

Audit Exemption
appears (note 32, page 105)

British Airways Plc

Annual Report and Accounts Year ended 31 December 2021

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ANDREW FLEMING
COMPANY SECRETARY

Company registration number: 1777777

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Officers and professional advisers

Directors

Sean Doyle	(Chairman and Chief Executive Officer)
Alison Reed	(Deputy Chairman)
Rebecca Napier	(Chief Financial Officer)
Carolina Martinoli	
Lynne Embleton	
Alison Brittain	

Secretary

Andrew Fleming

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Strategic report

The Directors present their strategic report for the year ended 31 December 2021.

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. 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 some 1,000 destinations in over 170 territories.

The strategic report is presented in the following four sections:

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

Management review and outlook

Overview

- Total revenue: £3,693 million, down 7.7% (2020: £4,001 million)
- Operating loss before exceptional items: £1,900 million (2020: £2,350 million loss)
- Operating loss after exceptional items: £1,769 million (2020: £3,903 million loss)
- Passengers: 10.3 million, down 16.0% (2020: 12.3 million)
- Punctuality: 77% (2020: 85%)

On 27 January 2021, the UK government announced new rules for travel, where unless there was a legally permitted reason to do so, travel abroad for holidays and other leisure purposes was not allowed. On 7 May 2021, the Transport Secretary outlined the Government's plan to allow international travel to re-start with a new Global Travel Taskforce traffic light system. While the 'green' list contained 12 countries, Portugal was the only mainstream holiday destination to feature. Two weeks later Portugal was then downgraded to 'amber'.

Over the summer period the traffic light system was expanded to include categories such as 'green watchlist' and 'amber plus', alongside evolving restrictions worldwide, creating complexity and uncertainty for customers that resulted in a continued subdued demand over this key period.

Our teams worked tirelessly, implementing dynamic schedules and adapting to changing travel requirements, reacting quickly to adapt our operation throughout the year. In August, when the Government announced it would shortly add Mexico to its 'red' list, we flew four additional passenger flights to the country to repatriate our customers before the deadline. We also operated new services from London City to Jersey and Gibraltar, and from Heathrow to Poland, Latvia and Romania. We increased UK connectivity, adding more flights from Belfast to Exeter, Glasgow, Leeds and Birmingham and new routes to the Portuguese Azores. We also began to fly our A380 aircraft on key US routes and Dubai.

In June 2021, Sean Doyle joined the CEOs from all other transatlantic carriers to urge the US administration to reopen its borders to UK citizens, however it was not until late September that the US finally announced the easing of restrictions, with reopening planned for November. On 8 November 2021, the day restrictions on transatlantic travel were eased, we celebrated by renaming our first flight to depart to the US the BA1, with a synchronised dual runway take-off with Virgin Atlantic. It was a special moment to see our customers reunite with loved ones when the aircraft landed at New York JFK seven hours later.

The dismantling of the traffic light system in October, drastically reducing restrictions and the UK's 'red' list, along with the reopening of the US in November 2021 provided optimism heading into the festive season. However, later that month as a new variant of concern was identified, later named Omicron, restrictions for arrivals from six Southern African countries were announced. As Omicron spread across the world in record numbers, BA's year ended in another challenging position.

Our customers

BA's focus throughout 2021 has been to drive the safe easing of travel restrictions and testing policies to allow us to reunite loved ones, support our corporate customers to do business once again and support our people through one of the worst crises in our 102-year history. Despite the UK's world-leading vaccination programme, continued global travel restrictions and onerous testing requirements saw our operation continue to be disrupted throughout 2021, with an average 72 per cent reduction in our schedule compared to 2019.

To increase consumer confidence, we continued to offer our flexible 'Book with Confidence' policy, allowing a change of destination and/or date of travel or allowing a voucher (valid until September 2023) to be requested, for customers who no longer wished to travel. We created solutions to help our customers to travel with ease. To help with constantly changing travel and testing restrictions we introduced a new interactive map on [ba.com](https://www.bac.com) detailing the entry requirements of every destination we fly to, and we became the first UK airline to introduce the use a 3rd party app (VeriFLY) to check customers have the correct documentation they require to fly, granting them access to online check-in and allowing them to avoid manual document checks at airports.

Strategic report continued

Management review and outlook continued

We're grateful to our customers for their loyalty and patience during an extraordinarily difficult period where we've had to react quickly to adapt or change many of our processes in response to the pandemic. It's why we protected our Executive Club members' tier status and extended our 'Book with Confidence' policy. We also doubled the number of reward seats on our flights. We've continued to invest for our customers, maintaining pace on the roll out of our new Club Suite across our long-haul fleet, partnering with Michelin-starred chef Tom Kerridge on our Speedbird Café, and introducing an app that allows customers to order directly to their seat. After positive feedback on the introduction of complimentary water and snacks for customers on our short-haul flights during the pandemic, we've now committed to keep this service.

We've done everything we can to help our customers navigate travel during the crisis and worked with disinfectant brand Dettol on the ground and in the air. Hygiene and travel protocols were implemented across BA to ensure the safety of our customers and address regulatory requirements resulting from the pandemic. As testing requirements remained fluid, we offered customers the discounted services of almost a dozen testing suppliers. When the Government announced the need for travellers to provide proof of a negative COVID test to enter the UK, our teams moved quickly to offer access to a provider offering a low-cost, rapid test that customers could use from their hotel room.

Having ended our short-haul operations at Gatwick in March 2020 and following discussions with trade unions and other stakeholders, we created a new, lower cost base subsidiary in December 2021 named BA EuroFlyer to operate short-haul British Airways flights at the airport. This will generate more than 500 new jobs and begins operations from summer 2022.

Our people

Our people are our biggest assets and we're grateful for the resilience and flexibility they showed during the pandemic. We're proud that many of our colleagues continued to volunteer to support the NHS vaccination programme or charitable organisations while on furlough from our business. In October 2021, as we brought all of our colleagues back to work, we focused on ensuring everyone had access to the training and tools they required to re-start their roles.

We know that as we rebuild our business, we also need to rebuild trust with our people and we're determined to do this, by recognising their contribution to the success of our business and creating a culture that makes them feel valued and empowered to do the right thing for our customers. Diversity and inclusion is one of our key people priorities and forms part of our sustainability strategy, which focusses on creating a better world by embedding sustainability across our culture, operations and ultimately customer experience.

Liquidity

Liquidity remained a key focus throughout 2021, and BA successfully raised new debt to support the operation and maintain a strong liquidity position. Further opportunities to preserve the cash position were implemented, including the participation in the UK Government's Job Retention Scheme and maintaining robust financial controls to ensure only business critical spend was made.

In February 2021, British Airways entered into a five year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UK Export Finance ('UKEF'). This was drawn down in 2021 in full.

In March 2021, BA signed a committed secured Revolving Credit Facility ('RCF') with a syndicate of banks for \$1,346 million, available for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and take-off and landing rights at both London Heathrow and London Gatwick airports. The facility remains undrawn as at the date of this report.

In July 2021, BA entered into a sustainability-linked asset-financing structure, with a total of \$785 million raised to finance recent and future aircraft deliveries.

In November 2021, BA entered into a further £1.0 billion facility with UKEF and a syndicate of banks, further bolstering liquidity. BA only intends to draw down on the facility if required, and as at the date of this report, the facility remains undrawn.

Sustainability

In September we launched BA Better World, our new sustainability programme and our most important journey yet. We're focused on reducing emissions and waste and positively contributing to the communities we serve, and, creating a great place for people to work in order to build a resilient, responsible business.

Later that month we demonstrated our decarbonisation plans by operating a carbon neutral demonstrator flight on our BA Better World special liveried A320neo aircraft from London Heathrow to Glasgow, which we entitled 'Our journey towards a Perfect Flight'. The 2021 demonstrator flight was a collaboration between British Airways, Airbus, NATS, bp, Glasgow Airport and Heathrow. The aircraft was 20 per cent more fuel-efficient than previous models, powered by sustainable aviation fuel (SAF) and operated on the most optimum flight routing. This reduced CO2 emissions by 62 per cent compared to a similar flight more than a decade ago.

Strategic report continued

Management review and outlook continued

We announced a deal with bp to source sustainable aviation fuel equivalent to that needed to power all of our flights between London, Glasgow and Edinburgh during COP26. We invested in LanzaJet to provide us with sustainable aviation fuel ('SAF') from its US plant to power our flights within the next year, and Phillips 66, based in the North of England from March 2022. We also secured Government funding for four projects we're working on to develop sustainable aviation fuel and invested in the development of hydrogen-powered aircraft with ZeroAvia. As part of an IAG commitment, BA will look to power 10 per cent of its fuel needs with SAF by 2030.

In 2021 we took delivery of four A320neo and two E190 aircraft. We now operate 27 A320/1neos, eight A350s and 32 B787 aircraft, all quieter and more fuel-efficient than the aircraft they replace.

Despite the pandemic and downturn in flights, our customers and colleagues raised more than three quarters of a million pounds on our flights through our flagship programme, Flying Start. As India battled Coronavirus, we flew two aircraft, packed full of critical care equipment, PPE and oxygen concentrators to the country to provide much-needed support.

Further information on BA's involvement in the IAG-wide sustainability programme is included in IAG's Annual Report and Accounts for the year ended 31 December 2021.

Government Affairs

In January 2021, Sean Doyle was asked to join the Government's Build Back Better Council in a partnership to aid the UK's economic recovery. We have continued to engage with a number of Government departments throughout the last 12 months, providing data and insight, which has, at times, led to positive policy change. In July, through collaboration with Heathrow and Virgin Atlantic, we provided evidence that we could quickly and easily verify the vaccination status of travellers arriving from 'amber' list countries. This led to fully vaccinated passengers entering the UK from these countries being exempted from quarantine, providing a much-needed boost to travel.

Our outlook

We are hopeful that as global vaccination numbers rise, and the effectiveness of boosters against new variants remains high, the onerous testing requirements, which in the UK were largely removed from 11 February 2022, will be phased out. While we know we will face new challenges in the coming months and years, we have made the necessary changes to our organisation to help us cope with these, and are moving forward to rebuild our airline, focusing on our environmental impact, and repaying the debt that we have accumulated during the crisis.

Non-financial information statement

Pursuant to the 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 2021.

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2021.

Summary financial performance

£ million	2021	2020 ¹	Better/(worse)
CONTINUING OPERATIONS			
Total revenue	3,693	4,001	(7.7%)
Total expenditure on operations before exceptional items	(5,593)	(6,351)	11.9%
Operating loss before exceptional items	(1,900)	(2,350)	nm
Exceptional items	131	(1,553)	nm
Operating loss after exceptional items	(1,769)	(3,903)	nm
Non-operating items	(335)	(296)	nm
Loss before tax	(2,104)	(4,199)	nm
Tax	456	699	nm
Loss after tax	(1,648)	(3,500)	nm

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Strategic report continued

Financial review continued

£ million	2021	2020 ¹	Better/(worse)
CONTINUING OPERATIONS			
Available seat kilometres (ASK) (m)	52,635	63,725	(17.4%)
Revenue passenger kilometres (RPK) (m)	30,700	39,118	(21.5%)
Passenger load factor (%)	58.3	61.4	5.0%
Passenger revenue per ASK (p)	4.40	4.54	(3.1%)
Passenger revenue per RPK (p)	7.54	7.40	1.9%
Non-fuel costs per ASK at constant currency* (p)	9.05	8.15	(11.0%)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

*Stated before exceptional items

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

Revenue

£ million	2021	2020	Better/(worse)
CONTINUING OPERATIONS			
Passenger revenue	2,315	2,894	(20.0%)
Cargo revenue	1,097	890	23.3%
Other revenue	281	217	29.5%
Total revenue	3,693	4,001	(7.7%)

Overall capacity, measured by ASK, was down by 17.4 per cent for the year and the number of passengers carried decreased by 16.0 per cent to 10.3 million. Full year capacity was lower than that of 2020 with extensive reductions across the network throughout the whole year, while in 2020 the capacity reductions rose sharply at the end of the first quarter. This translated to total revenue before exceptional items for the year of £3,693 million (2020: £4,001 million). Cargo carried, measured in cargo tonne kilometres, increased by 9.5 per cent. In 2020 the Group adapted the Cargo business to ensure that cargo only flights have a positive cash contribution, and as a result Cargo revenue increased by 23.3 per cent to £1,097 million.

Operating costs before exceptional items

	2021	2020 ¹	Better/(worse)
CONTINUING OPERATIONS			
Employee costs	1,482	1,717	13.7%
Fuel, oil costs and emission charges	938	1,160	19.1%
Handling, catering and other operating costs	824	857	3.9%
Landing fees and en route charges	373	460	18.9%
Engineering and other aircraft costs	377	446	15.5%
Property, IT and other costs	490	471	(4.0%)
Selling cost	138	126	(9.5%)
Depreciation, amortisation and impairment	984	1,076	8.6%
Currency differences	(13)	38	nm
Total Group expenditure on operations before exceptional items	5,593	6,351	11.9%
Total Group expenditure excluding fuel before exceptional items	4,655	5,191	10.3%

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Employee costs before exceptional items decreased by £235 million, or 13.7 per cent, to £1,482 million compared to £1,717 million in the prior year, largely because of the restructuring programme in 2020 which management undertook as a result of the impacts of COVID-19 on the industry. The reduction in employee costs included a credit of £190 million (2020: £258 million credit) relating to amounts received from the UK Government under the COVID Job Retention Scheme which ended on 30 September 2021.

Fuel, oil costs and emission charges, excluding the exceptional charge for overhedging, decreased by £222 million, or 19.1 per cent, to £938 million compared to £1,160 million in the prior year, reflecting the reduced capacity. Average commodity fuel prices for the twelve months were higher than in the same period last year, an average of \$376 per metric ton in 2020 compared to \$587 per metric ton in 2021. However, effective fuel prices were lower than in 2020, with the majority of the increased commodity price being offset by the fuel hedging programme. During the year the Group took delivery of four Airbus A320neos and two Embraer E190s. The A320neos are next generation aircraft which benefit from improved fuel performance and reduced emissions.

Strategic report continued

Financial review continued

The favourable movement in the remaining operating cost base was largely a direct result of volume-based savings. Engineering and other aircraft cost savings of £69 million, or 15.5 per cent, was driven by savings related to the retirement of B747s and fewer engine flying hours. Landing fees and en route charges decreased in 2021 reflecting the reduced level of flying.

Exceptional items

Exceptional items have been recognised in respect of the impact of overhedging due to the COVID-19 related capacity reductions. This included fuel and foreign currency overhedging included in Fuel, oil costs and emission charges of a credit of £107 million (2020: a loss of £837 million) and Passenger revenue of a credits of £6 million (2020: a loss of £53 million). At 31 December 2021, the Group incurred net cash outflows of £129 million (2020: £630 million) to settle those derivatives recognised as exceptional (refer to note 3 for more details). Further credits in exceptionals were due to reversals of £7 million relating to impairment charges that were recognised in 2020, as a result of deriving value through leasing a number of engines, and reversals of £11 million relating to restructuring reported in previous periods within exceptional items.

During 2020, there was an exceptional impairment expense of £399 million related to fleet and other assets, together with an associated inventory impairment expense of £18 million. An exceptional expense of £226 million was also recorded in relation to the restructuring programme. A further exceptional expense of £20 million was also recorded in respect of a fine issued on 16 October 2020 in relation to the theft of customer data at British Airways in 2018.

Non-operating items

Non-operating items were a charge of £335 million, adverse £39 million from the prior year. The year on year movement included an increase in finance costs of £160 million primarily due to higher levels of debt in 2021, and an adverse £33 million on revaluation of financial assets. The was offset by the movement in the share of post-tax profits of associates which for the 12 months ended 31 December 2021 was £43 million (2020: £144 million net loss).

Taxation

The tax credit on continuing operations for 2021 was £456 million (2020: £699 million), which included a tax charge of £25 million (2020: £291 million credit) relating to exceptional items. The Group loss before tax was £2,104 million (2020: £4,199 million) including a £43 million post-tax share of associate's net profits (2020: £144 million net losses). After adjusting for exceptional items and the post-tax share of associate's net profits, the Group's effective tax rate was 21.1 per cent (2020: 16.2 per cent), compared to the UK corporation tax rate of 19.0 per cent (2020: 19.0 per cent).

At 31 December 2021, the Group recognised a deferred tax asset of £574 million (2020: £401 million), driven primarily by tax losses carried forward and the timing of tax deductions on fixed assets qualifying for capital allowances.

Capital expenditure

Total capital expenditure in the year amounted to £406 million (2020: £950 million). This included £313 million (2020: £868 million) of fleet-related expenditure (aircraft, aircraft progress payments, spares, modifications and refurbishments). During the year the Group took delivery of four Airbus A320neos. The two £190 Embraers delivered during the year were leased.

Liquidity

The Group's liquidity position at 31 December 2021 included £1.7 billion of cash and cash equivalents (2020: £1.3 billion). At the end of the year, net debt was £8.1 billion (2020: £7.5 billion). Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits.

In February 2021, British Airways entered into a five-year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UK Export Finance ("UKEF"). The annual rate of interest associated with the UKEF loan is consistent with the prevailing market rate of interest at the time of executing the term loan. This facility was fully drawn down in March 2021, and is due to be repaid in March 2026. In November 2021, British Airways agreed a further £1.0 billion UKEF guaranteed five-year committed credit facility. As at 31 December 2021, and as at the date of this report, BA had not drawn down on this facility.

