exchange movements	Non-cash	Balance at 31 December 2018
Bank and other borrowings	(726)	413	(11)	10	(314)
Finance leases	(3,847)	(51)	(179)	(38)	(4,115)
Interest-bearing borrowings	(4,573)	362	(190)	(28)	(4,429)
Cash and cash equivalents	886	354	9	-	1,249
Other current-interest bearing deposits	1,840	(665)	-	-	1,175
Net debt	(1,847)	51	(181)	(28)	(2,005)

Net debt is calculated as total cash and cash equivalents and current interest bearing deposits less total interest bearing borrowings. Proceeds from and repayment of bank, other loans and asset financed liabilities are shown net under cash flows.

21 Trade and other payables and deferred revenue on ticket sales

a Trade and other payables

£ million	Group		Company	
	2019	2018	2019	2018
Trade creditors	1,396	1,180	1,332	1,118
Amounts owed to subsidiary companies	-	-	423	375
Other creditors	580	538	579	539
Other taxation and social security	33	35	33	35
Accruals and deferred income	95	140	78	123
As at 31 December	2,104	1,893	2,445	2,190

b Deferred revenue on ticket sales

£ million	Group			Company		
	Customer loyalty	Sales in advance of carriage	2019	Customer loyalty	Sales in advance of carriage	2019
As at 1 January	61	2,746	2,807	57	2,767	2,824
Revenue recognised in income statement ^{1,2}	(49)	(11,965)	(12,014)	(45)	(11,008)	(11,053)
Loyalty points issued to customers	31	-	31	31	-	31
Cash received from customers	-	12,110	12,110	-	11,167	11,167
As at 31 December	43	2,891	2,934	43	2,926	2,969

£ million	Group			Company		
	Customer loyalty	Sales in advance of carriage	2018	Customer loyalty	Sales in advance of carriage	2018
As at 1 January	77	2,588	2,665	73	2,488	2,561
Revenue recognised in income statement ¹	(39)	(12,789)	(12,828)	(39)	(11,849)	(11,888)
Loyalty points issued to customers	23	-	23	23	-	23
Cash received from customers	-	12,947	12,947	-	12,128	12,128
As at 31 December	61	2,746	2,807	57	2,768	2,824

¹Where the Group acts as an agent in the provision of redemption products and services to customers through loyalty programmes, or in the provision of interline flights to passengers, revenue is recognised in the income statement net of the related costs.

²Included within revenue recognised in the income statement is an amount of £2,787 million previously held as deferred revenue at the end of the comparative reporting period.

22 Other non-current liabilities

£ million	Group		Company	
	2019	2018	2019	2018
Accruals	5	6	5	6
Deferred income	24	34	13	20
As at 31 December	29	40	18	26

23 Long-term borrowings

£ million	Group		Company	
	2019	2018	2019	2018
a Current				
Bank and other loans ¹	46	48	46	44
Asset financed liabilities	17	-	17	-
Lease liabilities (2018: Finance lease obligation)	869	425	855	432
As at 31 December	932	473	918	476
b Non-current				
Bank and other loans ¹	239	270	239	270
Asset financed liabilities	361	-	361	-
Lease liabilities (2018: Finance leases obligation)	4,778	3,683	4,760	3,683
As at 31 December	5,378	3,953	5,360	3,953

¹Bank and other loans are repayable up to 2027. Bank and other loans of the Group amounting to £225 million (2018: £279 million) and bank and other loans of the Company amounting to £225 million (2018: £275 million) are secured on secured on fleet assets with a net book value of £275 million (note 12).

c Bank and other loans

£ million	Group		Company	
	2019	2018	2019	2018
Floating rate pound sterling mortgage loan secured on aircraft (i)	-	4	-	-
Floating rate euro mortgage loans secured on aircraft (ii)	191	227	191	227
Fixed rate Chinese yuan mortgage loans secured on aircraft (iii)	34	48	34	48
Fixed rate unsecured US dollar loans (iv)	60	39	60	39
	285	318	285	314
Less: current instalments due on bank and other loans	46	48	46	44
Non-current bank and other loans as at 31 December	239	270	239	270

(i) Floating rate pound sterling mortgage loan was secured on specific aircraft assets of the Group and bore interest of 0.81 per cent. The loan was repaid in 2019.

(ii) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.13 per cent and 1.10 per cent. The loans are repayable between 2024 and 2027.

(iii) Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.

(iv) Fixed rate unsecured US dollar loans bearing interest between 1.98 per cent and 2.86 per cent. The loans are repayable in 2023 and 2025.

23 Long-term borrowings continued

d Total loans, lease liabilities and asset financed liabilities

£ million	Group		Company	
	2019	2018	2019	2018
Loans:				
Bank:				
US dollar	\$79	\$49	\$79	\$49
Euro	€225	€252	€225	€252
Chinese yuan	¥314	¥422	¥314	¥422
Pound sterling	-	£4	-	-
Pound sterling	285	318	285	314
Lease liabilities (2018: Finance leases)				
US dollar	\$4,528	\$2,744	\$4,498	\$2,744
Euro	€1,326	€1,472	€1,326	€1,472
Japanese yen	¥75,093	¥74,305	¥75,093	¥74,305
Pound sterling	£593	£135	£584	£142
Pound sterling	5,647	4,108	5,615	4,115
Asset financed liabilities				
US dollar	\$498	-	\$498	-
Pound sterling	378	-	378	-
As at 31 December	6,310	4,426	6,278	4,429

During 2019, British Airways successfully launched a \$806 million EETC bond issue to fund aircraft deliveries. The bonds were combined with Japanese Operating Leases with Call Options ("JOLCO") of \$314 million. The total sum raised was \$1,120 million. The transaction includes Class AA and Class A Certificates with an underlying collateral pool consisting of eight aircraft: six Airbus A350-1000s and two Airbus A320neos. The Class AA Certificates (\$543 million) have an annual coupon, payable quarterly, of 3.30 per cent and the Class A Certificates (\$263 million) have an annual coupon, payable quarterly, of 3.35 per cent.

24 Provisions

					Group
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2019	369	114	34	43	560
Transition to IFRS 16 ¹	47	-	-	-	47
Balance as at 1 January 2019	416	114	34	43	607
Provisions recorded during the year	74	3	23	50	150
Utilised during the year	(30)	(52)	(16)	(34)	(132)
Release of unused amounts	(8)	(3)	(4)	(7)	(22)
Exchange differences	(8)	-	-	-	(8)
Unwinding of discount	1	-	-	-	1
As at 31 December 2019	445	62	37	52	596
Analysis:					
Current	43	62	32	36	173
Non-current	402	-	5	16	423
	445	62	37	52	596

					Company
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2019	327	114	33	40	514
Transition to IFRS 16 ¹	47	-	-	-	47
Balance as at 1 January 2019	374	114	33	40	561
Provisions recorded during the year	75	3	23	41	142
Utilised during the year	(26)	(52)	(16)	(28)	(122)
Release of unused amounts	(8)	(3)	(3)	(7)	(21)
Exchange differences	(7)	-	-	-	(7)
Unwinding of discount	1	-	-	-	1
As at 31 December 2019	409	62	37	46	554
Analysis:					
Current	15	62	32	30	139
Non-current	394	-	5	16	415
	409	62	37	46	554

¹ See note 36 for impact of IFRS 16 transition.

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft, including those of right of use. 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 capitalised. The provisions relate to leases up to 2031.

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans. The costs associated with this programme were incurred from 2016 to 2018 and the payments will be made over the next 12 months.

Legal claims provisions include amounts for multi-party claims from groups or employees on a number of matters related to the Group's operations, including claims for additional holiday pay and the Cargo claims concluded in 2019 and referred to in note 31.

Other provisions include a provision for the EU Emissions Trading Scheme that represents the excess of BA's CO₂ emitted on a flight within the EU in excess of the EU Emission Allowances granted. The provision also consists of staff leaving indemnities that were set up based on Collective Labour Agreements or local jurisdiction regulations.

25 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. The IAG Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The IAG Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial market movements.

IAG Treasury carries out financial risk management under governance approved by the IAG Board, the IAG Management Committee and the BA Chief Financial Officer. BA quantifies the financial risks and IAG Treasury evaluates, manages and hedges those risks. The IAG Board provides written principles for overall risk management, as well as written policies, provided by IAG Treasury, 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 protection against sudden and significant increases in fuel prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price. The current IAG strategy, is to hedge a proportion of fuel consumption for the next twelve quarters, within certain defined limits.

Within the strategy, the Fuel Risk Management programme allows for the use of a number of derivatives available on the over-the-counter ('OTC') markets with approved counterparties and within approved limits.

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

			Group and Company		
			2019		
Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million
	Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)
30	-	918	30	-	992
(30)	-	(943)	(30)	(3)	(1,065)

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 and euro. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as capital expenditure, fuel purchases and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position, US Dollar capital expenditure commitment, US dollar denominated debt position and long position on certain other currencies are subject to the same governance structure as the fuel hedging strategy set out above. The current strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years of the operating exposures, a proportion of the committed US dollar capital expenditure and the translation risk on US dollar denominated debt, within certain defined limits.

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

25 Financial risk management objectives and policies continued

b Foreign currency risk continued

The following table demonstrates the sensitivity of financial instruments to a reasonable, possible change in the exchange rates, with all other variables held constant, on profit before tax and equity. These represent both the Group and the Company as the majority of the foreign currency risks are borne by the Company.

Group and 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
	Increase	Increase	Increase	Increase	Increase	(Decrease)	Increase	(Decrease)	(Decrease)
	/(decrease)	/(decrease)	/(decrease)	/(decrease)	/(decrease)	/(increase)	/(decrease)	/increase	/increase
2019	10	-	274	10	15	(152)	10	(3)	(49)
	(10)	-	(322)	(10)	(15)	152	(10)	3	49
	10	7	191	10	35	(194)	10	(3)	(49)
2018	(10)	(7)	(161)	(10)	(35)	195	(10)	3	49

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt, lease commitments and cash deposits. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt.

The Group hedges the interest rate risk by entering into floating to fixed interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

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

Group and Company	Strengthening/(weakening) in USD LIBOR	Effect on profit before tax	Effect on equity	Strengthening/(weakening) in EURIBOR	Effect on profit before tax	Effect on equity
	Basis points	£ million	£ million	Basis points	£ million	£ million
	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)
2019	50	-	7	50	(2)	12
	(50)	-	(7)	(50)	2	(10)
2018	50	-	3	50	-	12
	(50)	-	(3)	(50)	-	(21)

25 Financial risk management objectives and policies continued

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through the IAG Treasury department. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits to the counterparty for the Group. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every IAG Treasury department meeting.

The financial assets recognised in the financial statements, net of impairment losses, represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements. There have been no significant changes in expected credit losses within the Group. No collateral is held to mitigate this exposure.

Credit risks arising from the Company acting as guarantor are disclosed in note 31.

e Liquidity risk

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. The Group maintains flexibility in funding by holding committed credit lines.

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 2019 the Group and Company had unused overdraft facilities of £12 million (2018: £10 million).

The Group and Company held undrawn uncommitted money market lines of £nil as at 31 December 2019 (2018: £25 million).

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

million	31 December 2019	
	Currency	£ equivalent
US dollar facility expiring December 2021	\$652	496
US dollar facility expiring June 2020	\$1,330	1,013

million	31 December 2018	
	Currency	£ equivalent
US dollar facility expiring December 2021	\$1,164	921
US dollar facility expiring June 2022	\$1,044	827

25 Financial risk management objectives and policies continued

e Liquidity risk continued

The following table categorises the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at 31 December to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

	Group					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2019
Interest-bearing loans and borrowings:						
Asset financing liabilities	(14)	(14)	(29)	(87)	(323)	(467)
Lease liabilities¹	(534)	(437)	(829)	(2,302)	(3,804)	(7,906)
Fixed rate borrowings	(13)	(13)	(26)	(36)	(14)	(102)
Floating rate borrowings	(11)	(14)	(25)	(93)	(57)	(200)
Trade and other payables	(2,057)	-	(5)	-	-	(2,062)
Derivative financial instruments (assets):						
Foreign exchange contracts (asset)	31	23	35	19	-	108
Fuel derivatives (asset)	29	8	5	1	-	43
Interest rate swap (asset)	-	-	-	1	-	1
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(18)	(20)	(32)	(68)	-	(138)
Fuel derivatives (liability)	(22)	(31)	(39)	(4)	-	(96)
Interest rate swap (liability)	(4)	(11)	(6)	(9)	(1)	(31)
As at 31 December	(2,613)	(509)	(951)	(2,578)	(4,199)	(10,850)

	Group					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2018
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations ¹	(288)	(255)	(641)	(1,620)	(1,899)	(4,703)
Fixed rate borrowings	(12)	(12)	(23)	(49)	-	(96)
Floating rate borrowings	(15)	(15)	(27)	(84)	(107)	(248)
Trade and other payables	(1,853)	-	(6)	-	-	(1,859)
Derivative financial instruments (assets):						
Foreign exchange contracts (asset)	26	33	67	46	-	172
Fuel derivatives (asset)	8	6	5	-	-	19
Interest rate swap (asset)	8	1	1	3	4	17
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(7)	(3)	(4)	(3)	-	(17)
Fuel derivatives (liability)	(184)	(150)	(142)	(58)	-	(534)
Interest rate swap (liability)	(14)	(5)	(8)	(7)	-	(34)
As at 31 December	(2,331)	(400)	(778)	(1,772)	(2,002)	(7,283)

¹Please refer to note 36 for further details on the effect of the transition to IFRS 16.

25 Financial risk management objectives and policies continued

e Liquidity risk continued

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

£ million	Company					Total 2019
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Interest-bearing loans and borrowings:						
Asset financing liabilities	(14)	(14)	(29)	(87)	(323)	(467)
Lease liabilities ¹	(525)	(436)	(820)	(2,346)	(3,746)	(7,873)
Fixed rate borrowings	(13)	(13)	(26)	(35)	(14)	(101)
Floating rate borrowings	(11)	(14)	(25)	(94)	(57)	(201)
Trade and other payables	(2,400)	-	(5)	-	-	(2,405)
Derivative financial instruments (assets):						
Foreign exchange contracts (asset)	34	25	35	20	-	114
Fuel derivatives (asset)	29	8	5	1	-	43
Interest rate swap (asset)	-	-	-	1	-	1
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(18)	(21)	(33)	(68)	-	(140)
Fuel derivatives (liability)	(22)	(31)	(39)	(4)	-	(96)
Interest rate swap (liability)	(4)	(11)	(6)	(9)	(1)	(31)
As at 31 December	(2,944)	(507)	(943)	(2,621)	(4,141)	(11,156)

£ million	Company					Total 2018
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations ¹	(295)	(255)	(641)	(1,620)	(1,899)	(4,710)
Fixed rate borrowings	(12)	(12)	(23)	(49)	-	(96)
Floating rate borrowings	(11)	(15)	(27)	(84)	(107)	(244)
Trade and other payables	(2,152)	-	(6)	-	-	(2,158)
Derivative financial instruments (assets):						
Foreign exchange contracts (asset)	25	34	68	45	-	172
Fuel derivatives (asset)	8	6	5	-	-	19
Interest rate swap (asset)	8	1	1	3	4	17
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(11)	(5)	(6)	(5)	-	(27)
Fuel derivatives (liability)	(184)	(150)	(142)	(58)	-	(534)
Interest rate swap (liability)	(14)	(5)	(8)	(7)	-	(34)
As at 31 December	(2,638)	(401)	(779)	(1,775)	(2,002)	(7,595)

¹Please refer to note 36 for further details on the effect of the transition to IFRS 16.

25 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

The following table sets out the carrying amounts of derivatives recognised in the Group and Company balance sheets that are subject to the above.

£ million	Group and Company				
	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related financial instruments that are not offset	Net amount
31 December 2019					
Financial assets					
Derivative financial assets	186	(36)	150	(7)	143
Financial liabilities					
Derivative financial liabilities	(297)	36	(261)	7	(254)
Within the Company the gross value of derivative financial assets was £192 million and the net value was £156 million. The gross value of derivative financial liabilities was £299 million and the net value was £264 million. The value of related financial instruments that are not offset was £8 million.					

£ million	Group and Company				
	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related financial instruments that are not offset	Net amount
31 December 2018					
Financial assets					
Derivative financial assets	197	(12)	185	(2)	183
Financial liabilities					
Derivative financial liabilities	(563)	12	(551)	2	(549)
Within the Company the gross value of derivative financial assets was £197 million and the net value was £185 million. The gross value of derivative financial liabilities was £572 million and the net value was £560 million. The value of related financial instruments that are not offset was £2 million.					

g Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the net debt/total capital ratio which was 39.1 per cent (2018: 25.2 per cent). Net debt is defined as the total borrowings, asset financing liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts and total capital is defined as the total of share capital and share premium (see note 27), reserves (see note 29a), non-controlling interest (see note 29a) and net debt (see note 20b).

26 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2019 and 31 December 2018 by nature and classification for measurement purposes was as follows:

At 31 December 2019	Financial assets			Group	
	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial assets	Total carrying amount
£ million					
Non-current financial assets					
Equity investments	-	49	-	-	49
Derivative financial instruments	-	-	59	-	59
Other non-current assets ¹	95	-	-	96	191
Current financial assets					
Trade receivables	1,202	-	-	-	1,202
Derivative financial instruments	-	-	91	-	91
Other current assets ¹	201	-	-	483	683
Other current interest-bearing deposits	1,330	-	-	-	1,330
Cash and cash equivalents	1,258	-	-	-	1,258

¹Within the Company, total other non-current assets are £190 million, of which loans and receivables (amortised cost) are £94 million and non-financial assets are £96 million. Total other current assets in the Company are £716 million, of which loans and receivables (amortised cost) are £254 million and non-financial assets are £462 million.