In March 2021, British Airways entered into a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is \$1,346 million and will be available for a period of three years plus two one-year extension periods at the discretion of the lenders. The facility is undrawn at the date of this report. In addition, at 31 December 2021 the Group had undrawn long-term committed aircraft financing facilities totalling £0.3 billion (2020: £0.5 billion).

In July 2021, BA entered into a sustainability linked asset-financing structure, raising a total of \$785 million to finance aircraft deliveries. As at 31 December 2021, the total financing remaining to be drawn was \$635 million.

Strategic report continued

Financial review continued

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'). Triennial actuarial valuation discussions are taking place for APS and NAPS, both with effective dates of 31 March 2021 and statutory dates to complete these valuations by 30 June 2022.

BA and the NAPS Trustee Board of Directors reached an equitable agreement to defer Deficit Recovery Contribution ('DRC') payments that would have otherwise been due between October 2020 and September 2021, equating to a deferral of cash outflows of £450 million over that period. BA and the NAPS Trustee concluded that the agreement is in both parties' best interests, providing cash flow benefit to BA in the short term while supporting the long term covenant strength that is required to protect NAPS' members.

As part of the agreement, signed on 19 February 2021, BA agreed to restrictions placed on dividend payments to IAG until the deferred DRCs are repaid, which will be added to the end of the recovery plan agreed as part of the 2019 Scheme Funding Agreement. BA has also agreed to provide a charge over its leasehold property at its Heathrow maintenance base, ensuring that the funding status of NAPS is protected in the event that BA is unable to repay the deferred DRCs. BA will continue to provide information on business and financial performance to the NAPS Trustee Directors to ensure the Trustees can continue to monitor BA's covenant as part of their fiduciary duties to NAPS' members.

The deferral period ended at the end of September 2021, with the terms of the 2019 Scheme Funding Agreement ('SFA') being followed once again until a new valuation agreement is signed. As a result, BA has made no further DRC payments since the end of the deferral period under the overpayment protection mechanism of the SFA agreement.

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes BA to a number of risks. The Group's exposure to certain risks outside of its direct control has continued in 2021 as a result of the COVID-19 pandemic's unprecedented impact on the travel and aviation industry and government restrictions over travel.

BA management remains focused on mitigating its risks at all levels in the business and investing to increase resilience whilst recognising that risk events may not be so easily planned for and that some mitigations are more responsive in nature.

The BA Management Committee and the IAG Head of Enterprise Risk Management review the risk heatmap twice yearly 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. BA escalates risks that have an IAG group-wide impact or require IAG consideration in line with the IAG Enterprise Risk Management (ERM) framework.

The principal risks have been assessed as BA moves back into recovery of its operations and adapts its model accordingly. One new principal risk on Transformation and Change has been identified as part of this exercise. It reflects the significance of the BA transformation agenda and pace required to deliver the plan.

Risks are grouped into four categories: strategic, business and operational, financial including tax and treasury, compliance and regulatory risks. Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below. Additional key business responses implemented by management are also set out.

The list is not intended to be exhaustive but does reflect those risks that the BA Board and BA Management Committee believe to be the most likely to have a potential material impact on the Group.

Strategic
Brand and customer trust
Status BA's ability to attract and secure bookings, and generate revenue depends on customers' perception and affinity with the BA brand and its reputation for customer service and value. Where customers have been stranded as a result of governments' imposition of new restrictions, BA has worked directly with its customers to ensure their safe return. BA remains focused on strengthening its customer-centricity to ensure that BA continues to adapt to meet changing customer expectations and needs. Customer sentiment to travel and their expectations when they travel are intrinsic to brand health. BA has implemented all required measures to ensure customer and employee safety in line with governments' regulations. The resilience and engagement of our people and leaders is critical to retaining brand and customer trust.

Strategic report continued

Principal risks and uncertainties continued

<i>Strategic continued</i>	
Brand and customer trust continued	
Risk description	Mitigation
<p>Erosion of the brand, through either a single event or a series of events, may adversely impact BA's leadership position with customers and ultimately affect future revenue and profitability.</p> <p>If BA is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then BA may face brand erosion and loss of market share.</p> <p>Failure to meet customer expectations on sustainability and BA's impact on stakeholders and society could impact the group and its brands.</p>	<p>Brand initiatives have been identified with investment to enhance the customer experience that supports the brand proposition, including hard product investments such as the Club Suite rollout.</p> <p>BA tracks and reports internally on its Net Promoter Score (NPS) to measure customer satisfaction.</p> <p>BA continued to offer the flexible 'Book with Confidence' policy, allowing a change of destination and/or date of travel or allowing a voucher (valid until September 2023) to be requested, for customers who no longer wished to travel.</p> <p>Hygiene and travel protocols have been implemented across BA to address regulatory requirements resulting from the pandemic.</p> <p>Increased focus on end to end customer journey from flight search through to arrival and baggage reclaim.</p> <p>BA are investing in ba.com functionality and telephony solutions to allow customers to contact us more effectively.</p> <p>The IAG Group's global loyalty strategy builds customer loyalty.</p> <p>BA's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.</p>
Competitive landscape	
<p>Status BA has strong global market positioning, leadership in strategic markets, alliances and a diverse customer base. The scale of various governmental support programmes and aviation-specific state aid measures have varied by market, thus creating differentiated outcomes for our various competitors. The potential consequential impact to the competitive landscape is under continuous assessment. Governmental restrictions continue to impact access to markets. The dynamic nature of the restrictions has required significant agility within BA's networks to manage the impact on BA's customers and business.</p> <p>BA and IAG Group continues to lobby over the negative impacts of government policies, such as increases in Air Passenger Duty ('APD').</p>	
Risk description	Mitigation
<p>Competitor capacity growth in excess of demand growth could materially impact margins.</p> <p>Any failure of a joint business or a joint business partner could adversely impact BA's business operations and financial performance.</p> <p>Some of the markets in which BA operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.</p> <p>Governments' support schemes for the aviation sector create distortionary effects across the markets in which BA operates.</p>	<p>BA's Management Committee and BA Board have met regularly to discuss strategic issues and plans throughout the year, with additional meetings convened as required to address emerging issues.</p> <p>BA's revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required to respond to the rapidly changing environment resulting from government actions.</p> <p>BA maintains rigorous cost control and targeted investment to remain competitive. IAG's procurement function has led an ongoing review of all critical contracts.</p> <p>BA's Management Committee regularly reviews the commercial performance of joint business agreements.</p> <p>The IAG Group's Government Affairs function, in conjunction with BA's Corporate Affairs team, monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</p>

Strategic report continued

Principal risks and uncertainties continued

<i>Strategic continued</i>	
Critical third parties in the supply chain	
<p>Status The operations of BA's suppliers, including aircraft manufacturers, has increased the risk of significant business interruption, delays or disruptions, including a lack of availability of labour to support supplier operations and/or problems in maintaining supply. This has led to increased costs to secure such services. Additional focus has been placed on key suppliers following the removal of governments' support schemes to ensure that the business and operations are not impacted. Ongoing governments' restrictions through 2021 have required BA to flex operations and adjust capacity.</p> <p>BA relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities.</p> <p>The IAG Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow.</p>	
Risk Description	Mitigation
BA is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group's sustainability programme.	BA mitigates engine and fleet performance risks, including unacceptable levels of carbon emissions, 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.	BA is particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports. BA and IAG 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 dependent on resilience within the operations of ATC services to ensure that its flight operations are delivered as scheduled.	The IAG Group is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
BA is dependent on the performance and costs of critical third-party suppliers that provide services to our customers such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.	BA pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.
BA is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which BA operates.	The IAG Group's procurement function has oversight of all critical contracts across the Group's businesses. Alternative suppliers are identified where feasible.
Economic, political and regulatory environment	
<p>Status The pandemic has resulted in governments' measures, which led to an unprecedented impact on air travel and has also resulted in economic uncertainty and volatility across markets. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status as BA rebuilds its operational capabilities and schedules. There can also be no clear certainty as to the level of demand for BA's services as restrictions are lifted. The stress of the pandemic could have further far-reaching impacts including currency devaluations, inflation, new tax regimes on corporates and individuals as well as changes in control of governments and new government policies. BA has utilised the slot alleviation waivers granted by regulatory bodies in 2021.</p> <p>Wider macroeconomic trends are being monitored such as tone of dialogue between the US, Russia, China and the UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to BA is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered.</p> <p>Developments in relevant international relationships and air services agreements throughout the year, including the EU and the UK, are being monitored. Any further macro-economic trends or potential requirements arising from Brexit are monitored by government affairs specialists across the Group businesses.</p>	

Strategic report continued

Principal risks and uncertainties continued

<i>Strategic continued</i>	
Economic, political and regulatory environment continued	
Risk description	Mitigation
<p>Economic deterioration in either a domestic market or the global economy may have a material impact on BA's financial position, while foreign exchange, fuel price and interest rate movements create volatility.</p> <p>Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of BA.</p> <p>Political decisions to respond to the pandemic impact economies across all markets, causing longer-term economic stress.</p>	<p>The BA Board and BA's Management Committee review the financial outlook and business performance through the monthly trading results, financial planning process and the reforecasting process.</p> <p>Reviews are used to drive BA's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.</p> <p>External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans.</p> <p>IAG Government Affairs function, in conjunction with BA's Corporate Affairs team, monitors governments' initiatives, represents BA's interest and gives BA early sight of likely changes to laws and regulations e.g. any review of slot alleviation policy in the UK. It also continues to discuss with governments and industry bodies, approaches for the implementation of consistent, customer-centric testing.</p>
Sustainable aviation	
Risk Description	Mitigation
<p>Status IAG was the first airline group to commit to a target of net zero carbon emissions by 2050. In 2021, BA committed to extend net zero carbon emissions requirements to the Group's supply chain, with the Group Business Services (GBS) procurement function supporting the Scope 3 commitment. IAG has also committed to 10% SAF usage on average across its fleet by 2030.</p> <p>In July 2021, the EU announced its "Fit for 55" package of proposals. This requires an at least 55% emission reduction target set for 2030 and aims to bring the EU climate and energy legislation in line with the 2030 goal. IAG and BA is currently modelling potential impacts and costs based on the published proposals, which includes the removal of aviation jet fuel tax exemption from 2024.</p> <p>Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by BA in the medium to longer term, where markets may not have such strict eco targets or government set policy.</p> <p>BA has completed the retirement of its aged fleet of Boeing 747s, the least fuel efficient aircraft in the long-haul fleet.</p> <p>IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. IAG continues with its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. BA has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes.</p>	

Strategic report continued

Principal risks and uncertainties continued

Strategic continued	
Sustainable aviation continued	
Risk description	Mitigation
<p>Increasing global concern about climate change and the impact of carbon affects BA's performance as customers seek alternative methods of transport or reduce their levels of travel.</p> <p>New taxes, the potential removal of aviation jet fuel tax exemptions and increasing price of carbon offsets impact on demand for air travel. Customers may choose to reduce the amount they fly.</p> <p>The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity. Sustainable fuel mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets BA serves.</p>	<p>IAG climate change strategy to meet target of net zero carbon emissions by 2050.</p> <p>BA launched the new BA Better World sustainability programme, providing customers the option to purchase SAF.</p> <p>BA offsets all UK domestic flight carbon emissions.</p> <p>BA signed a multi-year SAF supply agreement with Phillips 66 Limited.</p> <p>BA invested in SAF technology provider and producer Lanzajet.</p> <p>BA's partnership with Velocys to produce SAF.</p> <p>BA customers may choose to offset their flights for carbon emissions or pay for sustainable fuel for their flight or both.</p> <p>The fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.</p> <p>The appointment of EcoVadis to work with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.</p> <p>Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.</p> <p>Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and UK-ETS emission trading schemes.</p> <p>Horizon scanning of potential partners and technology.</p>
Business and operational	
Cyber attack and data security	
<p>Status The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. BA is subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).</p> <p>Investment in cyber security systems and controls continue as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to an IAG Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the Cloud across the IAG Group's airlines will further help to improve the security controls environment. As the IAG Group improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.</p>	

Strategic report continued

Principal risks and uncertainties continued

Business and operational continued	
Cyber attack and data security continued	
Risk description	Mitigation
<p>BA could face financial loss, disruption or damage to brand reputation arising from an attack on BA's systems by criminals, foreign governments or hackers.</p> <p>If BA does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p> <p>Changes in working practices and environments for BA's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.</p>	<p>The IAG Group has a Board approved cyber strategy that drives investment and operational planning.</p> <p>BA operates under the IAG cyber risk management framework.</p> <p>BA's Cyber Governance Board assesses the portfolio of cyber projects quarterly.</p> <p>The IAG Chief Information Security Office provides assurance and expertise around strategy, policy, training and security operations for the IAG Group.</p> <p>Detection tools and monitoring are in place. The IAG security operations centre proactively seeks to identify and respond to threats.</p> <p>Threat Intelligence is used to analyse cyber risks to BA.</p> <p>There is oversight of critical systems and suppliers to ensure that BA understands the data it holds, that it is secure, and regulations are adhered to.</p> <p>BA has a Data Protection Officer in place and they coordinate activities through the IAG Privacy Steering Group.</p> <p>Working practices are reviewed to ensure the integrity of cyber and data security.</p> <p>All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.</p> <p>Security architecture team embedded into Datacentre migrations programmes.</p> <p>Desktop exercises to test business response plans have been held.</p>
Event causing significant network disruption	
<p>Status The outbreak of the pandemic in 2020 resulted in an unprecedented level of disruption to the aviation sector, as well as global economic impacts and this remained the situation in 2021. Other potential high-impact, low-likelihood events have been considered that could have the potential to disrupt BA and/or the aviation sector. Many of these events remain outside of the IAG Group's control such as adverse weather, another pandemic, civil unrest or terrorist event seen in cities served by BA.</p>	
Risk description	Mitigation
<p>An event causing significant network disruption or the inability to promptly recover from short term disruptions may result in lost revenue, customer disruption and additional costs to the Group.</p> <p>The COVID-19 pandemic is likely to continue to have an adverse effect on BA where governments choose to reimpose restrictions to manage public health concerns, as would any future pandemic outbreak or other material event impacting operations or customers' ability to travel.</p>	<p>Management has business continuity plans to mitigate this risk to the extent feasible with focus on operational and financial resilience and customer and colleague safety and recovery.</p> <p>Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.</p> <p>BA, along with other UK airlines, is engaging with the UK government to develop a 'variant playbook' that would avoid widespread travel disruption in the event of a future COVID-19 outbreak.</p>
IT systems and IT infrastructure	
<p>Status BA recognises the importance of technology and all of its digital and IT resources are managed together in IAG Tech, reporting to the IAG Chief Information Officer (CIO). BA has a Chief Digital and Information Officer (CDIO) who represents the business within IAG Tech. This has strengthened IAG Tech's focus on understanding business requirements, helping to transform BA's businesses and deliver a digital customer experience. There is an increased focus on service delivery and services management as BA addresses its legacy environment. Plans and investment to upgrade or transform away from obsolete systems or architecture have been subject to ongoing review and plans accelerated where required to meet new regulations around travel documentation.</p>	

Strategic report continued

Principal risks and uncertainties continued

Business and operational continued	
IT systems and IT infrastructure continued	
Risk description	Mitigation
<p>The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.</p> <p>The level of transformational change at pace required by BA may result in disruption to operations as the legacy environment is addressed.</p> <p>Obsolescence within the IAG Tech estate could result in service outages and/or operational disruption or delays in implementation of BA's transformation, particularly if the Group needs to defer investment to preserve cash.</p> <p>Technology disruptors may use tools to position themselves between our brands and our customers.</p>	<p>IAG Tech works with BA to deliver digital and IT change initiatives to enhance security and stability.</p> <p>Robust portfolio process to determine the right investments across the IAG Group.</p> <p>BA's IT Board reviews delivery timelines.</p> <p>Reversion plans are developed for migrations on critical IT infrastructure.</p> <p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>The IAG Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.</p> <p>IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.</p>
People, culture and employee relations	
<p>Status The resilience and engagement of our people and leaders has been critical through the pandemic period to ensuring that BA is best positioned to resume operations and adapt as needed to the uncertain external environment. As BA rapidly transforms all its operations to adjust for the new environment, the engagement and support of BA's employees is going to be a critical enabler. BA is focused on delivering operational readiness and deploying resources to meet changing business demands.</p> <p>BA is focused on staff wellbeing and people morale and motivation, particularly as our people return to their offices and BA adapts and implements hybrid working. Welfare support schemes are in place to support BA's staff and initiatives to build trust and engagement continue across BA. BA has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the IAG Group's diversity and inclusion plans. BA recognises the critical role that employees will play in its recovery and transformation, and is focusing on improving organisational health and employee engagement.</p> <p>Employee consultations to support restructuring proposals have been undertaken as required. Where possible, BA has utilised government support schemes.</p>	
Risk description	Mitigation
<p>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 and customer perceptions.</p> <p>BA fails to attract, motivate, retain or develop our people to deliver service, brand excellence.</p> <p>Our people are not engaged, or they do not display the required leadership behaviours.</p> <p>Critical skillsets are not in place to execute on the required transformation and drive the business forward.</p> <p>If BA cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.</p>	<p>Ongoing information sharing, consultation and collective bargaining with unions across BA takes place on a regular basis led by human resources specialists, who have a strong skillset in industrial relations.</p> <p>Focus on recruiting and developing skills to run and transform our business, including leadership development, talent strategy and on how we can create a talent pipeline of future leaders and emerging talent, particularly with digital skillsets and attract more women and those from more socially diverse backgrounds into flying and engineering.</p> <p>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.</p> <p>Engagement and organisational health surveys have been conducted with subsequent action plans developed.</p> <p>IAG Code of Conduct is supported by an annual training requirement for all of our staff.</p>

Strategic report continued

Principal risks and uncertainties continued

Business and operational continued	
Safety or security incident	
Status The BA Safety Board continued to monitor the safety performance of BA. 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.	
Risk description	Mitigation
A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact BA's brand, operations and financial performance.	BA's safety committee satisfies itself that BA has the appropriate resources and procedures which include compliance with Air Operator Certificate requirements. Incident centres respond in a structured way in the event of a safety or security incident or intelligence.
Transformation and change	
Status BA has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives. Many of the programmes are multi year and all are subject to the ongoing review and investment approvals that include the BA Board as per the governance structure.	
Risk description	Mitigation
Failure to transform the business to effectively maintain or grow share in the new competitive environment, fully implement all programmes across BA and realise the benefits of the change initiatives to deliver BA's digital platforms and customer propositions. The pace of change may expose BA to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers. The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits. Further standardisation, simplification and efficiencies of the IAG Group's platforms are not delivered. Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of BA. BA's focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.	The Director of Transformation has clear oversight of all programmes under the transformation agenda. Consistent core metrics and dashboard reporting is used to assess performance against plan. The dashboard and progress against delivery is assessed regularly. BA's transformation agenda is subject to Board approval. BA communicates to employees on change initiatives and changes that may affect them. Consideration is given to the Group's sustainability commitments and agenda for all programmes. Any potential changes that could impact the brand are reviewed to mitigate against brand damage.
Financial including Tax and Treasury	
Debt funding	
Status Despite disruption in the financial markets since the spread of the pandemic, BA has proactively focused on protecting liquidity. Aircraft were successfully financed on long-term arrangements during the year, and additional funding arrangements were entered into in the year, including a total of £3 billion of credit facilities that were partially guaranteed by UKEF, of which £2 billion had been drawn as at the date of this report.	
Risk Description	Mitigations
Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans. New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform BA.	The BA Board and BA Management Committee have reviewed BA's financial position and financing strategy on a very frequent basis throughout the period of the pandemic. BA has maintained clear focus on protecting liquidity.
Financial and treasury-related risk	
Status The financial markets were impacted by the uncertainty derived from the COVID-19 pandemic. The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and BA's exposure by geography have all been re-evaluated this year to ensure that BA responds to the rapidly changing financial environment appropriately.	

Strategic report continued

Principal risks and uncertainties continued

Financial including Tax and Treasury continued	
Financial and treasury-related risk continued	
Risk Description	Mitigations
<p>Failure to manage the volatility in the price of oil and petroleum products.</p> <p>Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airline's local currency of sterling.</p> <p>Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.</p> <p>Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.</p>	<p>Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with BA's risk appetite.</p> <p>All airlines hedge in line with the IAG hedging policy under the IAG Treasury oversight.</p> <p>BA CFO, in conjunction with IAG Treasury, regularly reviews the Group's fuel and currency positions.</p> <p>Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.</p> <p>BA reviews routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation.</p> <p>IAG Group has a financial counterparty credit limit allocation by airline and by type of exposure and monitors the financial and counterparty risk on an ongoing basis.</p> <p>BA CFO, in conjunction with IAG Treasury, regularly reviews the financial risks and the hedged amounts.</p>
Pensions	
<p>Status BA has two significant employer funded defined benefit schemes, APS and NAPS. A triennial valuation of the NAPS pension scheme is underway and is expected to be concluded in 2022.</p>	
Risk Description	Mitigations
<p>BA is exposed to the risks of operating underfunded defined benefit schemes.</p> <p>Adverse movements in government bond yields, long term inflation and mortality assumptions, negative movements in pension asset values and financial returns from these assets may adversely affect the funding level of the scheme.</p>	<p>Management regularly reviews the funding status of the pension schemes and is in regular dialogue with the schemes' Trustees on funding and investment decisions.</p>
Compliance and regulatory	
Non-compliance with key regulation and laws	
<p>Status BA has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year.</p>	
Risk Description	Mitigations
<p>BA 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.</p>	<p>BA has clear frameworks in place including comprehensive policies designed to ensure compliance.</p> <p>There are mandatory training programmes in place to educate employees as required for their roles in these matters.</p> <p>Compliance professionals specialising in competition law and anti-bribery legislation support and advise BA.</p> <p>IAG Code of Conduct framework and mandatory training is in place for all Group businesses.</p> <p>A Data Protection Officer is in place.</p>

Section 172 statement

During 2021, 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.

Stakeholders

The directors consider that the following groups are the Company's key stakeholders. The Board seeks to understand the interests of the stakeholder groups so that they may be properly considered in the decision making process. This is done through direct engagement, receiving reports and updates from members of management and inclusion of relevant stakeholder interests in board presentations and papers as appropriate.

Strategic report continued

Section 172 statement continued

Customers	
Why it is important to engage and what matters to them?	<p>Customers are central to the success of BA and engagement enables the Company to understand and drive the product and service initiatives that will deliver the greatest value to the customer.</p> <p>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.</p> <p>British Airways provides a loyalty scheme to customers through the acquisition of Avios points from IAG Loyalty 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.</p> <p>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.</p>
How management and/or Directors engaged and what was the impact of the engagement?	<p>The Board and Management Committee receive regular updates regarding customer relationships, development and engagement, including results of customer feedback surveys, net promoter score (NPS) and complaints data.</p> <p>Customer feedback is analysed and used to drive product and service initiatives that deliver the greatest value for the customer.</p> <p>As a result of the COVID-19 pandemic, BA offered greater booking flexibility to customers. It also reviewed and made changes to its customer experience in light of COVID-19 including its cleaning programme for aircraft, its onboard catering proposition and providing clear guidance on any new procedures.</p> <p>The strategic report on pages 2 to 3 describes the investment in customer experience that the Group has delivered during 2021.</p>
Workforce	
Why it is important to engage and what matters to them?	<p>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 be able to compete in a challenging commercial aviation environment, the workforce needs to be adaptive and have a constantly evolving skill base.</p> <p>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.</p>
How management and/or Directors engaged and what was the impact of the engagement?	<p>The section of the Directors' report on page 23 explain how the Company engages with the workforce. During the year, the Executive Directors visited areas across the business to meet with colleagues and gain insight into the challenges faced by colleagues on a day to day basis.</p> <p>Colleagues are provided information that is of concern to them, including industry, business and financial performance updates on the Company intranet, the CEO's vlog and via email and are encouraged to share their views on all matters with senior management.</p> <p>In November 2021 British Airways asked colleagues to take part in a confidential, independent survey, RealityCheck, to understand what matters to the workforce. The insight will help build on the culture of British Airways and create a benchmark to build future activity upon.</p> <p>Given the significant impact of COVID-19 on the Company, British Airways continued to make use of the Government furlough scheme in 2021, to avoid, reduce or mitigate redundancies that would otherwise have been required. Resources are available to colleagues to support mental health and positive wellbeing, which has been particularly important throughout the pandemic with colleagues on furlough and working from home.</p> <p>Once the furlough scheme ended, British Airways welcomed back colleagues despite there being more colleagues than were required to meet the operational requirement.</p>

Strategic report continued

Section 172 statement continued

Suppliers	
Why it is important to engage and what matters to them?	<p>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.</p> <p>Suppliers value operational stability ensuring predictable demand, transparency and integrity at all times in all business dealings and timely settlement avoiding liquidity challenges.</p>
How management and/or Directors engaged and what was the impact of the engagement?	<p>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 comply.</p> <p>The Board receives updates regarding material developments in key supplier relationships, including updates through internal audit and risk management.</p> <p>The impact of COVID-19 required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. The Group has pro-actively worked with suppliers to ensure operations are maintained and the impact to their business is understood, with mitigations implemented where necessary.</p>
Investors	
Why it is important to engage and what matters to them?	<p>Continued access to capital is of vital importance to the long-term success of British Airways. The key investors of British Airways are its parent company, IAG, and lenders that finance the acquisition of aircraft.</p> <p>Lenders value repayment commitments being met on time.</p> <p>For IAG, return on invested capital, 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.</p>
How management and/or Directors engaged and what was the impact of the engagement?	<p>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.</p> <p>The British Airways Management Committee provides regular operational and financial performance communications, such as quarterly trading results, to IAG.</p> <p>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 meetings with credit ratings agencies.</p> <p>In 2021, British Airways agreed certain restrictions on dividends with the UKEF as part of the £2 billion loan described on page 3 and with NAPS on the deferral of contributions described on page 7. BA liaised with IAG to obtain its support in relation to these commitments.</p>
Communities and environment	
Why it is important to engage and what matters to them?	<p>The communities in which the airline operates require British Airways to operate in a socially responsible manner and protect the environment.</p> <p>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.</p>

Strategic report continued

Section 172 statement continued

Communities and environment continued	
How management and/or Directors engaged and what was the impact of the engagement?	<p>The Group continues to support charitable giving, through Flying Start and working closely with non-profit organisations delivering change.</p> <p>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 Sustainability Committee sets and approves BA's corporate responsibility strategy and monitors progress on key initiatives.</p> <p>British Airways is contributing to IAG's commitment to achieving net zero CO₂ emissions by 2050.</p> <p>In 2021 British Airways launched a new BA Better World sustainability programme and announced a new collaboration with bp to source sustainable aviation fuel in respect of all its flights between London, Glasgow and Edinburgh during the UK COP26 conference, providing a lifecycle carbon reduction of up to 80% compared to the traditional jet fuel it replaces.</p> <p>The strategic report on page 3 provides more information on BA Better World.</p>
Pension Trustees	
Why it is important to engage and what matters to them?	As described in note 27 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?	<p>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.</p> <p>The Board considers the impact on the schemes when making business decisions in accordance with the Pension Schemes Act 2021.</p> <p>BA and the NAPS Pension Trustee Directors agreed to a deferral of the funding commitments, with further details in the strategic report on page 7.</p> <p>BA and the APS and NAPS Trustees have been liaising in relation to the 2021 triennial valuation.</p>

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. The principal decisions taken during the year were a result of the material impact that COVID-19 had on the Company. Principal decisions taken during the year include:

NAPS funding commitments

BA reached an agreement with the NAPS Trustee Board of Directors to defer twelve months of Deficit Recovery Contribution payments, equating to a deferral of cash outflows of £450 million over that period.

UK Export Finance (UKEF) facility

In December 2020 BA had received commitments for a 5-year Export Development Guarantee term-loan of £2.0 billion underwritten by a syndicate of banks, partially guaranteed by UKEF. British Airways reached final agreement with UKEF and the lenders to drawdown the facility before the end of February 2021, and the facility was drawn down in full on 1 March 2021.

In November 2021 British Airways agreed £1.0 billion UK Export Finance guaranteed 5-year committed credit facility. British Airways intends to draw down only if and when required, and as at the date of this report the facility remains undrawn.

Strategic report continued

Section 172 statement continued

Revolving Credit Facility (RCF)

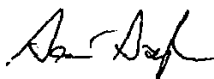
In March 2021 BA entered into a \$1.3 billion multi-borrower secured 3-year Revolving Credit Facility with a syndicate of banks. The facility is available to BA with a separate borrower limit within the overall facility.

Further detail on the actions taken throughout the year to enhance the liquidity of the Group is provided in the strategic report. In approving these actions, the Board had regard to the interests of stakeholders, including investors, pension trustees and the long-term success of the Company.

Gatwick

The Board approved the establishment of a new subsidiary airline, BA EuroFlyer, to serve short-haul routes at Gatwick. In approving this proposal, the Board had regard to stakeholders' interests, including the customer proposition, industrial relations, suppliers, carbon emissions and the long-term success of the Company. The subsidiary will be subject to the Group's policies.

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



Sean Doyle
Chairman and Chief Executive Officer
2 March 2022



Rebecca Napier
Chief Financial Officer
2 March 2022

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2021.

Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 15 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 loss for the year ended 31 December 2021 amounted to £1,900 million (2020: £2,350 million loss). The operating loss for the year ended 31 December 2021 was £1,769 million (2020: £3,903 million loss).

The Board has decided not to recommend the payment of any dividends in respect of the year ended 31 December 2021 (2020: Nil).

Going concern

Based on the extensive modelling the Group has undertaken in light of the COVID-19 pandemic, including considering plausible but severe downside scenarios, the Directors have a reasonable expectation that the Group has sufficient liquidity for the going concern assessment period to 30 June 2023 and accordingly the Directors have adopted the going concern basis in preparing the consolidated financial statements.

There are a number of significant factors related to the status and impact of COVID-19 worldwide that are outside of the control of the Group. These include the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the speed at which vaccines are deployed worldwide; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus and the restrictions imposed by national governments in respect of the freedom of movement and travel. Due to the uncertainty that these factors create, the Directors are not able to provide certainty that there could not be more severe downside scenarios than those that have been considered in the modelling, including the sensitivities the Group has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that such a scenario were to occur, the Group may need to secure sufficient additional funding over and above that which is contractually committed as at 2 March 2022.

The Group has been successful in raising financing since the outbreak of COVID-19, having financed all aircraft deliveries in 2020 and 2021 and secured an additional £2.0 billion of non-aircraft related debt. The Group has negotiated and executed £2.0 billion of general facilities during 2021; these facilities were undrawn as at 2 March 2022 and would be available over the going concern period. However, the Group cannot provide certainty that it will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur and accordingly this represents a material uncertainty that could cast doubts upon the Group's ability to continue as a going concern. Refer to note 2 of the consolidated financial statements for further information.

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 (resigned 31 March 2021)
Sean Doyle
Alison Reed
Rebecca Napier
Gavin Patterson (resigned on 9 March 2021)
Julia Simpson (resigned on 27 May 2021)
Lynne Embleton
Alison Brittain (appointed 1 September 2021)
Carolina Martinoli (appointed 27 May 2021)

Company Secretary

Andrew Fleming

Directors' and Officers' liability insurance and indemnities

IAG purchases insurance against Directors' and Officers' liability covering the IAG 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 2020 and remain in force.

Directors' report continued

Directors' and Officers' liability insurance and indemnities continued

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 2021 and remain in force.

Corporate Governance

Effective corporate governance is a key requirement for the Group. For the year ended 31 December 2021, 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 with the world, and the world with Britain. This is supported by the Company's business plan, which is refreshed and reviewed annually by the Board.

The IAG Group Code of Conduct 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 and applies to all employees and Directors of BA and the other operating companies within IAG.

During the year, the Board and Management Committee have been focused on taking the necessary steps to get BA through the COVID-19 crisis and ensuring the Company is in fit shape to compete in the long term. Further detail on the activity during the year is included in the management review and outlook section on pages 2 to 5 of the strategic report.

Principle 2 – Board composition

In 2021 the Board comprised of two Executive Directors (the CEO and the CFO) and four Non-Executive Directors. Two of the Non-Executive Directors have other executive roles within IAG and two are external to IAG. The roles of Chairman and CEO were combined and it is considered that the two appointed external Non-Executive Directors provide appropriate challenge and scrutiny to the Board's decision making process. Significant financial decisions must be approved by the IAG Management Committee and the IAG Board. In accordance with the Articles of Association, the CEO is appointed by the shareholders. The Board comprises five female Directors and one male Director, 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. There are three Board Committees; the Board Safety Review Committee, the Remuneration Committee and the Sustainability 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 regularly 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.

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 approval process.

Directors' report continued

Corporate Governance continued

The Board aims to meet eight times per year. During 2021, there were 10 meetings, which were well attended.

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 controls are reviewed by the IAG 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 financial 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 IAG internal audit function on an annual basis with results reported to the BA Board and the IAG Audit and Compliance 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 and Compliance 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. This year, in response to the pandemic crisis, the risk management framework has further evolved to develop BA's assessment of the interdependencies of risks, built on scenario planning to quantify risk impact under different assumptions and consider the risks within BA's risk map that have increased either as a result of the external environment or as a result of decisions made by the business in response to the external environment. The process adopted this year has helped the BA Board and management to respond quickly to the new and rapidly changing risk landscape, enabling clear understanding and identification of emerging risks arising from the impact of the pandemic and how the pandemic has affected existing risks included within BA's risk map. Additional controls that were identified as a result of changes to the control environment such as staff on furlough or working from home, were implemented. There were no 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 twice yearly 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 7 to 15 of the strategic report.

Principle 5 – Remuneration

The Remuneration Committee is responsible for setting remuneration for the Management Committee (excluding the CEO and CFO 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 23.

Directors' report continued

Corporate Governance continued

Principle 6 – Stakeholder relationships and engagement

Information relating to the Board's engagement with key stakeholders is set out in the Section 172 statement on pages 15 to 19 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.

People

As we emerge out of the COVID-19 pandemic, British Airways focus is on creating a colleague centric experience. One of our strategic imperatives is colleague centricity. To achieve this British Airways is focussing on critical transformational people initiatives that we believe are fundamental to creating a colleague centric experience.

Working collaboratively with our leaders we have created a leadership aspiration and behaviours that we believe when role modelled will truly support British Airways in fostering a culture of trust, inclusivity and fairness. We recognise that behavioural and culture change require investing in development and therefore we have partnered with a leading provider to offer our senior leaders a comprehensive leadership development programme; focussing on their leadership strengths to truly role model the behaviours and bring our leadership aspiration to life. We will fully integrate these behaviours throughout the colleague lifecycle from onboarding to how we identify talent.