	Financial liabilities			Group	
	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial liabilities	Total carrying amount
£ million					
Non-current financial liabilities					
Interest-bearing long-term borrowings	600	-	-	-	600
Borrowings on right of use assets	4,778	-	-	-	4,778
Derivative financial instruments	-	-	156	-	156
Other long-term liabilities ¹	5	-	-	24	29
Current financial liabilities					
Current portion of long-term borrowings	63	-	-	-	63
Borrowings on right of use assets	869	-	-	-	869
Trade and other payables ¹	2,057	-	-	47	2,104
Derivative financial instruments	-	-	105	-	105

¹Within the Company, total other long-term liabilities are £18 million, of which loans and payables (amortised cost) are £5 million and non-financial liabilities are £13 million. Total trade and other payables in the Company are £2,445 million, of which loans and payables (amortised cost) are £2,400 million and non-financial liabilities are £45 million.

26 Financial instruments continued

a Financial assets and liabilities by category continued

At 31 December 2018

£ million	Financial assets			Group	
	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial assets	Total carrying amount
Non-current financial assets					
Equity investments	-	56	-	-	56
Derivative financial instruments	-	-	120	-	120
Other non-current assets ¹	198	-	-	102	300
Current financial assets					
Trade receivables	901	-	-	-	901
Derivative financial instruments	-	-	65	-	65
Other current assets ¹	287	-	-	357	644
Other current interest-bearing deposits	1,175	-	-	-	1,175
Cash and cash equivalents	1,327	-	-	-	1,327

Within the Company, total other non-current assets are £300 million, of which loans and receivables (amortised cost) are £198 million and non-financial assets are £102 million. Total other current assets in the Company are £647 million, of which loans and receivables (amortised cost) are £307 million and non-financial assets are £340 million.

£ million	Financial liabilities			Group	
	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial liabilities	Total carrying amount
Non-current financial liabilities					
Interest-bearing long-term borrowings	3,953	-	-	-	3,953
Derivative financial instruments	-	-	210	-	210
Other long-term liabilities ¹	6	-	-	34	40
Current financial liabilities					
Current portion of long-term borrowings	473	-	-	-	473
Trade and other payables ¹	1,853	-	-	40	1,893
Derivative financial instruments	-	-	341	-	341

Within the Company, total other long-term liabilities are £26 million, of which loans and payables (amortised cost) are £6 million and non-financial liabilities are £20 million. Total trade and other payables in the Company are £2,190 million, of which loans and payables (amortised cost) are £2,152 million and non-financial liabilities are £38 million.

26 Financial instruments continued

b 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 and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates; and

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

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2019 are set out below:

£ million				Fair value		Group
	Level 1	Level 2	Level 3	Total	Carrying value	Total
Financial assets:						
Equity investments ¹	9	-	40	49		49
Amounts owed by associated group undertakings	-	112	-	112		104
Forward currency contracts	-	107	-	107		107
Fuel derivatives	-	42	-	42		42
Interest rate swaps	-	1	-	1		1
Financial liabilities:						
Interest-bearing loans and borrowings: ¹						
Asset financed liabilities	-	402	-	402		378
Fixed rate borrowings	-	98	-	98		94
Floating rate borrowings	-	191	-	191		191
Forward currency contracts	-	135	-	135		135
Fuel derivatives	-	95	-	95		95
Interest rate swaps	-	31	-	31		31

¹Within the Company, equity investments of £40 million are fair valued at £40 million (Level 3), asset financed liabilities of £378 million are fair valued at £402 million (Level 2), fixed rate borrowings of £94 million are fair valued at £98 million (Level 2) and floating rate borrowings of £191 million are fair valued at £191 million (Level 2).

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2018 are set out below:

£ million				Fair value		Group
	Level 1	Level 2	Level 3	Total	Carrying value	Total
Financial assets:						
Equity investment ¹	16	-	40	56		56
Amounts owed by associated group undertakings	-	303	-	303		298
Forward currency contracts	-	169	-	169		169
Fuel derivatives	-	7	-	7		7
Interest rate swaps	-	9	-	9		9
Financial liabilities:						
Interest-bearing loans and borrowings: ¹						
Finance leases	-	4,250	-	4,250		4,108
Fixed rate borrowings	-	90	-	90		87
Floating rate borrowings	-	231	-	231		231
Forward currency contracts	-	17	-	17		17
Fuel derivatives	-	509	-	509		509
Interest rate swaps	-	25	-	25		25

¹Within the Company, equity investments of £40 million are fair valued at £40 million (Level 3), finance lease obligations of £4,115 million are fair valued at £4,257 million (Level 2), fixed rate borrowings of £87 million are fair valued at £90 million (Level 2) and floating rate borrowings of £227 million are fair valued at £227 million (Level 2).

There have been no transfer between levels of fair value hierarchy during the year.

26 Financial instruments continued

b Fair values of financial assets and financial liabilities continued

The fair value of financial assets and liabilities is included at the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of cash and cash equivalents, other current interest bearing deposits, trade receivables, other current assets and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

Equity investments

The fair value of quoted investments is determined by reference to published 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. For unquoted investments, fair value has been determined based on the most recent arm's length transaction for an identical instrument. The Group monitors transactions of these instruments on a regular basis to ensure the fair value is based on the most recent arm's length price.

Amounts owed by parent and associated group undertakings

The fair value of the amounts owed by related parties are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2019.

Forward currency transactions, interest rate swaps and over-the-counter (OTC) fuel derivatives

These derivatives are entered into with various counter-parties, principally financial institutions with investment grade ratings. These are measured at the market value of instruments with similar terms and conditions at the balance sheet date (Level 2) using forward pricing models. Changes in counterparty and own credit risk are deemed to be insignificant.

Bank and other loans and finance leases

The fair value of the Group's interest-bearing borrowings and loans including leases, are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2019 (Level 2).

There have been no transfers between levels of the fair value hierarchy during the period. Out of the financial instruments listed in the table above, only the interest-bearing loans and borrowings are not measured at fair value on a recurring basis.

c Level 3 financial assets reconciliation

The following table summarises key movements in the carrying value in Level 3 financial assets:

£ million	Group		Company	
	2019	2018	2019	2018
Balance at 1 January	40	40	40	41
As at 31 December	40	40	40	4

26 Financial instruments continued

d Cash flow hedges

At 31 December 2019 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayment instalments in foreign currency, hedging foreign exchange risk on revenue cash inflows;
- Forward jet fuel and jet fuel component derivative contracts, hedging price risk on fuel cash outflows; and
- Foreign exchange contracts; hedging foreign exchange risk on revenue cash inflows and certain operational receipts and payments; and
- Interest rate contracts; hedging interest rate risk on floating rate debt and certain operational payments.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity is shown below:

£ million	Group and Company	
	Total 2019	Total 2018
Debt repayments to hedge future revenue	128	614
Foreign exchange contracts to hedge future revenue/receipts	(33)	1
Foreign exchange contracts to hedge future payments	65	(115)
Hedges of future fuel purchases	46	487
Interest rate hedges	32	19
Instruments for which hedge accounting no longer applies	311	19
	549	1,025
Related deferred tax credit	(84)	(178)
Total amount included within equity	465	847

The notional amounts of significant financial instruments used as cash flow hedging instruments are set out below:

Notional principal amounts £ million	Hedge range	Group and Company				
		Within 1 year	1-2 years	2-5 years	More than 5 years	Total 2019
Foreign exchange contracts to hedge future revenue/receipts and payments						
USD	1.17-1.51	1,528	946	1,105	-	3,579
EUR	1.08-1.16	95	64	39	-	198

Notional principal amounts £ million	Hedge range	Group and Company				
		Within 1 year	1-2 years	2-5 years	More than 5 years	Total 2018
Foreign exchange contracts to hedge future revenue/receipts and payments						
USD	1.22-1.50	1,784	1,672	1,517	-	4,973
EUR	1.08-1.25	165	136	75	-	376

Derivative contracts are used to hedge fuel purchases over a period of up to three years. Notional quantities associated with these contracts at 31 December 2019 amounted to 8 million tonnes (2018: 8 million tonnes) with a hedge price range of USD 575-785 (2018: USD 584-785).

The Group's loan repayment instalments used to hedge foreign currency risk on future revenue inflows were predominantly in US dollars, euros and Japanese yen. The total notional amounts at 31 December 2019 were \$nil million (2018: \$2,795 million), €1,530million (2018: €1,722 million) and ¥69,754 million (2018: ¥69,291 million).

The notional amount of the Group's interest rate contracts to hedge the floating interest rate on euro-denominated debt at 31 December 2019 was €1,088 million (2018: €1,207 million).

26 Financial instruments continued

d Cash flow hedges continued

The movements in other comprehensive income in relation to cash flow hedges are shown below:

As at 31 December 2019

£ million	(Gains)/losses recognised in other comprehensive income	(Gains) associated with ineffectiveness recognised in the income statement	Total recognised (gains)/losses	Gains/(losses) reclassified to the income statement	Gains reclassified to the balance sheet
Debt repayments to hedge future revenue	(93)	-	(93)	(18)	
Foreign exchange contracts to hedge future revenue/receipts	(34)	-	(34)	(1)	
Foreign exchange contracts to hedge future payments	145	-	145	30	
Hedges of future fuel purchases	(366)	(3)	(369)	(75)	
Interest rate hedges	22	-	22	(7)	
Instruments for which hedge accounting no longer applies	(33)	-	(33)	(48)	
	(359)	(3)	(362)	(119)	

As at 31 December 2018

£ million	(Gains)/losses recognised in other comprehensive income	(Gains) associated with ineffectiveness recognised in the income statement	Total recognised (gains)/losses	Gains/(losses) reclassified to the income statement	Gains reclassified to the balance sheet
Debt repayments to hedge future revenue	183	-	183	(73)	
Foreign exchange contracts to hedge future revenue/receipts	(8)	-	(8)	2	
Foreign exchange contracts to hedge future payments	(208)	-	(208)	17	
Hedges of future fuel purchases	370	(7)	363	375	
Interest rate hedges	23	-	23	(3)	
Instruments for which hedge accounting no longer applies	5	-	5	(2)	
	365	(7)	358	316	

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange, interest rate and commodity forward contracts match the terms of the expected highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange, interest rate and commodity forward contracts are identical to the hedged risk components.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments;
- Different indexes linked to the hedged risk of the hedged items and hedging instruments;
- The counterparties' credit risk impacting the fair value movements of the hedging instruments; or
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments.

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.

27 Share capital and share premium

	Group and Company			
	2019		2018	
	Number of shares 000s	£ million	Number of shares 000s	£ million
Share capital allotted, called up and fully paid				
A1 Ordinary shares of £289.70 each	897	260	897	260
A2 Ordinary shares of £289.70 each	99	29	99	29
B Ordinary shares of £1 each	1,000	1	1,000	1
C Ordinary shares of £1 each	148	-	148	-
As at 31 December	2,144	290	2,144	290

	Group and Company	
	2019	2018
£ million		
Share premium as at 31 December	1,512	1,512

The A1 and A2 class ordinary shareholders have full voting and economic rights in accordance with the percentage of shares held. The B class ordinary shareholders have full voting rights in accordance with the percentage of shares held, however have minimal economic rights attached to them. The C class ordinary shareholders have full economic rights in accordance with the percentage of shares held, however are non-voting.

28 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. The share-based payments charge has been recorded as part of 'employee costs' (note 8) in the income statement as follows:

£ million	2019	2018
IPSP and IADP schemes recharged from IAG (a)	7	6
Total share-based payments charge recorded in employee costs	7	6

a IPSP and IADP schemes recharged from IAG

BA participates in two IAG share-based payment schemes, with awards to BA employees being made in plans operated by IAG that represent rights over its ordinary shares. The costs of these awards are recharged from IAG based on its determination of award fair values. The amount outstanding at the year end is included in the amounts owed to IAG and disclosed in note 32 (related party transactions). A brief description of the schemes is set out below:

i) IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. From 2015, the awards have been made as nil-cost options, and also have a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made since 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

ii) IAG Incentive Award Deferral Plan

The IAG Incentive Award Deferral Plan (IADP) is granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

29 Other reserves and non-controlling interest

a Group

£ million	Retained earnings	Unrealised gains and losses	Cost of hedging reserve	Currency translation	Total	Group Non-controlling interests ¹
Balance at 1 January 2018	3,791	(231)	2	59	3,621	200
Profit for the year	2,080	-	-	-	2,080	11
Exchange gains/ (losses)	43	-	-	(37)	6	-
Fair value of cash flow hedges transferred to passenger revenue	-	73	-	-	73	-
Fair value of cash flow hedges transferred to fuel and oil costs	-	(393)	1	-	(392)	-
Fair value of cash flow hedges transferred to finance costs	-	4	-	-	4	-
Net change in fair value of cash flow hedges	-	(365)	17	-	(348)	-
Share of movement in reserves of associates	(29)	-	-	-	(29)	-
Equity investments	-	(4)	-	-	(4)	-
Capex hedges reclassified and reported in property, plant and equipment	-	(1)	-	-	(1)	-
Pension remeasurements	(740)	-	-	-	(740)	-
Income tax	119	122	(3)	-	238	-
Dividends	(575)	-	-	-	(575)	-
Realised foreign exchange loss on redemption of perpetual securities	(68)	-	-	-	(68)	-
Distributions made to holders of perpetual securities	-	-	-	-	-	(11)
Redemption of perpetual securities	-	-	-	-	-	(200)
Total income and expense for the year	830	(564)	15	(37)	244	(200)
Balance at 1 January 2019	4,621	(795)	17	22	3,865	-
IFRS 16 transition adjustment	(127)	7	(4)	-	(124)	-
Balance at 1 January 2019	4,494	(788)	13	22	3,741	-
Profit for the year	1,109	-	-	-	1,109	-
Exchange gains	-	-	-	(22)	(22)	-
Fair value of cash flow hedges transferred to passenger revenue	-	66	7	-	73	-
Fair value of cash flow hedges transferred to fuel and oil costs	-	44	(19)	-	25	-
Fair value of cash flow hedges transferred to finance costs	-	8	-	-	8	-
Net change in fair value of cash flow hedges	-	359	52	-	411	-
Share of movement in reserves of associates	6	-	-	-	6	-
Equity investments - fair value movements in equity	-	(6)	-	-	(6)	-
Capex hedges reclassified and reported in property, plant and equipment	-	(7)	(4)	-	(11)	-
Pension remeasurements	(787)	-	-	-	(787)	-
Income tax	136	(87)	(7)	-	42	-
Dividends	(585)	-	-	-	(585)	-
Total income and expense for the year	(121)	377	29	(22)	264	-
As at 31 December 2019	4,373	(411)	42	-	4,005	-

¹On 28 August 2018, British Airways exercised the option to redeem its €300 million 6.75 per cent fixed coupon preferred securities. The preferred securities were redeemed at their principal amount, together with accumulated and unpaid interest to this date.

Retained earnings

The retained earnings reserve represents the accumulated retained profits of the Group.

Unrealised gains and losses

The unrealised gains and losses reserve records fair value changes on equity 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.

Currency translation reserve

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

29 Other reserves and non-controlling interest continued

b Company

£ million	Company			
	Retained earnings	Unrealised gains and losses	Cost of hedging reserve	Total
Balance at 1 January 2018	4,645	(253)	2	4,394
Profit for the year	1,835	-	-	1,835
Fair value of cash flow hedges transferred to passenger revenue	-	73	-	73
Fair value of cash flow hedges transferred to fuel and oil costs	-	(393)	1	(392)
Fair value of cash flow hedges transferred to finance costs	-	4	-	4
Net change in fair value of cash flow hedges	-	(365)	17	(348)
Capex hedges reclassified and reported in property, plant and equipment	-	(1)	-	(1)
Pension remeasurements	(742)	-	-	(742)
Income tax	119	122	(3)	238
Dividends	(575)	-	-	(575)
Total income and expense for the year	637	(560)	15	92
Balance at 1 January 2019	5,282	(813)	17	4,486
IFRS 16 transition adjustment	(128)	7	(4)	(125)
Balance at 1 January 2019	5,154	(806)	13	4,361
Profit for the year	870	-	-	870
Fair value of cash flow hedges transferred to passenger revenue	-	66	7	73
Fair value of cash flow hedges transferred to fuel and oil costs	-	44	(19)	25
Fair value of cash flow hedges transferred to finance costs	-	8	-	8
Net change in fair value of cash flow hedges	-	359	52	411
Capex hedges reclassified and reported in property, plant and equipment	-	(7)	(4)	(11)
Pension remeasurements	(777)	-	-	(777)
Income tax	134	(87)	(7)	40
Dividends	(585)	-	-	(585)
Total income and expense for the year	(358)	383	29	55
As at 31 December 2019	4,796	(423)	42	4,416

See note 29a for a description of the reserves.

30 Employee benefits

The Group operates a variety of post-employment benefit arrangements, including both defined contribution and defined benefit schemes. Most employees engaged outside the UK are covered by appropriate local arrangements. The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme ('APS') and the New Airways Pension Scheme ('NAPS'). The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan ('US PRMB').