Diversity and inclusion is one of our key people priorities and forms part of our sustainability strategy BA Better World, which focusses on creating a better world by embedding sustainability across our culture, operations and customer experience. Focussing mainly on gender balance and ethnicity initially, our ambition is to improve gender and ethnic diversity in leadership roles. As part of this ambition, we have set ambitious targets amongst our management and leadership roles which we hope to achieve by 2025 and 2030. Our initiatives to achieve this focus on recruitment, data and learning interventions in the short term but will expand to focus on colleague support networks, targeted development programmes and an attraction strategy for emerging talent.

We recognise that our policy offerings significantly influence the colleague experience we offer and therefore our focus moving forward will be to ensure these are colleague centric, market competitive in the aviation industry and promote diversity and inclusion.

Another significant focus area for British Airways is talent attraction. We recognise that the candidate market at present is competitive and therefore offering an attractive colleague experience to current and future colleagues is even more paramount.

British Airways is trialling hybrid working after launching an extensive research programme to understand how colleagues were adapting to home working and what their preferences were for future ways of working. We will be looking to retain many of the practices we have implemented, in order to improve the colleague proposition through offering flexibility. We are now undertaking our first company-wide engagement survey since the end of 2019 and this insight will be critical to inform us of how we can improve our colleague experience in 2022 and beyond.

Energy and carbon

In accordance with the Streamlined Energy and Carbon Reporting ('SECR') requirements, the Group discloses the following energy and carbon metrics for the year:

BA Group	Metric	Measure	2021	2020
Annual GHG emissions in tonnes of CO ₂ e	Scope 1	MT CO ₂ e	5,978,784	7,250,236
	Scope 2 location-based	MT CO ₂ e	26,857	33,027
	Scope 2 market-based	MT CO ₂ e	6,908	8,499
	Scope 3	MT CO ₂ e	1,674,405	2,108,930
Energy in kWh	Electricity	kWh	113,509,593	129,407,816
	Total energy	MWh	22,947,090	27,816,480
Intensity ratio	Flight emissions intensity	gCO ₂ /pkm	101.6	110.4

Refer to pages 3 to 4 of the strategic report for efficiency actions taken by the Group. The Group has followed the 2019 HM Government Environmental Reporting Guidelines and has used the 2021 UK Government's Conversion Factors for Company Reporting.

Political donations

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

Directors' report continued

Auditors

In accordance with Section 489 of the Companies Act 2006, resolutions concerning the appointment of the auditor, KPMG 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.

Statement of directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

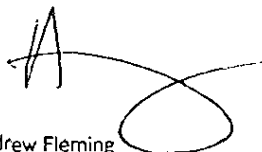
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by



Andrew Fleming
Company Secretary
2 March 2022

Company registration number - 1777777

Independent auditors report to the members of British Airways Plc

Opinion

We have audited the financial statements of British Airways Plc ("the Company") for the year ended 31 December 2021 which comprise the Group consolidated income statement, consolidated statement of other comprehensive income, Group and Company balance sheets, Group and Company cash flow statements, Group and Company statements of changes in equity and related notes, including the significant accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group and of the parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements which indicates that the Covid-19 pandemic has had a significant impact on the Group and parent Company's operations and should there be a more severe downside scenario to that forecast by the directors the Group and parent Company may need to secure sufficient additional funding which is outside the Group and parent Company's control. These events and conditions, along with the other matters explained in note 2, constitute a material uncertainty that may cast significant doubt on the Group and parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the parent Company, or to cease their operations, and as they have concluded that the Group and the parent Company's financial position means that this is realistic for at least the period to 30 June 2023 ("the going concern period"). As stated above, they have also concluded that there is a material uncertainty related to going concern.

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group and parent Company's financial resources or ability to continue operations over the going concern period. The risk associated with Covid-19 is considered the most likely to adversely affect the Group and parent Company's available financial resources over this period.

Given the level of financial resources, and the risks inherent in the cash flows, our evaluation of the directors' going concern assessment was of particular significance in our audit.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group and parent Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and parent Company's financial resources or ability to continue operations over the going concern period.

We performed the following procedures:

- Critically assessed assumptions in the directors' forecast relevant to liquidity, by comparing to external forecasts for the aviation industry's recovery from the impacts of the Covid-19 pandemic and economic forecasts, overlaying our knowledge of the Group and parent Company's plans based on approved budgets and our knowledge of the Group and the sector in which it operates.
- We specifically challenged the assumptions underpinning the 'downside lockdown case' scenario prepared by the directors to evaluate whether this represented a sufficiently severe but plausible downside scenario.
- We inspected loan facility agreements with lenders to confirm the level of facilities available.
- We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we found the going concern disclosure in note 2 to be acceptable.

Independent auditors report to the members of British Airways Plc continued

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and inspection of policy documentation as to the Group and parent Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group and parent Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors including their short and long-term incentive plans.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the nature of services tendered are high volume and low value, which have limited complexity in relation to the recognition principles of IFRS 15. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group and parent Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group and parent Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, UK civil aviation authority regulations and association of British travel agents regulations, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group and parent Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Group and parent Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditors report to the members of British Airways Plc continued

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Mark Baillache (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
2 March 2022

Group consolidated income statement

For the year ended 31 December 2021

£ million	Note	2021	2020
Passenger revenue		2,315	2,894
Cargo revenue		1,097	890
Other revenue		281	217
Total revenue		3,693	4,001
Employee costs	6	1,482	1,717
Fuel, oil costs and emission charges		938	1,160
Handling, catering and other operating costs		824	857
Landing fees and en route charges		373	460
Engineering and other aircraft costs		377	446
Property, IT and other costs		490	471
Selling costs		138	126
Depreciation, amortisation and impairment	4	984	1,076
Currency differences		(13)	38
Total expenditure on operations before exceptional items		5,593	6,351
Operating loss before exceptional items	4	(1,900)	(2,350)
Exceptional items	3	131	(1,553)
Operating loss after exceptional items		(1,769)	(3,903)
Finance costs	7	(429)	(269)
Finance income	7	3	15
Share of post-tax profits/(losses) in investments accounted for using the equity method	14	43	(144)
Net financing (charge)/credit relating to pensions	27	(2)	11
Net currency retranslation credits		23	55
Other non-operating credits	7	27	36
Total net non-operating costs		(335)	(296)
Loss before tax		(2,104)	(4,199)
Tax	8	456	699
Loss after tax		(1,648)	(3,500)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Consolidated statement of other comprehensive income

For the year ended 31 December 2021

£ million	Note	2021	Group ¹ 2020
Loss after tax for the year		(1,648)	(3,500)
Other comprehensive income:			
Items that may be reclassified to net loss			
Cash flow hedges:			
Fair value movements in equity	26	430	(1,171)
Reclassified and reported in net loss	26	(32)	1,035
Fair value movements on cost of hedging	26	11	(10)
Cost of hedging reclassified and reported in net loss	26	(11)	(11)
Currency translation differences	26	(9)	15
Other movements in comprehensive income of associates	14	(1)	(12)
		388	(154)
Items that will not be reclassified to net loss			
Fair value movements on other equity investments	26	-	(47)
Fair value movements on cash flow hedges	26	18	(3)
Fair value movements on cost of hedging	26	1	22
Remeasurements of post-employment benefit obligations	27	1,197	(522)
		1,216	(550)
Total other comprehensive income/(loss)		1,604	(704)
Total comprehensive loss for the year (net of tax)		(44)	(4,204)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Balance sheets

Company registration number 1777777

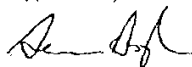
As at 31 December 2021

£ million	Note	2021	2020 ¹	Group 2019 ¹	2021	2020 ¹	Company 2019 ¹
Non-current assets							
Property, plant and equipment	10	9,861	10,381	10,488	9,696	10,162	10,231
Intangible assets	13	1,032	1,062	1,094	982	1,010	1,041
Investments in subsidiaries	14	-	-	-	842	847	1,278
Investments accounted for using the equity method	14	1,737	1,688	1,838	1,570	1,563	1,563
Other equity investments	15	2	2	49	2	2	40
Employee benefit assets	27	1,508	303	450	1,508	303	450
Derivative financial instruments	23	35	20	59	35	22	60
Deferred tax assets	8	574	401	-	671	478	-
Other non-current assets	16	168	174	191	170	170	190
		14,917	14,031	14,169	15,476	14,557	14,853
Current assets							
Inventories		74	73	156	72	70	152
Trade receivables	16	454	356	1,202	441	342	1,186
Other current assets	16	414	351	683	417	383	716
Derivative financial instruments	23	218	52	91	220	54	96
Other current interest-bearing deposits	17	-	-	1,330	-	-	1,330
Cash and cash equivalents	17	1,687	1,261	1,258	1,630	1,195	1,158
		2,847	2,093	4,720	2,780	2,044	4,638
Total assets		17,764	16,124	18,889	18,256	16,601	19,491
Shareholders' equity							
Issued share capital	24	290	290	290	290	290	290
Share premium	24	1,512	1,512	1,512	1,512	1,512	1,512
Other reserves ²	26	(10)	32	4,251	172	237	4,662
Total shareholders' equity		1,792	1,834	6,053	1,974	2,039	6,464
Total equity		1,792	1,834	6,053	1,974	2,039	6,464
Non-current liabilities							
Borrowings	20	8,918	7,477	5,378	8,898	7,444	5,360
Employee benefit obligations	27	241	431	276	218	401	248
Deferred tax liabilities	8	-	-	184	-	-	105
Provisions	21	354	344	423	328	316	415
Derivative financial instruments	23	26	168	156	26	168	157
Other non-current liabilities	19	91	69	29	89	67	18
		9,630	8,489	6,446	9,559	8,396	6,303
Current liabilities							
Borrowings	20	832	1,310	932	819	1,294	918
Trade and other payables	18	1,665	1,243	2,104	2,092	1,616	2,445
Deferred revenue on ticket sales	18	3,512	2,429	2,934	3,490	2,438	2,969
Derivative financial instruments	23	69	552	105	70	553	107
Current tax payable	8	5	37	142	9	40	146
Provisions	21	259	230	173	243	225	139
		6,342	5,801	6,390	6,723	6,166	6,724
Total liabilities		15,972	14,290	12,836	16,282	14,562	13,027
Total equity and liabilities		17,764	16,124	18,889	18,256	16,601	19,491

¹The 2020 and 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

²The loss for the year for the Company was £1,675 million (2020: £3,717 million).

Approved by the Board and signed on its behalf by



Sean Doyle
Chairman and Chief Executive Officer
2 March 2022



Rebecca Napier
Chief Financial Officer
2 March 2022

Cash flow statements

For the year ended 31 December 2021

£ million	Note	Group		Company	
		2021	2020 ^{1,2}	2021	2020 ^{1,2}
Cash flow from operating activities					
Operating loss from continuing operations after exceptional items		(1,769)	(3,903)	(1,708)	(3,816)
Exceptional items		(131)	1,553	(131)	1,545
Operating loss from continuing operations before exceptional items		(1,900)	(2,350)	(1,839)	(2,271)
Depreciation, amortisation and impairment		984	1,076	946	1,005
Movement in working capital		1,417	48	1,422	33
(Increase)/decrease in trade receivables, inventories and other current assets		(127)	1,288	(139)	1,285
Increase/(decrease) in trade and other payables, deferred revenue on ticket sales and other current liabilities		1,544	(1,240)	1,561	(1,252)
Payments related to restructuring	21	(18)	(234)	(18)	(227)
Employer contributions to defined benefit pension schemes net of service and administration costs	27	(14)	(262)	(12)	(257)
Provisions and other non-cash movements		160	98	158	114
Realised loss on de-designated fuel and foreign exchange hedges		(129)	(630)	(129)	(630)
Interest paid		(342)	(226)	(340)	(226)
Interest received		1	18	1	18
Tax paid		(28)	(51)	(28)	(51)
Net cash flows generated from/(used in) operating activities		131	(2,513)	161	(2,492)
Cash flow from investing activities					
Acquisition of property, plant and equipment and intangible assets		(406)	(950)	(386)	(945)
Sale of property, plant and equipment and intangible assets		72	254	19	254
Dividends received	14	1	1	1	1
Loan repaid by parent company		9	9	9	9
Other investing movements		(7)	2	(7)	2
Decrease in other current interest-bearing deposits		-	1,330	-	1,330
Net cash flows (used in)/generated from investing activities		(331)	646	(364)	651
Cash flow from financing activities					
Proceeds from borrowings		2,107	3,541	2,107	3,541
Repayments of borrowings		(459)	(898)	(459)	(898)
Repayment of lease liabilities		(738)	(807)	(724)	(794)
Settlement of derivative financial instruments		(237)	58	(237)	58
Other financing movements		(21)	-	(21)	-
Net cash flows generated from financing activities		652	1,894	666	1,907
Increase in cash and cash equivalents		452	27	463	66
Net foreign exchange differences		(26)	(24)	(28)	(29)
Cash and cash equivalents at 1 January		1,261	1,258	1,195	1,158
Cash and cash equivalents at 31 December		1,687	1,261	1,630	1,195

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

²The 2020 results include a reclassification to conform with the current year of presentation regarding settlement of derivative financial instruments. Further information is given in note 2.

Statements of changes in equity

For the year ended 31 December 2021

				Group
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total equity
At 1 January 2021 restated ¹	290	1,512	32	1,834
Loss for the period	-	-	(1,648)	(1,648)
Other comprehensive income for the period	-	-	1,604	1,604
Total comprehensive loss for the period, net of tax	-	-	(44)	(44)
Hedges reclassified and reported in property, plant and equipment	-	-	2	2
As at 31 December 2021	290	1,512	(10)	1,792

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

For the year ended 31 December 2020

				Group
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total Equity
At 1 January 2020 as reported ¹	290	1,512	4,005	5,807
Change in accounting policy ¹	-	-	246	246
At 1 January 2020 restated	290	1,512	4,251	6,053
Loss for the period	-	-	(3,500)	(3,500)
Other comprehensive loss for the period	-	-	(704)	(704)
Total comprehensive loss for the period, net of tax	-	-	(4,204)	(4,204)
Hedges reclassified and reported in property, plant and equipment	-	-	(14)	(14)
Cost of share-based payment (net of tax)	-	-	(1)	(1)
As at 31 December 2020	290	1,512	32	1,834

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Statements of changes in equity

For the year ended 31 December 2021

	Company			
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total equity
At 1 January 2021 restated ¹	290	1,512	237	2,039
Loss for the period	-	-	(1,675)	(1,675)
Other comprehensive income for the period	-	-	1,608	1,608
Total comprehensive loss for the period, net of tax	-	-	(67)	(67)
Hedges reclassified and reported in property, plant and equipment	-	-	2	2
As at 31 December 2021	290	1,512	172	1,974

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

For the year ended 31 December 2020

	Company			
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total Equity
At 1 January 2020 as reported ¹	290	1,512	4,416	6,218
Change in accounting policy ¹	-	-	246	246
At 1 January 2020 restated	290	1,512	4,662	6,464
Loss for the period	-	-	(3,717)	(3,717)
Other comprehensive loss for the period	-	-	(693)	(693)
Total comprehensive loss for the period, net of tax	-	-	(4,410)	(4,410)
Hedges reclassified and reported in property, plant and equipment	-	-	(14)	(14)
Cost of share-based payment (net of tax)	-	-	(1)	(1)
As at 31 December 2020	290	1,512	237	2,039

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Notes to the Financial Statements

For the year ended 31 December 2021

1 Authorisation of financial statements and compliance with international accounting standards

The Group's and Company's financial statements for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 2 March 2022 and the balance sheets were signed on the Board's behalf by Sean Doyle 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 Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish the Company income statement and related notes.

2 Significant accounting policies

Basis of preparation

The Group has prepared the consolidated and Company financial statements in accordance with UK-adopted international accounting standards.

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 carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 7 to 15) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on page 3). Further information is provided in note 22 of the financial statements.

Going concern

The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Group's (being British Airways Plc and its subsidiaries) and Company's results and cash flows. At 31 December 2021, the Group had total liquidity of £4.5 billion (31 December 2020: total liquidity of £2.7 billion), comprising cash and interest-bearing deposits of £1.7 billion (2020: £1.3 billion), £2.0 billion of committed and undrawn general facilities (2020: £0.6 billion) and a further £0.8 billion of committed and undrawn aircraft specific facilities (2020: £0.8 billion).

At 31 December 2021, the Company had total liquidity of £4.4 billion (31 December 2020: total liquidity of £2.6 billion), comprising cash and interest-bearing deposits of £1.6 billion (2020: £1.2 billion), £2.0 billion of committed and undrawn general facilities (2020: £0.6 billion) and a further £0.8 billion of committed and undrawn aircraft specific facilities (2020: £0.8 billion).

The increase in liquidity during the year to 31 December 2021 was attributable to, amongst other actions, accessing £2.0 billion of the UK Export Finance ('UKEF') Credit Facility, securing a multi-entity three-year Revolving Credit Facility ('RCF') of \$1.35 billion (£1.0 billion), securing a £0.5 billion aircraft specific facility achieved as part of an Enhanced Equipment Trust Certificate ('EETC') financing structure and securing an additional UKEF Credit Facility of £1.0 billion. These actions raised an additional £4.5 billion of liquidity. Of facilities in place at 31 December 2021, no amounts mature by the end of the going concern period. The Group's and Company's facilities do not contain financial covenants. There are non-financial covenants to protect the position of the lenders, including restrictions on the upstreaming of cash to the IAG Group or lending to other companies within the wider IAG Group from British Airways plc and its subsidiaries.