NAPS was closed to future accrual from 31 March 2018. Members' deferred pensions are increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments following the 2021 valuation has been made in the valuation of the defined benefit obligation.

APS has been closed to new members since 1984. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment.

As reported in previous years, the Trustee of APS had proposed an additional discretionary increase above CPI inflation for pensions in payment for the year ended 31 March 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgment in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgment to the Court of Appeal. In July 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule.

30 Employee benefits continued

Subsequently, in April 2019 the Trustee Directors of the Airways Pension Scheme unanimously agreed with British Airways terms for an out-of-court settlement and on 11 November 2019 the APS discretionary pension increase settlement agreement ("the Agreement") was ratified by the High Court. This brought to an end the dispute that commenced in 2013, that would otherwise have proceeded to final appeal at the Supreme Court. Under the Agreement, the Trustee of APS are permitted, subject to certain affordability tests, to award Discretionary Increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases tending to RPI prior to 2021. British Airways ceased to pay further deficit recovery contributions from 1 January 2019, including cash sweep payments. British Airways has provided a £40 million indemnity, payable in full or part as appropriate following the triennial valuation of the scheme as at 31 March 2027 if that valuation shows that the scheme is not able to pay pension increases at RPI for the remaining life of the scheme. The APS actuarial valuation as at 31 March 2015 and 31 March 2018 was completed in November 2019. The APS actuarial valuation at 31 March 2018 resulted in a surplus of £599 million.

APS and NAPS are governed by separate Trustee Boards. As some of the business of the two schemes is common, some main Board and Committee meetings are held in tandem, although each Trustee Board reaches its decisions independently. There are three sub Committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. In October 2019, the latest deficit recovery plan was agreed as at 31 March 2018 with respect to NAPS (see note 30i below).

The actuarial valuations performed as at 31 March 2018 for APS and NAPS are different to the valuation performed as at 31 December 2019 under 'IAS 19: Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Company of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

The defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk, including currency risk.

The main defined contribution scheme is the British Airways Pension Plan (BAPP). It offers a choice of contribution rates and the ability to opt for cash instead of a pension.

On 26 October 2018 the High Court's judgment in the Lloyd's Bank case confirmed that pension schemes are required to equalise for the effects of unequal GMPs accrued over the period since 17 May 1990 ("GMP equalisation"). The APS and NAPS estimated defined benefit liability as at 31 December 2019 included allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

a Employee benefit schemes recognised on the balance sheet

£ million	As at 31 December 2019			
	APS	NAPS	Other ¹	Total ³
Scheme assets at fair value	7,475	18,982	361	26,818
Present value of scheme liabilities ¹	(7112)	(18,327)	(617)	(26,056)
Net pension asset/(liability)	363	655	(256)	762
Effect of the asset ceiling ²	(108)	(478)	-	(586)
Other employee benefit liabilities	-	-	(9)	(9)
	255	177	(265)	167
Represented by:				
Employee benefit assets				443
Employee benefit liabilities ³				(276)
				167

30 Employee benefits continued

a Employee benefit schemes recognised on the balance sheet continued

£ million	As at 31 December 2018			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	7,536	16,965	342	24,843
Present value of scheme liabilities ¹	(6,400)	(15,868)	(578)	(22,846)
Net pension asset/(liability)	1,136	1,097	(236)	1,997
Effect of the asset ceiling ²	(422)	(807)	-	(1,229)
Other employee benefit liabilities	-	-	(10)	(10)
	714	290	(246)	758
Represented by				
Employee benefit assets				1,016
Employee benefit liabilities ³				(258)
				758

¹ The present value of scheme liabilities for the US PRMB was £13 million at 31 December 2019 (£12 million as at 31 December 2018).

² APS and NAPS are in an IAS 19 accounting surplus, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee. During 2015 the IASB published an exposure draft of amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction. The purpose of this proposed amendment is to provide additional clarity on the role of the trustee's rights in an assessment of the recoverability of a surplus on an employee pension fund. BA is considering the impact of this exposure draft on the APS and NAPS surplus recognised but has not recognised any adjustments as the amendment remains in exposure draft form only.

³ Disclosures for post-retirement benefits are presented on a consolidated basis and include a net pension liability of £27 million (2018: £26 million) relating to British Airways Holidays Limited, with the remainder relating to the Company.

b Pension costs charged to the consolidated income statement

Pension costs charged to operating profit before exceptional items:

£ million	2019	2018
Defined benefit plans current service cost	5	48
Past service credit (BA Holidays Limited)	(6)	-
Defined contribution plans	163	136
Pension costs recorded as employee costs	162	184

Pension costs (charged)/credited as exceptional items:

£ million	2019	2018
Net past service gain resulting from closure of NAPS to future accrual ¹	-	601
GMP – past service cost ²	-	(83)
APS discretionary pension increase settlement agreement ¹	(583)	-
Net past service (charge)/gain in exceptional items	(583)	518

¹ Please refer to note 5 for amounts recorded in exceptional items in 2019 and in 2018.

² On 26 October 2018 the High Court's judgment in the Lloyd's Bank case confirmed that pension schemes are required to equalise for the effects of unequal GMPs accrued over the period since 17 May 1990. The estimated cost of equalising GMPs is £83 million. In determining the cost of equalising for GMPs, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgment as the "minimum interference"

Pension costs credited/(charged) as finance costs:

£ million	2019	2018
Interest income on scheme assets	681	645
Interest expense on scheme liabilities	(624)	(609)
Interest expense on asset ceiling	(34)	(12)
Net financing credit relating to pensions	23	24

30 Employee benefits continued

c Remeasurements recognised in the statement of other comprehensive income

£ million	2019	2018
Return on plan assets excluding interest income gains/(losses)	1,662	(1,160)
Remeasurement of plan liabilities from changes in financial assumptions (losses)/gains	(2,969)	881
Remeasurement of experience (losses)/gains	(168)	262
Remeasurement of the APS and NAPS asset ceiling (note 30f)	677	(713)
Exchange differences gains/(losses)	11	(10)
Pension remeasurements	(787)	(740)

d Fair value of scheme assets

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

£ million	2019	2018
As at 1 January	24,843	25,783
Interest income	681	645
Return on plan assets excluding interest income	1,662	(1,160)
Employer contributions ¹	754	631
Employee contributions	5	113
Benefits paid	(1,115)	(1,183)
Exchange differences	(12)	14
Fair value of scheme assets	26,818	24,843

¹Includes employer contributions to APS of £4 million (2018: £98 million) and to NAPS of £718 million (2018: £516 million), of which deficit funding payments represented £nil million for APS (2018: £95 million) and £701 million for NAPS (2018: £450 million).

For both APS and NAPS, the Trustee has ultimate responsibility for decision making on investment matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in projected benefit obligations over time. The Investment Committee adopts an annual business plan which sets out investment objectives and work required to achieve these objectives. The Investment Committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger-based dynamic governance process to be able to take advantage of opportunities as they arise. The Investment Committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest-rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations.

30 Employee benefits continued

d Fair value of scheme assets continued

Total scheme assets as at 31 December comprise:

£ million	2019	2018
Return seeking investments – equities		
UK	1,955	1,564
Overseas	4,041	4,142
	5,996	5,706
Return seeking investments – other		
Private equity	876	838
Property	1,807	1,726
Alternative investments	916	1,065
	3,599	3,629
Liability matching investments		
UK Fixed bonds	5,380	4,398
Overseas Fixed bonds	79	63
UK Index-Linked bonds	5,305	4,518
Overseas Index-Linked bonds	101	91
	10,865	9,070
Other		
Cash and cash equivalents	583	377
Derivatives	(291)	51
Insurance contract	1,473	1,497
Longevity swap	3,849	3,889
Other	744	624
	26,818	24,843

All equities and bonds have quoted prices in active markets

For APS and NAPS, the composition of the scheme assets is:

£ million	As at 31 December 2019		As at 31 December 2018	
	APS	NAPS	APS	NAPS
Return seeking investments	294	9,180	632	8,531
Liability matching investments	1,606	9,166	1,384	7,613
	1,900	18,346	2,016	16,144
Insurance contracts and related longevity swaps	5,299	-	5,362	-
Other	276	636	158	821
Fair value of scheme assets	7,475	18,982	7,536	16,965

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At 31 December 2019 the benchmark for NAPS was 46.0 per cent (2018: 49.0 per cent) in return seeking assets and 54.0 per cent (2018: 51.0 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and their investment managers to work within. APS no longer has a "strategic benchmark" as instead, APS now runs off its liquidation portfolio to a liability matching portfolio of bonds and cash. The actual asset allocation for APS at 31 December 2019 was 3.7 per cent (2018: 8.2 per cent) in return seeking assets and 96.3 per cent (2018: 91.8 per cent) in liability matching investments.