Despite the uncertainty of the COVID-19 pandemic, the Group and Company has continued to successfully secure financing arrangements for all aircraft delivered in 2021.

In its assessment of going concern over the period to 30 June 2023 (the 'going concern period'), the Group and Company has modelled three scenarios referred to below as the Base Case, the Downside Case and the Downside Lockdown Case. The Group's and Company's three-year business plan, prepared and approved by the Board in December 2021, was subsequently refreshed with the latest available internal and external information in February 2022. This refreshed business plan supports the Base Case, which takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group and Company across the going concern period. The key inputs and assumptions underlying the Base Case include:

- As part of the recovery, the Group and Company has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines during the year. Travel restrictions, including testing and quarantine requirements, between countries are assumed to continue to be scaled back and removed;
- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from a reduction of 42 per cent in quarter 1 2022 (compared to the equivalent period in 2019) to a reduction of 4 per cent by the end of the going concern period in quarter 2 2023 with the average over the going concern period being 14 per cent down versus 2019;
- Passenger unit revenue per ASK, although forecast to continue to recover, is assumed to still remain below levels of 2019 by the end of the going concern period, which is based on, amongst other assumptions, a greater weighting of shorthaul versus longhaul, leisure versus business and economy versus premium compared to 2019. Specifically, the Group's and Company's assumption is that traffic related to domestic and leisure will recover faster than longhaul and business;

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Going concern continued

- The Group and Company has assumed that the committed and undrawn general facilities of £2.0 billion will not be drawn over the going concern period;
- The Group and Company has assumed that of the committed and undrawn aircraft specific facilities of £0.8 billion, £0.5 billion will be drawn to fund specific aircraft scheduled for delivery during 2022 and the remaining £0.3 billion is not expected to be drawn;
- Of the capital commitments detailed in note 12, £1.9 billion is due to be paid over the going concern period of which the Group and Company has committed aircraft financing of £0.5 billion, under the EETC financing structure, and the Group and Company has further forecast securing 80 per cent of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. This loan to value assumption is below the level of financing the Group and Company has been able to achieve recently, including over the course of the COVID-19 pandemic to date.

The Downside Case applies stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case. The Downside Case is representative of existing travel restrictions remaining in place and the gradual recovery of capacity being delayed longer than in the Base Case. The Downside Case also models a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul. The result of which is that the levels of capacity assumed under the Base Case are delayed by a quarter under the Downside Case and would reach those of the Base Case at the end of the going concern period. In the Downside Case, over the going concern period capacity would be 23 per cent down on 2019. The Downside Case assumes that there would be no drawing on either the RCF or the UKEF credit facility. The Directors consider the Downside Case to be a severe but plausible scenario.

In addition, the Group and Company has sensitised the Downside Case to incorporate the occurrence of a two-month lockdown, and associated travel restrictions, during the second quarter of 2022, a scenario referred to as the Downside Lockdown Case. The Downside Lockdown Case is representative of the emergence of more virulent strains of COVID-19 and/or strains for which the efficacy of existing vaccines is reduced. Subsequent to this lockdown, capacity is assumed to recover gradually through to the end of 2023, at which time capacity is assumed to align with that of the Base Case and Downside Case. In this scenario, over the going concern period capacity would be 46 per cent down on 2019. The Downside Lockdown Case assumes that there would be full drawing on both the RCF and the UKEF credit facility. Consistent with the Downside Case, the Directors consider the Downside Lockdown Case to be an alternative severe but plausible scenario.

The Group and Company has modelled the impact of further deteriorations in capacity operated and yield, including mitigating actions to reduce operating and capital expenditure. The Group and Company expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience.

Having reviewed the Base Case, Downside Case, Downside Lockdown Case and additional sensitivities, the Directors have a reasonable expectation that the Group and Company have sufficient liquidity to continue in operational existence over the going concern period and hence continue to adopt the going concern basis in preparing the consolidated financial statements for the year to 31 December 2021.

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are outside of the control of the Group and Company, including: the status and impact of the pandemic worldwide; the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the speed at which vaccines deployed worldwide; the efficacy of those vaccines; the availability of medicines to combat the impact of the virus and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Group and Company, therefore, are not able to provide certainty that there could not be a more severe downside scenario than those it has considered, including the sensitivities in relation to the timing of recovery from the COVID-19 pandemic, capacity operated, impact on yield, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe scenario were to occur, the Group and Company may need to secure sufficient additional funding. Sources of additional funding are expected to include securing additional long-term financial facilities. However, the Group's and Company's ability to obtain this additional funding in the event of a more severe downside scenario represents a material uncertainty at 2 March 2022 that could cast significant doubt upon the Group's and Company's ability to continue as a going concern and therefore, to continue to realise its assets and discharge their liabilities in the normal course of business.

The financial statements for the year to 31 December 2021 do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

Presentation of results

The prior period Cash flow statement includes a reclassification to conform with the current period of presentation regarding the settlement of foreign currency derivative financial instruments not designated in a hedge relationship, but entered into to mitigate foreign exchange movements on long-term financial liabilities in currencies other than the functional currencies of the operating companies holding the liabilities. Accordingly, the Group has reclassified the results for the year ended 31 December 2020 to recognise £58 million of derivative settlement cash inflows as Settlement of derivative financial instruments within cash flows from financing activities with a corresponding increase in cash outflows within cash flows from operating activities.

Change in accounting policy

During the year ended 31 December 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the APS and NAPS Defined benefit schemes. The change in policy has been adopted to better reflect the underlying management and operation of these schemes. This change in accounting policy has been applied retrospectively to the financial statements and is detailed below.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Change in accounting policy continued

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. These administration costs were recognised as a service cost in the year in which such costs arose and recorded within Other comprehensive income. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both 31 December 2020 and 31 December 2019. It has in addition increased the charge to Employee costs and the Financing credit relating to pensions in the Income statement, as well as increased the Remeasurements of post-employment benefit obligations in the Statement of other comprehensive income for the year ended 31 December 2020.

The impact of the changes in these accounting policies on the Income statement and the Statement of comprehensive income for the financial year ended 31 December 2020, as well as the Balance sheets at 31 December 2020 and 31 December 2019 are shown below:

Consolidated Income statement (extract for the year to 31 December 2020)

	Group		
		Adjustment – administration costs	
£ million	Reported		Restated
Total revenue	4,001	-	4,001
Employee costs	1,695	22	1,717
Other expenditure on operations	4,634	-	4,634
Total expenditure on operations before exceptional items	6,329	22	6,351
Operating loss before exceptional items	(2,328)	(22)	(2,350)
Exceptional items	(1,553)	-	(1,553)
Operating loss after exceptional items	(3,881)	(22)	(3,903)
Net financing credit relating to pensions	4	7	11
Other financing items	(254)	-	(254)
Other non-operating items	(53)	-	(53)
Total net non-operating costs	(303)	7	(296)
Loss before tax	(4,184)	(15)	(4,199)
Tax	695	4	699
Loss after tax for the year	(3,489)	(11)	(3,500)

The Company's reported loss for the year ended 31 December 2020 was £3,706 million. The restatement resulted in an increase in the Company's loss after tax of £11 million to £3,717 million for the year ended 31 December 2020.

Consolidated Statement of other comprehensive income (extract for the year to 31 December 2020)

	Group		
		Adjustment – administration costs	
£ million	Reported		Restated
Loss after tax for the year	(3,489)	(11)	(3,500)
Items that may be reclassified to net loss			
Items that may be classified subsequently to net loss	(154)	-	(154)
Items that will not be reclassified to net loss			
Remeasurements of post-employment benefit obligations	(554)	32	(522)
Other items that will not be reclassified to net profit	(28)	-	(28)
Total other comprehensive loss for the year, net of tax	(736)	32	(704)
Total other comprehensive loss for the year	(4,225)	21	(4,204)

The Company's reported total comprehensive loss for the year ended 31 December 2020 was £4,431 million. The restatement resulted in a decrease in the Company's total comprehensive loss for the year of £21 million to £4,410 million for the year ended 31 December 2020.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Change in accounting policy continued

Balance sheet (extract at 31 December 2020 and 31 December 2019) - Group

£ million	Reported 2020	Adjustment – administration costs ¹	Restated 2020	Reported 2019	Adjustment – administration costs ¹	Restated 2019
Non-current assets						
Employee benefit assets	256	47	303	266	184	450
Other non-current assets	13,728	-	13,728	13,719	-	13,719
	13,984	47	14,031	13,985	184	14,169
Current assets	2,093	-	2,093	4,720	-	4,720
Total assets	16,077	47	16,124	18,705	184	18,889
Other equity	1,802	-	1,802	1,802	-	1,802
Other reserves	(235)	267	32	4,005	246	4,251
Total equity	1,567	267	1,834	5,807	246	6,053
Non-current liabilities						
Employee benefit obligations	651	(220)	431	338	(62)	276
Other non-current liabilities	8,058	-	8,058	6,170	-	6,170
	8,709	(220)	8,489	6,508	(62)	6,446
Current liabilities	5,801	-	5,801	6,390	-	6,390
Total liabilities	14,510	(220)	14,290	12,898	(62)	12,836
Total equity and liabilities	16,077	47	16,124	18,705	184	18,889

¹Adjustments made to Employee benefit assets and Employee benefit obligations are presented net of the impact of withholding tax.

Balance sheet (extract at 31 December 2020 and 31 December 2019) - Company

£ million	Reported 2020	Adjustment – administration costs ¹	Restated 2020	Reported 2019	Adjustment – administration costs ¹	Restated 2019
Non-current assets						
Employee benefit assets	256	47	303	266	184	450
Other non-current assets	14,254	-	14,254	14,403	-	14,403
	14,510	47	14,557	14,669	184	14,853
Current assets	2,044	-	2,044	4,638	-	4,638
Total assets	16,554	47	16,601	19,307	184	19,491
Other equity	1,802	-	1,802	1,802	-	1,802
Other reserves	(30)	267	237	4,416	246	4,662
Total equity	1,772	267	2,039	6,218	246	6,464
Non-current liabilities						
Employee benefit obligations	621	(220)	401	310	(62)	248
Other non-current liabilities	7,995	-	7,995	6,055	-	6,055
	8,616	(220)	8,396	6,365	(62)	6,303
Current liabilities	6,166	-	6,166	6,724	-	6,724
Total liabilities	14,782	(220)	14,562	13,089	(62)	13,027
Total equity and liabilities	16,554	47	16,601	19,307	184	19,491

¹Adjustments made to Employee benefit assets and Employee benefit obligations are presented net of the impact of withholding tax.

Consolidation

The Group 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 consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. 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.

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. 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 intragroup account balances, including intragroup profits, have been eliminated in preparing the consolidated financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Consolidation continued

Unconsolidated structured entities

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. In certain instances the Group will undertake several such sale and leaseback transactions at once through Enhanced Equipment Trust Certificates (EETCs). Under each of these financing structures, a company or companies (the EETC Issuer) are established to facilitate such financing on behalf of a number of unrelated investors. In certain of these financing structures, additional special purpose vehicles (the Lessor SPV) are established to provide additional financing from a number of further unrelated investors to the EETC Issuer. The proceeds from the issuance of the EETCs by the EETC Issuer, and where relevant the proceeds obtained from the Lessor SPV, are then used to purchase aircraft solely from the Group. The Group will then enter into lease arrangements (which meet the recognition criteria of Asset financed liabilities) with the EETC Issuer, or where relevant the Lessor SPV, with payments made by the Group to the EETC Issuer, or the Lessor SPV, distributed, through a trust, to the aforementioned unrelated investors. The main purpose of the trust structure is to enhance the credit-worthiness of the Group's debt obligations through certain bankruptcy protection provisions and liquidity facilities, and also to lower the Group's total borrowing cost.

The EETCs Issuer and the Lessor SPV are established solely with the purpose of providing the asset-backed financing and upon maturity of such financing are expected to have no further activity. The relevant activities of the EETCs Issuer and the Lessor SPV are restricted to pre-established financing agreements and the retention of the title of the associated financed aircraft. Accordingly, the Group has determined that each EETCs Issuer and the Lessor SPVs are structured entities. Under the contractual terms of the financing structures, the Group has no exposure to losses in these entities, does not own any of the share capital of the EETC Issuer or the Lessor SPV, does not have any representation on the respective boards and has no ability to influence decision making.

In considering the aforementioned facts, management has concluded that the Group does not have access to variable returns from the EETC Issuers because its involvement is limited to the payment of principal and interest under the arrangement and therefore, it does not control the EETCs Issuers and as such does not consolidate them.

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.

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 between 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Property, plant and equipment continued

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.

Certain 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 four to 20 years.

d 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.

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 tangible asset for a period of time in exchange for consideration. The Group has elected to not apply such consideration where a contract relates to an intangible asset, in which case payments associated with the contract are expensed as incurred.

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.

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; and any initial direct costs. In addition, at the lease commencement date a ROU asset will incorporate unavoidable restoration costs to return the asset to its original condition, for which a corresponding amount is recognised within Provisions.

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. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor. For aircraft leases these inputs are either observable in the contract or readily available from external market data. The initial direct costs of the lessor are considered to be immaterial. 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 carrying amount of lease liabilities is remeasured if there is a modification of the lease contract, a re-assessment of the lease term (specifically in regard to assumptions regarding extension and termination options) and changes in variable lease payments that are based on an index or a rate.

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 is also exposed to variable lease payments based on usage or revenue generated over a defined period. Such variable lease payments are expensed to the income statement as incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Lease liabilities continued

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. The principal criteria for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred, and; if no such repurchase option exists, then a sale is deemed to have occurred.

Cash flow presentation

Lease payments are presented as follows in the Consolidated cash flow statement: the repayments of the principal element of lease liabilities are presented within cash flows from financing activities; the payments of the interest element of lease liabilities are included within cash flows from operating activities, and; the payments arising from variable elements of a lease, short-term leases and low-value assets are presented within cash flows from operating activities.

COVID-19 related rent concessions

On 28 May 2020, the IASB issued 'COVID-19 Related Rent Concessions – amendments to IFRS 16 Leases'. The amendment provides a practical expedient for lessees, up to 30 June 2021, not to assess whether a COVID-19 related rent concession is a lease modification. On 31 March 2021, the IASB extended the period for the application of these concessions through to 30 June 2022. The extended amendment is effective for annual reporting periods commencing on or after 1 April 2021 and the Group has elected to adopt this amendment for the year to 31 December 2021.

Intangible assets

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 within the United Kingdom and 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

Where the Group purchases emissions allowances, such that it has a surplus of allowances when compared to the amount required to discharge its obligations to the relevant authorities, these amounts are recognised at cost and recorded within intangible assets. Emissions allowances recorded within Other intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. Where the Group has a deficit of allowances compared to the amount required to discharge its obligations to the relevant authorities, the Group recognises a provision for the outstanding amount, measured at the market price of such an allowance at the reporting date.

From time to time the Group enters into sale and repurchase transactions for specified emission allowances. Such transactions do not meet the recognition criteria of a sale under IFRS 15 and accordingly the asset is retained on the balance sheet within intangible assets and an Other financing liability recognised equal to the proceeds received.

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, including right-of-use assets

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Impairment of non-financial assets continued

b 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. 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.

Investments 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 50 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.

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 Other equity investments
Other 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.

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.

b Interest-bearing deposits
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, and held in order to collect contractual cash flows, are carried at amortised cost using the effective interest method.

c Derivative and non-derivative financial instruments and hedging activities
Derivative financial instruments, comprising interest rate swap derivatives, 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. They are classified as financial instruments through the income statement. 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 a cost of hedging. Movements in the time value of options are recognised in other comprehensive income until the underlying transaction affects the income statement.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the spot component of the forward contract as the hedging instrument within a hedge relationship. Gains or losses arising on the change in fair value of the spot component are recognised within Other comprehensive income in the cash flow hedge reserve within equity. The forward component of a forward contract is not designated within a hedge relationship, with the associated gains and losses on the forward component recorded within Other comprehensive income in the Cost of hedging reserve within equity until the underlying transaction affects the income statement.

To manage foreign exchange movements on foreign currency revenues (denominated in US dollars, euros, Japanese yen and Chinese yuan), certain non-derivative repayment instalments on foreign currency denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. Revaluations arising from movements in foreign exchange rates are recorded within Other comprehensive income in the cash flow hedge reserve. Accumulated gains or losses within the cash flow hedge reserve are reclassified to Passenger revenue in the same period as the forecast transaction occurs or when hedge accounting is discontinued when the forecast transaction is no longer expected to occur.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Financial instruments continued

When a derivative is designated as a hedging instrument and that instrument expires, is sold or is restructured, if the initial forecast transaction is still expected to occur, any cumulative gain or loss remains in the cash flow hedge reserve until such time as the hedged item impacts the income statement. Where there is a change in the risk management objective, then hedge accounting is discontinued and the associated cumulative gain or loss arising prior to the change in risk management objective remains in the cash flow hedge reserve until such time as the hedged item impacts the income statement had the risk management objective continued to have been met. Where a forecast transaction which was previously determined to be highly probable and for which hedge accounting applied, is no longer expected to occur, hedge accounting is discontinued and the cumulative gain or loss in the cash flow hedge reserve is immediately reclassified to the income statement.

The Group enters into foreign currency derivative contracts, that are not designated in a hedge relationship, in order to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentation currency of the Group, including but not limited to, lease liabilities. Movements in the fair value of such derivatives are recognised in the income statement in the period in which they occur and are presented within Net currency retranslation (charges)/credits.