APS has an insurance contract with Rothesay Life which covers 24 per cent (2018: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. With effect from June 2010 the Trustee of APS also secured a longevity swap contract with Rothesay Life, which covers 20 per cent (2018: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the premiums (including fees) payable by the scheme under the contract. The fees are linked to LIBOR, and an assumed future LIBOR rate has been derived based on swap prices as at 31 December 2019.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pension from APS at 31 March 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who are alive on 1 October 2018. Benefits coming into payment for retirements after 31 March 2018 are not covered. The contract covers benefits payable from 1 October 2018 onwards.

30 Employee benefits continued

d Fair value of scheme assets continued

The policy covers approximately 60 per cent of all benefits APS expects to pay out in future. Along with existing insurance products (the asset swap and longevity swaps with Rothesay Life, APS is now 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at 31 March 2018. It is also more than 90 per cent protected against interest rates and inflation (on a Retail Price Index (RPI) basis).

e Present value of scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

£ million	2019	2018
As at 1 January	22,846	25,065
Current service cost	5	48
Past service credit	(6)	(687)
Past service cost	583	-
Interest expense	624	609
Remeasurements – financial assumptions	2,969	(881)
Remeasurement of experience losses/(gains)	168	(262)
Benefits paid	(1,115)	(1,183)
Employee contributions	5	113
Exchange differences	(23)	24
As at 31 December	26,056	22,846

The defined benefit obligation comprises £24 million (2018: £21 million) arising from unfunded plans and £26,032 million (2018: £22,825 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS and NAPS is set out below:

£ million	2019	2018
As at 1 January	1,229	504
Interest expense	34	12
Remeasurements ¹	(677)	713
As at 31 December	586	1,229

¹The decrease in remeasurements follows the reduction in the APS surplus as a result of the discretionary pension increase settlement agreement, and a decrease in the NAPS surplus principally due to the reduction in the discount rate. In 2018 the increase in remeasurements is mainly due to the closure of NAPS to future accrual in 2018 which resulted in an IAS 19 accounting surplus in the scheme, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Per cent per annum	2019			2018		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate ¹	1.85	2.05	2.0- 3.20	2.65	2.85	2.9 – 4.4
Rate of increase in pensionable pay ²	2.90	N/A	2.5	3.20	N/A	2.5 – 3.7
Rate of increase of pensions in payment ³	2.90	2.15	2.0- 3.5	2.10	2.05	2.0 – 3.5
RPI rate of inflation	2.90	N/A	2.5- 2.8	3.20	3.15	2.5 – 3.2
CPI rate of inflation	N/A	2.15	2.1- 3.0	2.10	2.05	2.1 – 3.0

¹The discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.

²Rate of increase in pensionable pay is assumed to be in line with long term market inflation expectations. The RPI rate assumptions for APS, from April 2021 are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. Historically market expectations for RPI could be derived by comparing the prices of UK government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices. As described in note 2(b), in September 2019 correspondence was published relating to potential future changes to RPI outlining a clear preference by the UK Statistics Authority (UKSA) for alignment of RPI with CPIH (a variant of CPI). To make changes prior to 2030, however, the UKSA requires the consent of the Chancellor. Following this announcement, market-implied break-even RPI inflation forward rates after 2030 have reduced in investment market. In assessing RPI and CPI from investment market data, allowance has therefore been made for a reduction in the gap between RPI and CPI from 2030.

³It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and from April 2021 with RPI for APS with interim catch up increases tending towards RPI between 2019 and 2021. As at 31 December 2018 pension increases for both schemes were based on CPI.

For US PRMB the rate of increase in healthcare costs is based on medical trend rates of 6.50 per cent grading down to 5.0 per cent over five years (2018: 6.25 per cent to 5.0 per cent over five years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevity underlying the values of the scheme liabilities were as follows:

30 Employee benefits continued

g Actuarial assumptions continued

	UK	
	2019	2018
Mortality assumptions		
Life expectancy at age 60 for a:		
- male currently aged 60	28.2	28.5
- male currently aged 40	29.9	29.7
- female currently aged 60	29.0	30.3
- female currently aged 40	31.6	32.9

As at 31 December 2019, the weighted-average duration of the defined benefit obligation was 12 years for APS (2018: 11 years) and 19 years for NAPS (2018: 19 years). In the US, mortality rates were based on the RP-2018 mortality tables.

h Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown.

	Increase in net pension liability/ (decrease in net pension asset)		
£ million	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	(20)	(340)	12
Future salary growth (increase of 10 basis points)	n/a	n/a	5
Future pension growth (increase of 10 basis points)	(20)	(300)	1
Future mortality rate – (one year increase in life expectancy)	(20)	(620)	2

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown. The effect on the APS service cost of making the changes in assumptions described above is minimal.

i Funding

Pension contributions for NAPS were determined by actuarial valuations made as at 31 March 2018 using assumptions and methodologies agreed between the Company and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to £2,399 million. In order to address the deficit in the scheme, BA has committed to the following undiscounted deficit payments:

£ million	NAPS
Within twelve months	413
Two to five years	1,012
Total expected deficit payments for NAPS	1,425

The Group has determined that the minimum funding requirements set out above for NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund after they are paid into the scheme; subject to withholding taxes that would be payable by the Trustee. As such, no additional liability is required.

Deficit payments in respect of local arrangements outside the UK have been determined in accordance with local practice.

In total, the Group expects to pay £416 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2020. This is made up of £413 million of deficit payments for NAPS as agreed at the latest triennial valuation in October 2019 and ongoing employer contributions of £3 million for APS. British Airways has agreed that if, in the period up to September 2022, it makes dividend payments to IAG of higher than 50 per cent of pre-exceptional profit after tax it will either accelerate contributions to the scheme or provide a guarantee, in respect of the amount by which the dividend exceeds 50 per cent of pre-exceptional profit.

31 Contingent liabilities and guarantees

a Contingent Liabilities

Details of contingent liabilities are set out below.

Contingent liabilities associated with income and deferred taxes are now presented in Note 10. For information pertaining to previously reported contingent liabilities associated the Airways Pension Scheme, refer to Note 30.

Theft of customer data at British Airways

On 6 September 2018 British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on 25 October 2018 that further personal data had potentially been compromised. On 4 July 2019, British Airways received a Notice of Intent from the Information Commissioner's Office (ICO) in which it informed the airline of its intention to fine it approximately £183 million under the UK Data Protection Act.

British Airways made extensive representations to the ICO regarding the proposed fine and has complied with various further information requests. As part of its procedures, the ICO will seek the views of other EU data protection authorities. The ICO initially had six months from issuing the Notice of Intent to British Airways within which it could issue a penalty notice, which has been extended through to 18 May 2020, to allow the ICO to fully consider the representations and information provided by British Airways. If a penalty notice is issued, British Airways has 28 days within which to lodge an appeal with the First-tier Tribunal in the General Regulatory Chamber. A decision by the First-tier Tribunal may, with permission, be appealed to the Upper Tribunal. Any appeal of the Upper Tribunal decision would be to the Court of Appeal. It is British Airways' intention to vigorously defend itself in this matter, including using all available appeal routes should they be required.

At 31 December 2019, and through to the date of these financial statements, no final penalty notice has been received from the ICO, although it reserves the right to issue such a notice on completion of its investigation. It has not been proven that British Airways failed to comply with its obligations under GDPR and the UK Data Protection Act. Should any final penalty notice be issued, and having regard to the representations made by the Company, the Directors consider that it should be for a considerably lower amount than the initial Notice of Intent.

Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways recorded the financial effect of the resultant fine in the 2007 financial statements. Following an appeal to the General Court (GC), the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Court Judgment). British Airways appealed the partial annulment to the Court of Justice of the European Union, but that appeal was rejected. In parallel, the European Commission chose not to appeal the General Court Judgment, and instead adopted a new decision in March 2017 (New Decision). British Airways repaid the fine previously refunded and appealed the New Decision (as have other carriers). British Airways is expecting a decision on its appeal during 2020.

A large number of claimants brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claimed arose from the alleged cartel activity. British Airways joined the other airlines alleged to have participated in cartel activity to those proceedings. These claims were fully concluded in 2019.

British Airways is party to litigation in other jurisdictions together with a number of other airlines. The Directors' estimate of the outcome of these claims is included in the legal claims provisions in note 24.

b Guarantees

The Group has guarantees and indemnities entered into as part of the normal course of business, which at 31 December 2019 are not expected to result in material losses for the Group.

Audit exemptions

The Company has issued guarantees in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 34 in respect of audit exemptions.

32 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2019 with related parties.

£ million	Group		Company	
	2019	2018	2019	2018
Parent¹:				
Sales to/purchases on behalf of IAG	53	162	53	162
Purchases from IAG	43	43	43	43
Amounts owed by IAG	179	152	179	152
Amounts owed to IAG	44	11	44	11
Subsidiary undertakings of the parent:				
Sales to subsidiary undertakings of the parent	233	143	233	143
Purchases on behalf of subsidiary undertakings of the parent	397	171	397	171
Amounts owed by subsidiary undertakings of the parent	220	245	220	245
Amounts owed to subsidiary undertakings of the parent	153	40	153	40
Associates²:				
Sales to associates	627	550	627	550
Purchases from associates	454	422	450	420
Amounts owed by associates	40	232	36	232
Amounts owed to associates	927	977	927	977
Subsidiaries³:				
Sales to subsidiaries	-	-	449	398
Purchases from subsidiaries	-	-	148	165
Amounts owed by subsidiaries	-	-	65	25
Amounts owed to subsidiaries	-	-	423	382

¹ The transactions between the Group and IAG principally comprise of a management fee in respect of services provided by IAG and recharges between the entities in respect of invoices settled on behalf of the other party. Transactions with IAG are carried out on an arm's length basis.

² Sales and purchases with associates are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms.

³ Outstanding 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 addition, payments made by the Company on behalf of the Group's retirement benefit plans amounted to £8 million in relation to the Pension Protection Fund levy (2018: £9 million).

Neither the Group nor the Company have benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2019 the Group has not made any provision for expected credit losses relating to amounts owed by related parties (2018: £nil).

Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or officers of the Company at 31 December 2019 or that arose during the year that need to be disclosed in accordance with the requirements of sections 412 and 413 to the Companies Act 2006.

33 Post balance sheet event

No significant events have taken place post the balance sheet date that require disclosing in this report.

34 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of Individual accounts for the year ended 31 December 2019 by virtue of Section 479A of the Companies Act 2006: British Airways Leasing Limited (04150220), BA and AA Holdings Limited (03840072), British Airways 777 Leasing Limited (04954270), BritAir Holdings Limited (03537574), British Airways (BA) Limited (07990613), British Airways Associated Companies Limited (00590083), BA European Limited (06346489), BA Healthcare Trust Limited (09619950), British Airways Avionic Engineering Limited (02775232), British Airways Interior Engineering Limited (03109109), British Airways Maintenance Cardiff Limited (02204178), Gatwick Ground Services Limited (10390742), Teleflight Limited (03918190) and BA Excepted Group Life Scheme Limited (11283644).

35 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking as at 31 December 2019 was International Consolidated Airlines Group S.A. (IAG), which is incorporated in Spain.

The Company is included within the consolidated financial statements of IAG which are publicly available on the website www.iagshares.com.

36 Impact of new International Financial Reporting Standards

a Standards adopted in the year ended 31 December 2019

IFRS 16 'Leases' was adopted by the Group on 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model.

The Group used the modified retrospective transition approach on application of IFRS 16. Lease liabilities were determined based on the value of the remaining lease payments, discounted by the appropriate incremental borrowing rates and translated at the rates of exchange at the date of transition (1 January 2019). Right of use (ROU) assets in respect of aircraft were measured as if IFRS 16 had been applied at the commencement date of each lease using the appropriate incremental borrowing rates at the date of transition and rates of exchange at the commencement of each lease and depreciated to 1 January 2019. Other ROU assets were measured based on the related lease liability as at the date of transition, adjusted for prepaid or accrued lease payments. Deferred gains on sale and operating leasebacks, previously recognised in current and non-current liabilities, were reclassified to the related ROU asset. IFRS 16 does not permit comparative information to be restated if the modified retrospective transition approach is used. The details of the changes in accounting policy are disclosed below:

1. Interest-bearing borrowings and non-current assets increased on implementation of the standard as obligations to make future payments under leases previously classified as operating leases were recognised on the balance sheet, along with the related ROU asset. The Group has used the practical expedients in respect of leases of less than 12 months duration and leases for low value items and excluded them from the scope of IFRS 16. Rental payments associated with these leases are recognised in the income statement on a straight-line basis over the life of the lease. No adjustment has been made to the recognition and measurement of assets previously recognised as 'finance leases' under IAS 17 which were transferred to ROU assets on adoption of IFRS 16, with the related borrowings transferred to lease liabilities.
2. Expenditure on operations has decreased and finance costs have increased, as operating lease costs have been replaced by depreciation and lease interest expense.
3. The adoption of IFRS 16 required the Group to make a number of judgements, estimates and assumptions. These included:
 - *The estimated lease term* - The term of each lease was based on the original lease term unless management was 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term included fleet plans which underpin approved business plans, and historic experience regarding extension options.
 - *The discount rate used to determine the lease liability* - The rates used on transition to discount future lease payments were the Group's incremental borrowing rates. These rates have been calculated, reflecting the underlying lease terms and based on observable inputs. The risk-free rate component was based on LIBOR rates available in the same currency and over the same term as the lease and was adjusted for credit risk. For future aircraft lease obligations, the Group will use the interest rate implicit in the lease.
 - *Terminal arrangements* - The Group has reviewed its arrangements at airport terminals to determine whether any agreements previously considered to be service agreements should be classified as leases. No additional leases have been identified.

36 Impact of new International Financial Reporting Standards continued

- *Restoration obligations* - The Group has certain obligations associated with the maintenance condition of its aircraft on redelivery to the lessor, such as the requirement to complete a final airframe check, repaint the aircraft and reconfigure the cabin. Under IAS 17 these costs were recognised as a maintenance expense over the lease term. On adoption of IFRS 16, they were recognised as part of the ROU asset on transition, resulting in an increase in restoration and handback provisions. Judgement has been used to identify the appropriate obligations and estimation has been used (based on observable data) to measure them. Other maintenance obligations associated with these assets, comprising obligations that arise as the aircraft is utilised, such as engine overhauls and periodic airframe checks, are recognised as a maintenance expense over the lease term.

The above adjustments resulted in a post-tax charge to equity of £124 million.

Foreign currency balances on lease obligations, which are predominantly denominated in US Dollars, are remeasured at each balance sheet date, with the ROU asset recognised at the historic exchange rate. The Group manages foreign exchange risk arising on these US Dollar obligations as part of its risk management strategy as described further in note 25.

The Group recognised the following assets and liabilities on the consolidated balance sheet at 1 January 2019 on adoption of IFRS 16:

Consolidated balance sheet (extract as at 1 January 2019)

£ million	As reported	IFRS16 adjustments	Restated
Non-current assets			
Property, plant and equipment			
Fleet	7,111	1,194	8,305
Property and equipment	1,023	606	1,629
Intangibles	1,067	-	1,067
Other non-current assets	3,193	8	3,201
	12,394	1,808	14,202
Current assets			
Other current assets	4,287	(23)	4,264
	4,287	(23)	4,264
Total assets	16,681	1,785	18,466
Total equity	5,667	(124)	5,543
Non-current liabilities			
Interest-bearing long-term borrowings	3,953	1,558	5,511
Deferred tax liability	335	(26)	309
Provisions	380	47	427
Other non-current liabilities	508	(2)	506
	5,176	1,577	6,753
Current liabilities			
Current portion of interest bearing long-term borrowings	473	333	806
Other current liabilities	5,365	-	5,365
	5,838	333	6,171
Total liabilities	11,014	1,910	12,924
Total equity and liabilities	16,681	1,786	18,467

36 Impact of new International Financial Reporting Standards continued

Consolidated balance sheet (extract as at 1 January 2019) continued

The following table reconciles the amount disclosed as operating lease commitments at 31 December 2018 disclosed in the Group's 2018 consolidated financial statements to the amount recognised on the balance sheet in respect of Borrowings on right of use assets on adoption of IFRS 16.

£ million	2019
Operating lease commitments at 31 December 2018	3,339
Weighted average incremental borrowing rate at 1 January 2019	5.1%
Operating lease commitments discounted using the weighted average incremental borrowing rate	1,722
Less: Leases considered to be short-term (less than 12 months duration)	(20)
Leases for assets considered to be substitutable	(9)
Future variable lease payments based on index or rate	(4)
Prepayments	(10)
Add: Rentals associated with extension options reasonably certain to be exercised	6
Service contracts	206
Lease liabilities on right of use assets recognised at 1 January 2019	1,891
Add: Reclassification from finance lease obligations	4,108
Lease liabilities at 1 January 2019	5,999

b Change in accounting policy

In September 2019, the IFRS Interpretations Committee clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group has restated the comparative period for 2018 to reflect £56 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The following table summarises the impact of the change in accounting policy on the consolidated income statement for the year ended 31 December 2018:

Consolidated income statement (extract for the year ended 31 December 2018)

£ million	Previously reported	Adjustment	Restated
Cost			
Passenger revenue	11,620	(56)	11,564
Cargo revenue	769	-	769
Other revenue	632	-	632
Total revenue	13,021	(56)	12,965
Handling, catering and other operating costs	1,790	(56)	1,734
Other expenditure on operations	9,279	-	9,279
Total expenditure on operations	11,069	(56)	11,013
Operating profit before exceptional	1,952	-	1,952
Exceptional items	394	-	394
Operating profit after exceptional	2,346	-	2,346
Non-operating expenses	110	-	110
Profit before tax	2,456	-	2,456
Tax	(365)	-	(365)
Profit after tax	2,091	-	2,091

There was no impact on profit after tax in the consolidated income statement for 2018, the consolidated balance sheet as at 1 January 2018 or 31 December 2018 or the consolidated statement of changes in equity as at 1 January 2018 or 31 December 2018.