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 Cash flow hedges

Changes in the fair value of derivative financial instruments designated as in a hedge relationship of a highly probable expected future transaction are assessed for effectiveness and accordingly recorded in the Cash flow hedge reserve within equity.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: (i) there is an economic relationship between the hedged item and the hedging instrument; (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and (iii) the hedge ratio is aligned with the requirements of the Group's risk management strategy and in all instances is maintained at a ratio of 1:1.

Sources of ineffectiveness include the following:

- In hedges of fuel purchases and hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty;
- In hedges of interest rate payments, ineffectiveness may arise if there are differences in the critical terms between the interest rate derivative instrument and the underlying hedged item, or if there are changes in the credit risk of the Group or the derivative counterparty.

Ineffectiveness is recorded within the income statement as Realised/unrealised (losses)/gains on derivatives not qualifying for hedge accounting and presented within Other non-operating charges.

Reclassification adjustments

Gains and losses accumulated in the Cash flow hedge reserve within equity are reclassified from the Cash flow hedge reserve when the hedged item affects the income statement as follows:

- Where the forecast hedged item results in the recognition of revenue or expenses within the income statement (such as the purchase of jet fuel for which both fuel and the associated foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded in both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the same caption as the hedged item is presented. Such reclassification occurs in the same period as the hedged item is recognised;

- Where the forecast hedged item results in the recognition of a non-financial asset (such as the purchase of aircraft for which foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded within both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the initial cost of the asset. These gains or losses are recorded in the income statement as the non-financial asset affects the income statement (which for aircraft is through Depreciation over the expected life of the aircraft); and

- Where the forecast hedged item results in the recognition of a financial asset or liability (such as a variable rate debt for which interest rate swaps are designated as the hedging instrument), the accumulated gains and losses recorded within the cash flow hedge reserve are reclassified to interest expense within the income statement at the same time as the interest expense arises on the hedged item.

Further information on the risk management activities of the Group are given in note 22d.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Financial instruments continued

e 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 separately as an embedded derivative.

f 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.

When determining whether there has been a significant increase in credit risk since initial recognition and when estimating the expected credit loss, the Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. Such forward-looking information takes into consideration the forecast economic conditions expected to impact the outstanding balances at the balance sheet date. A financial asset is written off when there is no reasonable expectation of recovery, such as the customer having filed for liquidation.

g Interest rate benchmark reform

In 2020 the Group adopted the amendments to IFRS 9 and IFRS 7 relating to the interest rate benchmark reform Phase 1, ('Phase 1') and in 2021 the Group has adopted the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the interest rate benchmark reform Phase 2, ('Phase 2').

The Phase 1 amendments provide temporary relief from applying certain hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform does not cause hedge accounting to terminate prior to contracts being amended. Where transition to an alternative benchmark rate has taken place, the Group ceases to apply the Phase 1 amendments and instead applies the Phase 2 amendments.

Hedge accounting

Where the Group continues to apply the Phase 1 amendments, the following reliefs are applied:

- when considering the highly probable requirement, the Group has assumed that those benchmark rates that need to transition to an alternative benchmark rate, on which the Group's hedged long-term borrowings is based does not change as a result of IBOR reform;
- in assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group assumed that those benchmark rates that need to be transitioned to an alternative benchmark rate, on which the cash flows of the hedged long-term borrowings and the interest rate swaps that hedge them are based, are not altered by IBOR reform; and
- the Group did not recycle the cash flow hedge reserve relating to the period after the IBOR reform is expected to take effect.

When the Group ceased to apply the Phase 1 amendments, the Group amends its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of the following changes:

- designating an alternative benchmark rate (contractually or non-contractually specified) as the hedged risk;
- amending the description of the hedged item, including the description of the designated portion of the cash flows being hedged; or
- amending the description of the hedging instrument.

The associated hedge documentation is updated to reflect these changes in designation by the end of the reporting period in which the changes are made. Such amendments do not give rise to the hedge relationship being discontinued.

When the Group transitions to an alternative benchmark rate, the accumulated amounts within the cash flow hedge reserve are determined to be based on the alternative benchmark rate and no reclassification adjustments are made from the cash flow hedge reserve to the Income statement.

Long-term borrowings and lease liabilities

Phase 2 of the amendments requires that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate prospectively. No gain or loss is recognised upon transition to the new benchmark. The expedient is only applicable to direct changes that are required by interest rate benchmark reform.

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform.

Further information on the management of and uncertainty arising from interest rate reform is given in note 22h. No amounts have been recorded in the current or prior periods as a result of these amendments.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Employee benefit plans

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, net of the relevant taxes, 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 timing and amount 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.

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.

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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Share-based payments

IAG 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 Group and represented rights over its ordinary shares. These awards rolled over into awards in respect of shares in IAG at the merger. The awards are made under schemes operated by IAG and represent rights over its ordinary shares. The cost of these awards is recharged from IAG to the Group and recognised in intercompany payables to IAG.

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 and where it is considered probable that an outflow of economic resources will be required to settle the obligation. Where it is not considered probable that there will be an outflow of economic resources required to settle the obligation, the Group does not recognise a provision, but discloses the matter as a contingent liability. The Group assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

Restoration and handback provisions arising on inception of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any subsequent change in estimation relating to such costs are reflected in the ROU asset. Maintenance and handback provisions that occur through usage or through the passage of time are recognised as such activity occurs, with a corresponding expense recorded in the Income statement. Any subsequent change in estimation are recognised in the Income statement.

The method for determining legal claims provisions is determined on a claim by claim basis. Where a claim includes a significant population of items, the weighted average provision is estimated by determining all potential outcomes and the probability of their occurrence. Where a claim relates to a single item, then the Group determines the associated provision by applying the most likely outcome giving consideration to alternative outcomes.

Where an individual claim is significant, the disclosure of quantitative information is restricted to the extent that it does not prejudice the outcome of the claim. 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 effect of unwinding the discount rate is recognised as a finance cost in the Income statement.

Revenue recognition

a Passenger revenue

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 either the customer has flown or for flexible tickets, when unused ticket revenue is recognised or the ticket expires unused.

At the time of expected travel, revenue is recognised in relation to flexible tickets where a customer can reschedule the date of intended travel, that are not expected to be used, a term referred to as 'unused tickets'. This revenue is recognised based on the terms and conditions of the ticket and analysis of historical experience. For these unused flexible tickets, revenue is recognised only when the risk of a significant reversal of revenue is remote based on the terms and conditions and analysis of historical experience. The estimation regarding historical experience is updated at each reporting date.

Where a flight is cancelled, the passenger is entitled to either compensation, a refund, changing to an alternative flight or the receipt of a voucher. Where compensation is issued to the customer, such payments are presented net within Passenger revenue against the original ticket purchased. Where the Group provides a refund to a customer, Deferred revenue on ticket sales is reduced and no amount is recorded within revenue. Where a voucher is issued it is retained within Deferred revenue on ticket sales until such time as it is redeemed for a flight or it expires, at which time it is recorded within Passenger revenue. Revenue recognised associated with the issuance of vouchers prior to their redemption by The Group also recognises revenue by estimating the level of such vouchers that will not be redeemed prior to expiry using analysis of historical experience. The amount of such revenue recognised is constrained, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Payments received in relation to certain ancillary services regarding passenger transportation, such as change fees, are not considered to be distinct from the performance obligation to provide the passenger flight. Payments relating to these ancillary services are recognised in Deferred revenue on ticket sales in current liabilities until the customer has flown.

The Group considers whether it is an agent or a principal in relation to passenger 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, duties 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. Commissions earned in relation to agency services are recognised as revenue when the underlying goods or services have been transferred to the customer. In all other instances, the Group considers it acts as the principal in relation to passenger transportation services.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Revenue recognition continued

b Cargo revenue

The Group has identified a single performance obligation in relation to cargo services and the associated revenue is measured at its stand-alone selling price and recognised on satisfaction of the performance obligation, which occurs on the fulfilment of the transportation service.

c Other revenue

The Group has identified several performance obligations in relation to services that give rise to revenue being recognised within Other revenue. These services, their performance obligations and associated revenue recognition include:

- the provision of maintenance services and overhaul services for engines and airframes, where the Group is engaged to enhance an asset while the customer retains control of the asset. Accordingly, the performance obligations are satisfied, and revenue recognised, over time. The Group estimates the proportion of the contract completed at the reporting date and recognises revenue based on the percentage of completion of the contract;
- the provision of ground handling services, where the performance obligations are fulfilled when the services are provided, which occurs upon the provision of the service; and
- the provision of holiday and hotel services, where the performance obligations are satisfied over time as the customer receives the benefit of the service.

d Customer loyalty programmes

The Group 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 standalone 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 analysis of historical experience.

Exceptional items

Exceptional items (disclosed in note 3) are those that in management's view need to be separately disclosed by virtue of their size or nature and where such presentation is relevant to an understanding of the entity's financial performance. While management have a defined list of items and a quantitative threshold that would merit categorisation as exceptional that has been established through historical experience, the Group retains the flexibility to add additional items should their size or nature merit such presentation. The classification of an item as exceptional is approved by the IAG Board, through the IAG Audit and Compliance Committee.

The financial performance of the Group is monitored by the Management Committee and the Board on a pre-exceptional basis to enable comparison to prior reporting periods as well as to other selected companies, but also for making strategic, financial and operational decisions.

The exceptional items that may be recorded in the income statement include, but are not limited to, significant settlement agreements with the Group's pension schemes; significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; significant discontinuance of hedge accounting; legal settlements; individually significant tax transactions; and the impact of the sale, disposal or impairment of an asset or investment in a business. Where exceptional items are separately disclosed, the resultant tax impact is additionally separately disclosed. While certain exceptional items may cover more than a single reporting period, such as significant restructuring events, they are non-recurring in nature.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. Loans provided and/or guaranteed by governments that represent market rates of interest are recorded at the amount of the proceeds received and recognised within Borrowings. Those loans provided and/or guaranteed by governments that represent below market rates of interest are measured at inception at their fair value and recognised within Borrowings, with the differential to the proceeds received recorded within Deferred income and released to the relevant financial statement caption in the Income statement on a systematic basis. Grants that compensate the Group for expenses incurred are recognised in the Income statement in the relevant financial statement caption on a systematic basis in the periods in which the expenses are recognised.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make certain critical accounting judgements and use key sources of estimation uncertainty that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Key sources of estimation uncertainty

The key sources of estimation uncertainty that affect the current year or have a significant risk of causing a material adjustment within the next financial year are as follows.

a Employee benefit obligations: defined benefit pension schemes

At 31 December 2021 the Group recognised £1,508 million in respect of employee benefit assets (2020: £303 million) and £241 million in respect of employee benefit obligations (2020: £431 million). Further information on employee benefit obligations is disclosed in note 27.

Employee benefit obligations are 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 assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 27. 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 total comprehensive income. The sensitivity to changes in pension assumptions is disclosed in note 27.

Under the Group's 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 this consultation, on 25 November 2020 the UK Chancellor of the Exchequer and the UKSA confirmed that from February 2030 onwards CPIH will replace RPI with no compensation to holders of index-linked gilts.

Following the Chancellor's announcement in September 2019 and through to 31 December 2021, 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 alignment between RPI and CPI from 2030 onwards.

b Passenger revenue recognition

At 31 December 2021 the Group recognised a liability of £3,512 million in respect of deferred revenue on ticket sales (2020: £2,429 million) of which £35 million (2020: £36 million) related to customer loyalty programmes, as disclosed in note 18.

Passenger revenue is recognised when the transportation service is provided. At the time of transportation, revenue is also recognised in respect of unused tickets and is estimated based on the terms and conditions of the tickets and historical experience. The Group considers that there is no reasonable possible change to unused ticket assumptions that would have a material impact on Passenger revenue recorded in the year.

c Income taxes

At 31 December 2021 the Group recognised £574 million in respect of deferred tax assets (2020: £401 million). Further information on current and deferred tax liabilities is disclosed in note 8.

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 uses judgement in considering the past and current operating performance and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date, which represents the period over which it is probable that future taxable profits will be available.

At 31 December 2021, the Group had unrecognised capital losses of £307 million which it does not reasonably expect to utilise.

d Engineering and other aircraft costs

At 31 December 2021, the Group recognised a provision of £473 million (2020: £442 million) in respect of maintenance, restoration and handback. Movements on the provisions are disclosed in note 21.

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. Provisions for maintenance, restoration and handback are made based on the best estimate of the likely committed cash flow. In determining this best estimate, the Group applies significant estimation as to the level of forecast costs expected to be incurred when the aircraft is returned to the lessor. The assumptions used in this estimation include aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. The Group considers that there is no reasonably possible change to a single assumption that would have a material impact on the provisions, however a combination of changes in multiple assumptions may.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Key sources of estimation uncertainty continued

e Impairment of indefinite-lived non-financial assets

At 31 December 2021 the Group recognised £762 million (2020: £760 million) in respect of indefinite-lived non-financial assets, including goodwill. Further information on these assets is included in note 13.

Goodwill and intangible assets with indefinite economic lives are tested, as part of the cash-generating units to which they relate, for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which use a weighted average multi-scenario discounted cash flow model, which are then compared to the carrying amount of the associated cash-generating unit.

In determining the carrying value of each cash-generating unit, the Group allocates all associated operating tangible and intangible assets, including ROU assets. In addition, the Group has allocated certain liabilities to the carrying value of each cash-generating unit where those liabilities are critical to the underlying operations of the cash-generating unit and in the event of a disposal of the cash-generating unit would be required to be transferred to the purchaser. Such liabilities include lease liabilities. Lease liabilities are also deducted within the recoverable amount calculation.

The Group has applied judgement in the weighting of each scenario in the discounted cash flow model and these calculations require the use of estimates in the determination of key assumptions and sensitivities as disclosed in note 13.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Where such indicators are identified, then non-financial assets are tested for impairment.

Critical accounting judgements

a Investment in associates

At 31 December 2021 the Group recognised £1,737 million (2020: £1,688 million) in respect of investments in associates. Further information on these assets is included in note 14.

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 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 Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 11.

New standards, amendments and interpretations not yet effective

The following amendments and interpretations apply for the first time in the year ended 31 December 2021, but do not have an impact on the consolidated financial statements of the Group:

- COVID-19 related rent concessions beyond 30 June 2021 – Amendments to IFRS 16 Leases; and
- Interest rate benchmark reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 effective for periods beginning on or after 1 January 2021.

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. The Group has assessed the impact of these standards, amendments and interpretations and it is not expected that these will have a material effect on the reported income or net assets of the Group. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- Property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after 1 January 2022;
- Reference to the Conceptual Framework – amendments to IFRS 3 effective for periods beginning on or after 1 January 2022;
- Onerous contracts – cost of fulfilling a contract – amendments to IAS 37 effective for periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018–2020 – effective for periods beginning on or after 1 January 2022;
- Classification of liabilities as current or non-current – amendments to IAS 1 effective for periods beginning on or after 1 January 2023;
- Definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after 1 January 2023;
- Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after 1 January 2023; and
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 effective for periods beginning on or after 1 January 2023.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty in the determination of the impact of COVID-19 – cash flow forecasts

As a result of COVID-19 the Group has experienced a significant decline in the level of flight activity and does not expect to return to the level of 2019 activity until at least 2023 and accordingly the Group has applied estimation and judgement in the evaluation of the impact of COVID-19 regarding the recognition and measurement of assets and liabilities within the consolidated financial statements.

The Group has applied estimation and judgement in the evaluation of the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of the approved business plans. The details regarding the inputs and assumptions used in the determination of these cash flow forecasts are given in the going concern basis of preparation. The following items utilise these cash flow forecasts consistently, which are in some instances significantly different from judgements applied in previous years:

a Discontinuance of hedge accounting

In determining when a forecast transaction is required to be discontinued or to remain in a hedge relationship, judgement is required as to whether a forecast transaction that was previously highly probable continues to be expected to occur or is no longer expected to occur. The Group applied the capacity output from cash flow forecasts as part of the approved business plans in order to determine the forecast level of revenue generation and fuel consumption over the periods in which hedge accounting has been applied.

In the year to 31 December 2021, the group recognised a credit of £113 million (2020: charge of £890 million) arising from a combination of the discontinuance of hedge accounting in the year and the fair value movement on those relationships where hedge accounting was discontinued in the year, but for which the underlying hedging instrument had not matured at 1 January 2021. This was represented by a credit of £118 million (2020: expense of £886 million) related to the fuel derivatives, and an expense of £11 million (2020: credit of £49 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of £6 million (2020: charge of £53 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised to the income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

b Long-term fleet plans and associated impairment

The Group derives long-term fleet plans from the cash flow forecasts arising from the approved business plans. In deriving these long-term plans, the Group applies judgement with respect to consideration of the period of temporary and permanent grounding of fleet assets, the deferral of the delivery of certain aircraft and the assumptions around specific provisions relating to leased fleet assets.

During the year to 31 December 2021, the Group recognised a credit of £7 million relating to previously impaired engines (2020: £417 million impairment charge relating to fleet and engines). The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021. The impairment reversal was recorded within Right of use assets relating to leased aircraft. Further information is given in note 3. During the year to 31 December 2021, the Group recognised an impairment charge of £32 million, represented by an impairment of fleet assets of £17 million and an impairment of property assets of £15 million. The fleet impairment related to five leased Airbus A321 aircraft which were impaired down to their recoverable value at 31 December 2021.

c Impairment testing of the Group's cash-generating unit

Due to the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group has adopted a weighted average multi-scenario discounted cash flow model derived from the cash flow forecasts from the approved business plans. The Group exercises judgement in determining the weighting between these scenarios in the value-in-use model.