Subsidiary undertakings at 31 December 2019

The holdings disclosed concern ordinary shares and are wholly owned unless otherwise stated.

Name of company	Country of incorporation and principal operations	Principal activities	Registered address
BA and AA Holdings Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Call Centre India Private Limited (callBA) ¹	India	Call centre	F-42, East of Kailash, New Delhi, 110065
BA Cityflyer Limited	England	Airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA European Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Healthcare Trust Limited	England	Trustee company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Number One Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Number Two Limited ¹	Jersey	Holding company	IFC 5, St Helier, Jersey, JE1 1ST
Bealine plc	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BritAir Holdings Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways (BA) Limited ¹	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways 777 Leasing Limited	England	Aircraft leasing	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Associated Companies Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Avionic Engineering Limited	England	Engineering	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Capital Limited	Jersey	Aircraft financing	Queensway House, Hilgrove Street, St Helier, JE1 1ES
British Airways Ejets Leasing Limited ¹	Bermuda	Aircraft leasing	Canon's Court, 22 Victoria Street, Hamilton, HM 12
British Airways Holdings BV ¹	Netherlands	Holding company	Strawinskylaan 3105, Atrium 1077ZX Amsterdam
British Airways Holidays Limited	England	Tour operator	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Interior Engineering Limited	England	Engineering	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Leasing Limited	England	Aircraft leasing	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Maintenance Cardiff Limited	England	Engineering	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Pension Trustees (No 2) Limited	England	Trustee company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Plc Employee Share Ownership Trust	Jersey	Trust	Queensway House, Hilgrove Street, St Helier, JE1 1ES
British Mediterranean Airways Limited ^{1,2}	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Midland Airways Limited ¹	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Midland Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Diamond Insurance Company Limited ¹	Isle of Man	Insurance	1st Floor, Rose House, 51-59 Circular Road, Douglas
Flyline Tele Sales & Services GmbH	Germany	Call centre	Hermann Koehl-Strasse 3, 28199 Bremen
Gatwick Ground Services Limited	England	Ground services	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Overseas Air Travel Limited ¹	England	Transport	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Speedbird Insurance Company Limited	Bermuda	Insurance	Canon's Court, 22 Victoria Street, Hamilton, HM 12
Teleflight Limited	England	Call centre	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Excepted Group Life Scheme Limited	England	Trustee company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Holdco Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB

¹Not directly owned by British Airways Plc

²99.0% holding

Associated undertakings at 31 December 2019

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principal activities	Registered address
IB Opco Holding S.L. ¹	13.55	Spain	Airline operations	Calle Velázquez 130, 28006 Madrid
Dunwoody Airline Services Limited	40.00	England	Airline operations	Building 552, Shoreham Road East, Heathrow Airport, TW6 3UA
Avios Group (AGL) Limited	86.26	England	Airline marketing	Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY

¹Not directly owned by British Airways Plc

Equity investments at 31 December 2019

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principle activities	Registered address
Comair Limited ¹	11.49	South Africa	Airline operations	1 Marignane Drive, Bonaero Park, 1619
International Consolidated Airlines Group S.A.	0.002	Spain	Airline operations	El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid.
The Airline Group Limited	16.68	England	Air traffic control holding company	Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN

¹Not directly owned by British Airways Plc

Operating and financial statistics

Not forming part of the audited financial statements

		Year ended 31 December		
Total Group continuing operations		2019	2018 restated ¹	2017 ²
Traffic and capacity				
Revenue passenger km (RPK)	m	155,580	152,177	146,561
Available seat km (ASK)	m	186,170	184,547	179,077
Passenger load factor	%	83.6	82.5	81.8
Cargo tonne km (CTK)	m	4,211	4,395	4,500
Passengers carried	'000	47,710	46,952	45,163
Tonnes of cargo carried	'000	480	505	513
Operations				
Average manpower equivalent (MPE)		38,230	38,202	38,347
ASKs per MPE		4,870	4,831	4,670
Aircraft in service at year end		305	294	293
Aircraft utilisation (average hours per aircraft per day)		10.81	10.92	10.88
Punctuality - within 15 minutes	%	76	76	79
Regularity	%	98.4	99.0	98.6
Financial				
Passenger revenue per RPK ¹	p	7.65	7.60	7.51
Passenger revenue per ASK ¹	p	6.39	6.27	6.14
Cargo revenue per CTK	p	16.88	17.50	16.40
Average fuel price (US cents/US gallon)		207.65	224.72	170.95
Operating margin ¹	%	10.1%	18.1%	13.7%
Operating margin before exceptional items ¹	%	14.5%	15.1%	14.4%
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	3,030	2,971	2,743
Net debt/total capital ratio	%	39.1	25.2	21.0
Total traffic revenue per ASK ¹	p	7.1	7.0	6.6
Total expenditure before exceptional items on operations per ASK ¹	p	6.11	5.97	5.86
Total expenditure before exceptional items on operations excluding fuel per ASK ¹	p	4.37	4.38	4.45

¹ Please refer to note 36 for further details on transition adjustments relating to the revenue restatement

² The 2017 operating and financial statistics have not been restated for the revenue restatement

m = millions

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

Fleet table

Number in service with Group companies at 31 December 2019

	Owned	Asset financed	Right of Use	Off Balance sheet	Total December 2019	Total December 2018	Changes since December 2018 (Note 2)	Future deliveries	Options (Note 3)
AIRLINE OPERATIONS (NOTE 1)									
Airbus A318	1				1	1			
Airbus A319	17		22		39	42	(3)		
Airbus A320	23		54		77	74	3	12	10
Airbus A321	14		12	1	27	19	8	5	
Airbus A330				1	1		1		
Airbus A350		3			3		3	14	36
Airbus A380	2		10		12	12			
Boeing 747-400	32				32	35	(3)		
Boeing 777-200	36		10		46	46			
Boeing 777-300	2		10		12	12		4	
Boeing 777-900								18	24
Boeing 787-8			12		12	12			
Boeing 787-9	1		17		18	18			
Boeing 787-10								12	
SAAB 2000				1	1	1			
Embraer E170	6				6	6			
Embraer E190	9		9		18	16	2		
TOTAL OPERATIONS	143	3	156	3	305	294	11	65	70

Notes:

1. Includes aircraft operated by British Airways Plc and BA Cityflyer Limited.
2. One Boeing 747-400 was stood down and the SAAB 2000 is a wet lease by BA CityFlyer Limited.
3. Decrease due to expiry of options on Boeing 787-9.

Airline operations	This includes British Airways Plc, BA Cityflyer Limited, Flyline Tele Sales & Services GmbH, OpenSkies SASU (up until 31 December 2017) and British Midland Airways Limited (aircraft leasing).
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Cargo revenue per CTK	Cargo revenue divided by CTK.
Cargo tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Continuing operations	The segments of the business that are considered to be normal, and expected to operate in the foreseeable future.
Discontinued operations	A discontinued operation is a component of the entity or Group that has been disposed of or is classified as held for sale.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and aircraft rentals.
Exceptional items	Those items that in management's view need to be separately disclosed by virtue of their size or incidence.
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	The combining of two or more entities through a purchase acquisition.
Net debt	Current and long-term interest bearing borrowings less other current interest-bearing deposits and cash and cash equivalents. The Definition of Net Debt remains unchanged from 2018, but with the adoption of IFRS 16 from 1 January 2019, long term borrowings have significantly increased due to the recognition of the Right of use asset liabilities.
Net debt/total capital ratio	Net debt as a ratio of total capital.
nm	Not meaningful.
n/a	Not applicable.
Operating margin	Operating profit/(loss) as a percentage of total revenue.
Overall load factor	RTK expressed as a percentage of ATK.
Passenger load factor	RPK expressed as a percentage of ASK.
EETC	This is the enhanced equipment trust certificate borrowing facility obtained in 2013 and secured on related aircraft upon drawdown.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
Ready-to-go	The percentage of flights that have the aircraft door being closed five minutes prior to the advertised scheduled departure time.
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.
Passenger revenue per ASK	Passenger revenue divided by ASK.
Passenger revenue per RPK	Passenger revenue divided by RPK.
Total capital	Total equity plus net debt.
Total group revenue per ASK	Total Group revenue divided by ASK.
Total operating expenditure excluding fuel per ASK	Total operating expenditure excluding fuel divided by ASK.
Total operating expenditure per ASK	Total operating expenditure divided by ASK.
Total traffic revenue per ASK	Revenue from total traffic divided by ASK.