Having undertaken this impairment testing, in the year to 31 December 2021, the Group has not recognised any impairment charge (2020: £nil). While no impairment charge is arising, the headroom in the impairment test is particularly sensitive to changes in key assumptions. Further information is given in note 13.

d Recoverability of deferred tax assets

In determining the recoverable amounts of the Group's deferred tax assets, the Group applied the future cash flow projections from the approved business plans. Given the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group exercises judgement in the determination of cash flows during this recovery and subsequent periods.

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date.

Critical accounting judgements and key sources of estimation uncertainty in the determination of the impact of COVID-19 – other transactions

In addition to the estimation uncertainty relating to cash flow forecasts, the Group has applied the following estimation and judgement that impact the consolidated financial statements:

e Revenue recognition

Historically, where a voucher has been issued to a customer in the event of a flight cancellation, the Group estimated, based on historical experience, the level of such vouchers not expected to be used prior to expiry and recognised revenue accordingly. Due to the significant level of flight cancellations arising from COVID-19 there remains insufficient historical data by which to reliably estimate the amount of these vouchers that will not be used prior to expiry and accordingly, the Group is unable to estimate with a sufficiently high degree of probability that there will not be a significant reversal of revenue in the future. As such, consistent with the approach taken at 31 December 2020, the Group does not recognise revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher is redeemed or it expires.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty in the determination of the impact of COVID-19 continued

Significant transactions as a result of COVID-19

The Group has recorded the following additional significant transactions as a result of management actions in response to COVID-19:

f Loans and borrowings

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing initiatives during 2021 and subsequently, which have been fully drawn unless otherwise stated, including:

- In February 2021, British Airways entered into a five-year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF.
- In November 2021, British Airways reached agreement with UK Export Finance (UKEF) and a syndicate of banks for a 5-year Export Development Guarantee committed Credit Facility (UKEF facility) of £1.0 billion. This is additional to a £2.0 billion UKEF guaranteed facility above. The facility is unsecured. At 31 December 2021 the facility remains undrawn.
- In March 2021, British Airways entered into a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is \$1,346 million and will be available for a period of three years plus two one-year extension periods at the discretion of the lenders. The facility is undrawn at the date of this report. While British Airways does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had \$786 million undrawn and available at 31 December 2020.
- In July 2021, British Airways entered into an asset-financing structure, under which seven aircraft were sold and leased back. These transactions mature between 2031 and 2035. This arrangement was transacted through an unconsolidated structured entity, who in turn issued the British Airways Pass Through Certificates, Series 2021-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). In doing so the Group recognised £111 million (\$150 million) of Asset financed liabilities.

Further information is given in note 20.

g Government assistance

Given the significant reduction in operations that have occurred during 2021, the Group has availed itself of the various employee support mechanisms in the jurisdictions in which it operates. This has led to an amount of £190 million (2020: £258 million) being received in government assistance and savings of £4 million (2020: £2 million) where employees have been paid directly by their respective governments. Those amounts received in the form of government assistance have been recorded net within Employee costs. Further information is given in note 29.

h Defined benefit pension scheme contributions

On 18 December 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between 1 October 2020 and 31 January 2021. On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to extend the deferral of deficit contributions previously agreed in October 2019 on the 31 March 2018 valuation, through to 30 September 2021. The aggregate deferral of such contributions amounted to £450 million, excluding interest. Further information is given in note 27.

Critical accounting judgements and key sources of estimation uncertainty arising from climate change

As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to being net carbon neutral by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short, medium and long-term operations of the Group.

The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but not limited to, the following that are within the control of the Group:

- The impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- The additional cost of the Group's commitment to increasing the level of Sustainable Aviation Fuels to ten per cent by 2030 and to fifty per cent by 2050;
- The cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and
- The impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.

In addition to these inputs and measures within the control of management, Flightpath Net Zero includes assumptions pertaining to governments regarding the following:

- The impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- Investment and policy regarding the development of Sustainable Aviation Fuel production facilities;
- Investment and improvements in air traffic management;
- The price of carbon through the EU and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); and
- Effective market-based policy measures in addition to the EU and UK ETS and CORSIA.

The level of uncertainty regarding the impact of these factors increases over time. Accordingly, the Group has applied estimation in the evaluation of the impact of climate change regarding the recognition and measurement of assets and liabilities within the financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2 Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty arising from climate change – cash flow forecast estimation

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. For those assets and liabilities, where their recoverability is dependent on long-term cash flows, the following critical accounting judgements and key sources of estimation uncertainty, to the extent they can be reliably measured, have been applied:

a Long-term fleet plans and useful economic lives

The Group's Flightpath Net Zero climate strategy has been developed in conjunction with the long-term fleet plans of each operating company. This includes the annual assessment of useful lives and the residual values of each aircraft type.

During the course of 2020 as a result of the impact of COVID-19, the Group permanently stood down 41 aircraft, their associated engines and rotatable inventories. These permanently stood down aircraft were older generation aircraft, that were less fuel efficient, more carbon intensive and more expensive to operate than more modern models. With the permanent standing down of these aircraft, coupled with the future delivery of 46 fuel efficient aircraft as detailed in note 12, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise sustainable aviation fuels in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year as a result of the Group's decarbonisation plans.

b Impairment testing of the Group's cash generating units

The Group applies discounted cash flow models, derived from the cash flow forecasts from the approved three-year business plans. The Group's Flightpath Net Zero climate strategy is long-term in nature and includes commitments that will occur at differing points over this time horizon. To the extent that certain of those commitments occur over the short-term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year of the three-year business plan to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated at the reporting date and have been excluded from these adjustments. These adjustments incorporate the increased utilisation of sustainable aviation fuel as well as price assumptions relating to sustainable aviation fuels and the price of carbon (both ETS and CORSIA), which are derived from externally sourced prices. Where the Group considers such costs will be recovered through increased passenger ticket fares, then a corresponding adjustment is made to increase passenger revenue.

As detailed in note 13b, the Group applies a long-term growth rate to this adjusted three-year business plan and the long-term growth rate includes a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand impact arising from climate change. This demand impact is derived with reference to external market data.

Further, in preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date. The Group excludes potential future legislation / regulation regarding carbon pricing and/or alternative schemes not currently enacted, such as the implementation of kerosene tax.

Given the inherent uncertainty associated with the impact of climate change, the Group has applied additional sensitivities in note 13b to reflect a more adverse impact of climate change than currently expected. This has been captured through both the downward sensitivity of the long-term growth rate, ASKs and operating margins and the increased fuel price sensitivity.

c Valuation of employee benefit scheme assets

The Group employee benefit schemes are represented by the APS and NAPS schemes. The schemes are structured to make post-employment payments to members over the long-term, with the Trustees having established both return seeking assets and liability matching assets that mature over the long-term to align with the forecast benefit payments.

The assets of these schemes are invested predominantly in a diversified range of equities, bonds and property. The valuation of these assets ranges from those with quoted prices in active markets, where prices are readily and regularly available, through to those where the valuations are not based on observable market data, often requiring complex valuation models. The trustees of the schemes have integrated climate change considerations into their long-term decision making and reporting processes across all classes of assets, actively engaging with all fund and portfolio managers to ensure that where unobservable inputs are required into valuation models, that such valuation models incorporate long-term expectations regarding the impact of climate change.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

3 Exceptional items

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

Group	2021	2020
Profit/(loss) on de-designated foreign currency passenger revenue hedges ¹	6	(53)
Recognised in revenue	6	(53)
Profit/(loss) on de-designated fuel and foreign exchange hedges ¹	107	(837)
Impairment of fleet and associated assets ²	7	(399)
Engineering and other aircraft costs ²	-	(18)
Restructuring costs ³	11	(226)
Settlement provision ⁴	-	(20)
Recognised in expenditure on operations	125	(1,500)
Tax on exceptional items	131	(1,553)
Total exceptional credit/(charge) before tax	(25)	291
Total exceptional credit/(charge) after tax	106	(1,262)

¹The exceptional credit to fuel, oil costs and emissions of £107 million (2020: charge of £837 million) arising from a combination of the discontinuance of hedge accounting in the year to 31 December 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to 31 December 2020, but for which the underlying hedging instrument had not matured at 1 January 2021. This is represented by a credit of £118 million (2020: expense of £886 million) relating to fuel derivatives and an expense of £11 million (2020: £49 million credit) relating to the associated fuel foreign currency derivatives. The exceptional credit to Passenger revenue of £6 million (2020: charge of £53 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy is to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised in the income statement.

The cash outflow impact associated with the discontinuance of hedge accounting was £129 million in the year to 31 December 2021 (2020: £630 million).

The related tax charge was £22 million (2020: credit of £169 million), with £1 million (2020: credit of £10 million) being attributable to Passenger revenue and £21 million (2020: credit of £159 million) being attributable to the fuel, oil costs and emissions charges.

²The exceptional impairment reversal of £7 million relates to certain engines which were fully impaired during 2020 having been leased to a third party in 2021.

The total exceptional impairment expense of £417 million recognised in 2020 was represented by a charge of £399 million in Depreciation, amortisation and impairment and £18 million in Engineering and other aircraft costs. The amounts in Depreciation, amortisation and impairment related to impairment of fleet and rotatable inventory spares relating to the entire B747 fleet and spare engines, two A318 aircraft and four Embraer E170 aircraft. The amounts in Engineering and other aircraft costs related to expendable engineering inventories. There has been no cash flow impact relating to the exceptional impairment reversals in 2021.

The related tax charge in 2021 was £1 million (2020: credit of £79 million).

³The exceptional credit of £11 million (2020: charge of £226 million) relates to the reversal of restructuring provisions that have been unused in 2020, the exceptional charge of £226 million (comprising £221 million of employee severance pay and £5 million of legal costs) represented the Group-wide restructuring programme, which right-sized the Group for the near term. There has been no cash flow impact relating to the exceptional restructuring credit in 2021.

The related tax charge was £2 million (2020: credit of £43 million).

⁴The exceptional charge of £20 million recognised in 2020 represented the fine issued by the Information Commissioner's Office ("ICO"), relating to the theft of customer data in 2018. There was no tax impact on the recognition of this charge.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

4 Expenses by nature

Operating loss is arrived at after charging:

Depreciation, amortisation and impairment of non-current assets prior to exceptional items:

	Group	
£ million	2021	2020
Depreciation charge on owned assets	342	442
Depreciation charge on right of use assets	446	509
Depreciation charge on other leasehold interest	97	64
Amortisation and impairment of intangible assets	67	61
Impairment charge on owned property, plant and equipment	5	-
Impairment charge on right of use assets	27	-
Depreciation, amortisation and impairment	984	1,076

Cost of inventories:

	Group	
£ million	2021	2020
Cost of inventories recognised as an expense, principally fuel	650	815

5 Auditor's remuneration

	Group	
£ '000	2021	2020
Fees payable to the Group's auditor for the audit of the Group's accounts	1,770	1,600
Fees payable to the Group's auditor and its associates for other services:		
Audit of the Group's subsidiaries pursuant to legislation	190	211
Other services pursuant to legislation	-	138
Audit related assurance services	90	-
Other assurance services	15	-
Services relating to corporate finance transactions	-	200
	2,065	2,149

Fees payable to the Group's auditor for the audit of the Group's pension schemes total £158,550.

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 SA.

6 Employee costs and numbers

a Employee costs

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

	Group		Company	
Number	2021	2020	2021	2020
UK	27,221	34,056	25,214	32,042
Overseas	3,334	3,575	2,064	2,351
	30,555	37,631	27,278	34,393

	Group		Company	
£ million	2021	2020	2021	2020
Wages and salaries	1,029	1,171	961	1,127
Social security costs	134	153	127	145
Costs related to pension scheme benefits (note 27) ¹	145	161	139	155
Other employee costs	174	232	168	225
Total employee costs	1,482	1,717	1,395	1,652

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6 Employee costs and numbers continued

a Employee costs (continued)

Included in 'Other employee costs' is a total expense for share-based payments of £3 million (2020: £1 million credit) that arises from transactions accounted for as equity-settled share-based payments (note 25). Other employee costs also include allowances and accommodation for crew.

There was an exceptional credit of £11 million relating to employee severance pay (2020: charge of £221 million), see note 3 for further details. Including this exceptional item results in total employee costs of £1,471 million (2020: £1,938 million).

b Directors' emoluments

	Group	
£ million	2021	2020
Directors' remuneration	2	2

During the year, six Directors (2020: five) of the Company were employed and remunerated by IAG and two (2020: three) 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 £848,420 (2020: £1,011,000).

During the year no Directors (2020: none) accrued benefits under a defined benefit pension scheme and one Director (2020: two) accrued benefits under a defined contribution pension scheme. There were total pension contributions of £39,206 made during the year (2020: £26,000).

Five Directors (2020: five) participated in IAG's Long Term Incentive Schemes and five exercised awards during the year (2020: five).

c Remuneration of key management personnel

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

	Group	
£ million	2021	2020
Short-term employee benefits	7	4
Share-based payments	-	-
Year to 31 December	7	4

7 Finance costs and income

a Finance costs

	Group	
£ million	2021	2020
Interest expenses on:		
Bank borrowings	(90)	(17)
Asset financed liabilities	(48)	(23)
Lease liabilities	(188)	(204)
Provisions unwinding of discount	-	(1)
Other borrowings	(105)	(22)
Capitalised interest on progress payments	2	7
Other finance costs	-	(9)
Total finance costs	(429)	(269)

b Finance income

	Group	
£ million	2021	2020
Interest on other investments and interest-bearing deposits	3	15
Total finance income	3	15

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

7 Finance costs and income continued

c Other non-operating credits

	Group	
£ million	2021	2020
Gain on sale of property, plant and equipment and investments	27	34
Credit relating to equity investments	-	2
Total other non-operating credits	27	36

8 Tax

a Tax on ordinary activities

Tax credit/(charge) in the income statement, other comprehensive income and statement of changes in equity

£ million	2021			2020 ¹		
	Income statement	Other comprehensive income	Total	Income statement ¹	Other comprehensive income ¹	Statement of changes in equity
Current tax						
Movement in respect of prior years	-	-	-	3	-	-
Movement in respect of current year	15	-	15	202	-	-
Total current tax	15	-	15	205	-	-
Deferred tax						
Movement in respect of prior years	(9)	-	(9)	-	-	-
Movement in respect of current year	384	(320)	64	557	53	(1)
Rate change	66	52	118	(63)	39	-
Total deferred tax	441	(268)	173	494	92	(1)
Total tax	456	(268)	188	699	92	(1)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes, resulting in a decrease in deferred tax of £4 million in the Statement of other comprehensive income. Further information is given in note 2.

The tax credit on continuing operations for 2021 includes £25 million tax charge in relation to exceptional items (2020: £291 million tax credit).

Within tax in Other comprehensive income is a tax charge of £78 million (2020: tax credit of £54 million) that may be reclassified to the Income statement and a tax charge of £191 million (2020: tax credit of £42 million) that may not.

b Current tax liability

£ million	2021	2020
Balance at 1 January	(37)	(142)
Income statement	15	205
Cash payments	28	51
Offset against other taxes	-	(135)
Exchange movements and other	(11)	(16)
Balance at 31 December	(5)	(37)

The Company has a current tax liability of £9 million as at 31 December 2021 (2020: £40 million).

During 2020 the Company elected to carry back losses and apply them to the 2019 taxable profits. This led to a £135 million corporation tax overpayment in relation to 2019, which HMRC offset against deferred liabilities arising in relation to other taxes. No such offset arose in 2021.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

8 Tax continued

c Deferred tax Deferred tax asset/(liability)

E million	Tax loss carried forward	Fixed assets	Right of use assets	Lease liabilities	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/loss	Share-based payment schemes	Corporate interest	Other temporary differences	Total
Balance at 1 January 2021	381	(211)	(250)	19	11	266	186	1	-	(2)	401
Income statement	338	86	28	(3)	(6)	(9)	(49)	1	55	-	441
Other comprehensive income	18	-	-	-	-	(204)	(82)	-	-	-	(268)
Balance at 31 December 2021	737	(125)	(222)	16	5	53	55	2	55	(2)	574
Balance at 1 January 2020	-	(324)	(251)	20	10	273	84	3	-	1	(184)
Income statement	330	113	1	(1)	1	3	51	(1)	-	(3)	494
Other comprehensive income	51	-	-	-	-	(10)	51	-	-	-	92
Statement of changes in equity	-	-	-	-	-	-	-	(1)	-	-	(1)
Balance at 31 December 2020	381	(211)	(250)	19	11	266	186	1	-	(2)	401

The Company has a deferred tax asset of £671 million as at 31 December 2021 (2020: £478 million deferred tax asset).

Fair value gains/losses include both the Cash flow hedge reserve and the Cost of hedging reserve, of which the movement in relation to Other comprehensive income recognised is the Cash flow hedge reserve for 2021 was £82 million.

Movements in Other comprehensive income relating to the post-employment benefit obligations increase the Group's tax losses by £18 million (tax value) at 31 December 2021 and have therefore been disclosed as tax losses carried forward in the above table.

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 credit (2020: credit) is calculated at the standard rate of UK corporation tax. The tax credit on the profit for the year to 31 December 2021 is higher (2020: lower) than the expected tax credit at the UK rate. The Group's effective tax rate is 21.7% (2020: 16.6%) and the differences to the UK rate are explained below:

E million	2021	2020 ¹
Accounting loss before tax	(2,104)	(4,199)
Tax calculated at the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	400	799
Effect of tax rate changes	65	(63)
Employee benefit plans accounted for net of withholding tax	(1)	2
Movement in respect of prior years	(9)	3
Non-deductible expenses	(9)	(10)
Prior year tax assets not recognised/(unrecognised)	1	(6)
Overseas tax rate differences	1	2
Tax on associates' profits/(losses)	8	(28)
Tax credit in the income statement	456	699

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

e Other taxes

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

E million	2021	2020
Payroll related taxes	134	153
UK Air Passenger Duty	168	256
	302	409

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

8 Tax continued

f Factors that may affect future tax charges

Unrecognised temporary differences - losses

£ million	2021	2020
UK capital losses	307	318

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of £833 million (2020: £819 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 material tax consequences would arise from their reversal.

Tax rate changes

On 3 March 2021 the UK Chancellor announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On 24 May 2021 the Finance bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in the UK entities, a credit of £65 million is recorded in the Income statement and a credit of £52 million is recorded in Other comprehensive income.

Tax policy developments

The Group is closely monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This proposed reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation and is designed to ensure that multinational enterprises will be subject to a minimum 15% effective tax rate. The new framework is expected to be enacted in 2022, and effective from 2023. The implications for the Group will be finalised when the relevant legislation is available.

g Tax contingent liabilities

The Group has certain contingent tax liabilities across all taxes which at 31 December 2021 amounted to £10 million (31 December 2020: £84 million), including estimated interest and penalties. No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts and accordingly has classified this matter as a contingent liability. 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.

9 Dividends

No dividends were paid during the 12 months to 31 December 2021 (31 December 2020: £nil). Certain debt obligations, including the Export Development Guarantee Facility, place restrictions and/or conditions on the payments of dividends to the parent company, IAG. These loans can be repaid early without penalty at the election of British Airways. In addition, under the contribution deferral agreement between British Airways and the Trustee of the New Airways Pension Scheme (NAPS), in the period up to 31 December 2023, no dividend payment is permitted from British Airways to IAG, and any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend, until the deferred pension contributions have been paid.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

10 Property, plant and equipment

a Group

£ million	Group			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2020	18,362	2,389	984	21,735
Additions	1,394	72	9	1,475
Modification of leases	38	8	-	46
Disposals	(2,643)	(82)	(31)	(2,756)
Reclassification	-	7	(7)	-
Balance as at 31 December 2020	17,151	2,394	955	20,500
Additions	298	19	6	323
Modification of leases	130	1	(21)	110
Disposals	(2,139)	(53)	(21)	(2,213)
As at 31 December 2021	15,440	2,361	919	18,720
Depreciation and impairment				
Balances at 1 January 2020	9,524	983	740	11,247
Depreciation charge for the year	847	127	41	1,015
Impairment ¹	399	-	-	399
Disposals	(2,468)	(45)	(29)	(2,542)
Balance as at 31 December 2020	8,302	1,065	752	10,119
Depreciation charge for the year	737	112	37	886
Modification of leases	-	-	(12)	(12)
Impairment ¹	10	15	-	25
Disposals	(2,087)	(52)	(20)	(2,159)
As at 31 December 2021	6,962	1,140	757	8,859
Net book amounts				
31 December 2021	8,478	1,221	162	9,861
31 December 2020	8,849	1,329	203	10,381
Analysis as at 31 December 2021				
Owned	2,162	637	132	2,931
Right of use assets ²	4,413	502	8	4,923
Asset financed	1,549	-	-	1,549
Progress payments	354	82	22	458
	8,478	1,221	162	9,861
Analysis as at 31 December 2020				
Owned	2,192	679	158	3,029
Right of use assets ²	4,855	573	20	5,448
Asset financed	1,434	-	-	1,434
Progress payments	368	77	25	470
	8,849	1,329	203	10,381

£ million	Group	
	2021	2020
The net book amount of property comprises:		
Freehold	282	286
Right of use assets ²	502	573
Long-leasehold improvements > 50 years	264	270
Short-leasehold improvements < 50 years	173	200
As at 31 December	1,221	1,329

¹ For details regarding the impairment charges/(reversal) refer to note 3. In 2021, certain impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed. ² Refer to note 11 for right of use assets.

At 31 December 2021, long-term borrowings of the Group are secured on owned fleet assets with a net book amount of £1,861 million (2020: £1,774 million). There is also property pledged as security with a net book value of £574 million (31 December 2020: £nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

10 Property, plant and equipment continued

b Company

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2020	17,739	2,295	949	20,983
Additions	1,360	71	8	1,439
Modification of leases	42	9	-	51
Disposals	(2,604)	(82)	(35)	(2,721)
Balance as at 31 December 2020	16,537	2,293	922	19,752
Additions	283	15	6	304
Modification of leases	130	1	(20)	111
Disposals	(1,947)	(49)	(14)	(2,010)
As at 31 December 2021	15,003	2,260	894	18,157
Depreciation and impairment				
Balances at 1 January 2020	9,103	931	718	10,752
Depreciation charge for the year	804	121	40	965
Impairment ¹	381	-	-	381
Disposals	(2,430)	(45)	(33)	(2,508)
Balance as at 31 December 2020	7,858	1,007	725	9,590
Depreciation charge for the year	707	108	35	850
Modification of leases	-	-	(10)	(10)
Impairment ¹	10	15	-	25
Disposals	(1,933)	(48)	(13)	(1,994)
As at 31 December 2021	6,642	1,082	737	8,461
Net book amounts				
31 December 2021	8,361	1,178	157	9,696
31 December 2020	8,679	1,286	197	10,162
Analysis as at 31 December 2021				
Owned	2,076	598	126	2,800
Right of use assets ²	4,383	499	8	4,890
Asset financed	1,549	-	-	1,549
Progress payments	353	81	23	457
	8,361	1,178	157	9,696
Analysis as at 31 December 2020				
Owned	2,061	641	152	2,854
Right of use assets ²	4,816	568	20	5,404
Asset financed	1,434	-	-	1,434
Progress payments	368	77	25	470
	8,679	1,286	197	10,162

£ million	Company	
	2021	2020
The net book value of property comprises:		
Freehold	242	248
Right of use assets ²	499	568
Long-leasehold improvements > 50 years	264	270
Short-leasehold improvements < 50 years	173	200
As at 31 December	1,178	1,286

¹ For details regarding the impairment charges refer to note 3. In 2021, certain impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed.

² Refer to note 11 for right of use assets.

At 31 December 2021, long-term borrowings of the Company are secured on owned fleet assets with a net book amount of £1,861 million (2020: £1,774 million). There is also property pledged as security with a net book value of £574 million (31 December 2020: £nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

11 Leases

a Group

(i) Amounts recognised in the Consolidated balance sheet

Property, plant and equipment includes the following amounts relating to right of use assets:

	Group			
£ million	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2020	7,327	672	55	8,054
Additions	530	48	-	578
Modification of leases	38	8	-	46
Disposals	(13)	(5)	(20)	(38)
Reclassifications ¹	(347)	-	-	(347)
Balance as at 31 December 2020	7,535	723	35	8,293
Additions	7	-	-	7
Modification of leases	130	1	(21)	110
Disposals	(5)	(1)	-	(6)
Reclassification ¹	(373)	-	-	(373)
As at 31 December 2021	7,294	723	14	8,031
Depreciation and impairment				
Balances at 1 January 2020	2,415	78	27	2,520
Depreciation charge for the year	425	76	8	509
Disposals	(13)	(4)	(20)	(37)
Reclassifications ¹	(147)	-	-	(147)
Balance as at 31 December 2020	2,680	150	15	2,845
Depreciation charge for the year	385	59	2	446
Modification of lease	-	-	(11)	(11)
Impairment	14	13	-	27
Disposals	(5)	(1)	-	(6)
Reclassifications ¹	(193)	-	-	(193)
As at 31 December 2021	2,881	221	6	3,108
Net book value				
31 December 2021	4,413	502	8	4,923
31 December 2020	4,855	573	20	5,448

¹Amounts with a net book value of £180 million (2020: £200 million) were reclassified from right of use assets to Owned Property, plant and equipment at the cessation of the respective leases. The assets reclassified related to leases with purchase options that were grandfathered as ROU assets upon transition to IFRS 16, for which the Group had been depreciating over the expected useful life of the aircraft, incorporating the purchase option.

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

	Group	
£ million	2021	2020
Lease liabilities 1 January	5,491	5,647
Additions	34	543
Modification of leases	113	41
Repayments	(888)	(948)
Interest expense	175	198
Exchange movements	(76)	10
Lease liabilities 31 December	4,849	5,491
Current	652	845
Non-current	4,197	4,646

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

11 Leases continued

a Group continued

(ii) Amounts recognised in the Consolidated income statement

	Group	
£ million	2021	2020
<i>Amounts not included in the measurement of lease liabilities</i>		
Variable lease payments	-	1
Expenses relating to short-term leases	22	26
Interest expense on lease liabilities	175	198
Gains arising from sale and leaseback transactions	-	(3)
Depreciation charge for the year	446	509
Impairment	27	-

(iii) Amounts recognised in the Consolidated cash flow statements

The Group had total cash outflows for lease liabilities of £738 million (2020: £807 million) in 2021.

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2021, for which no amount has been recognised, in relation to leases not yet commenced to which the Company is committed of £7 million (2020: £8 million).

(iv) Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 22.

(v) Extension and termination options

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

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2021, for which no amount has been recognised, for potential extension options of £582 million (2020: £642 million) due to it not being reasonably certain that these leases will be extended.

The Group is not exposed to any material termination options which requires above disclosure.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

11 Leases continued

b Company

(i) Amounts recognised in the balance sheet

Property, plant and equipment includes the following amounts relating to right of use assets:

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2020	7,158	662	54	7,874
Additions	495	48	-	543
Modification of leases	42	9	-	51
Disposals	(13)	(4)	(20)	(37)
Reclassifications ¹	(347)	-	-	(347)
Balance as at 31 December 2020	7,335	715	34	8,084
Additions	-	-	-	-
Modification of leases	130	1	(20)	111
Disposals	(5)	-	-	(5)
Reclassification ¹	(372)	-	-	(372)
As at 31 December 2021	7,088	716	14	7,818
Depreciation and impairment				
Balances at 1 January 2020	2,269	77	27	2,373
Depreciation charge for the year	410	74	7	491
Disposals	(13)	(4)	(20)	(37)
Reclassifications ¹	(147)	-	-	(147)
Balance as at 31 December 2020	2,519	147	14	2,680
Depreciation charge for the year	370	57	2	429
Impairment	14	13	-	27
Modifications of leases	-	-	(10)	(10)
Disposals	(5)	-	-	(5)
Reclassifications ¹	(193)	-	-	(193)
As at 31 December 2021	2,705	217	6	2,928
Net book amounts				
31 December 2021	4,383	499	8	4,890
31 December 2020	4,816	568	20	5,404

¹Amounts with a net book value of £179 million (2020: £200 million) were reclassified from right of use assets to Owned Property, plant and equipment at the cessation of the respective leases.

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

£ million	Company	
	2021	2020
Lease liability 1 January	5,442	5,615
Additions	27	507
Modification of leases	122	46
Repayments	(872)	(934)
Interest expense	173	197
Exchange movements	(76)	11
Lease liabilities 31 December	4,816	5,442
Current	639	829
Non-current	4,177	4,613

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

11 Leases continued

b Company continued

(ii) Amounts recognised in the income statement

£ million	Company	
	2021	2020
<i>Amounts not included in the measurement of lease liabilities</i>		
Short-term leases	22	25
Interest on lease liabilities	173	197
Gains arising from sale and leaseback transactions	-	(3)
Depreciation charge for the year	429	491
Impairment	27	-

(iii) Amounts recognised in the company cash flow statements

The Company had total cash outflows for lease liabilities of £724 million (2020: £794 million) in 2021.

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2021, for which no amount has been recognised, in relation to leases not yet commenced to which the Company is committed of £nil million (2020: £nil million).

(iv) Maturity profile of the lease liabilities

The maturity profile of the lease liabilities are disclosed in note 22.

(v) Extensions and terminations

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

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2021, for which no amount has been recognised, for potential extension options £582 million (2020: £464 million) due to it not being reasonably certain that these leases will be extended.

The Company is not exposed to any material termination options which requires above disclosure.

12 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £5,382 million for the Group (2020: £5,937 million) and £5,377 million for the Company (2020: £5,936 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 £5,300 million for the acquisition of eight Airbus A320 and A321 neos (from 2022 to 2023); 10 Airbus A350s (from 2022 to 2024), 10 Boeing B787s (from 2022 to 2024) and 18 Boeing B777s (from 2023 to 2027).

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

13 Intangible assets and impairment review

a Intangible assets

i Group

	Group				
£ million	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 January 2020	40	742	36	723	1,541
Additions	-	-	-	49	49
Disposals	-	-	(9)	(11)	(20)
Balance at 31 December 2020	40	742	27	761	1,570
Additions	-	-	27	40	67
Disposals	-	(5)	(20)	(7)	(32)
31 December 2021	40	737	34	794	1,605
Amortisation					
Balance at 1 January 2020	-	49	-	398	447
Amortisation charge for the year	-	-	-	61	61
Balance at 31 December 2020	-	49	-	459	508
Amortisation charge for the year	-	-	-	67	67
Disposals	-	-	-	(2)	(2)
31 December 2021	-	49	-	524	573
Net book values					
31 December 2021	40	688	34	270	1,032
31 December 2020	40	693	27	302	1,062

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

13 Intangible assets and impairment review continued

a Intangible assets

ii Company

£ million	Company			
	Landing rights	Emissions allowances	Software	Total
Cost				
Balance at 1 January 2020	742	36	688	1,466
Additions	-	-	46	46
Disposals	-	(9)	(11)	(20)
Balance at 31 December 2020	742	27	723	1,492
Additions	-	27	38	65
Disposals	(5)	(20)	(8)	(33)
31 December 2021	737	34	753	1,524
Amortisation				
Balance at 1 January 2020	49	-	376	425
Amortisation charge for the year	-	-	57	57
Balance at 31 December 2020	49	-	433	482
Amortisation charge for the year	-	-	62	62
Disposals	-	-	(2)	(2)
31 December 2021	49	-	493	542
Net book values				
31 December 2021	688	34	260	982
31 December 2020	693	27	290	1,010

b Impairment review

i Network airline operations

Basis for calculating recoverable amount

Goodwill and other intangible assets with indefinite lives (being landing rights and emissions allowances) are tested for impairment annually and when circumstances indicate the carrying value may be impaired.

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 which 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 CGU (2020: one). 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.

At 31 December 2021, the continued disruption caused by COVID-19 has led to a decrease in demand across network airline operations and economic uncertainty over the short and medium term. As a result, a full impairment test at 31 December 2021 has been conducted. The impairment test includes assessment of the carrying value of all non-current assets, including property, plant and equipment.

The recoverable amount has been measured based on the value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 2, with a weighting of 70 per cent to the base case, 20 per cent to the downside case and 10 per cent to the downside lockdown case. Cash flow projections are based on forecasts covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using a pre-tax discount rate.

Annually the Group prepares three-year business plans in the fourth quarter of the year. Adjustments have been made to the terminal year of the business plan cash flows to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations (refer to note 2). The business plan cash flows used in the value-in-use calculations also reflect the restructuring of the business where relevant that has been approved by the Board and which can be executed by Management under existing agreements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

13 Intangible assets and impairment review continued

b Impairment review continued

Key assumptions

The value-in-use calculations reflect the increased risks arising from COVID-19, including updated projected cash flows for the decreased business activity from 2022, through to the end of 2024 and an increase in the pre-tax discount rate to incorporate increased equity market volatility. The key assumptions used in the value-in-use calculation are as follows:

Per cent	2021	2020
Operating margin ¹	3% to 13%	-20% to 16%
ASK as a proportion of 2019 ^{1,2}	75% to 103%	45% to 95%
Long-term growth rate	1.9%	2.1%
Pre-tax discount rate	11.8%	11.2%

¹Operating margin and ASKs as a proportion of 2019 are the weighted average of the base case, downside case and downside lockdown case scenarios.

²In prior periods the Group applied the average ASK growth per annum as a key assumption. Given the impact of COVID-19, the Group has presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation.

Jet fuel price (\$ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
31 December 2021	690	673	659	659
31 December 2020	373	420	449	449

Forecast ASKs reflect the range of ASKs as a percentage of the 2019 actual ASKs over the forecast period, based on planned network growth and taking into account Management's expectation of the market.

The long-term growth rate is calculated based on the forecast weighted average exposure in each primary market using gross domestic product ('GDP') (source: Oxford Economics). The long-term growth rate is adjusted to reflect the impact on demand that is expected as a result of climate change (note 2). The network plans are reviewed annually as part of the Business plan and reflect Management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and underlying risks of the primary market. The discount rate calculation is based on the circumstances of the airline industry and the Group. It is derived from the weighted average cost of capital ('WACC'). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is derived from both market data and the Group's existing debt structure. CGU specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

Jet fuel price assumptions are derived from forward price curves in the fourth quarter of each year as at the balance sheet date and sourced externally. The cash flow forecasts reflect these price increases after taking into consideration of level of fuel derivatives and their associated prices that the Group has in place.

Summary of results

At 31 December 2021, Management reviewed the recoverable amount of the CGU and concluded the recoverable amount exceeded the carrying value.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered which include reducing operating margin by two per cent in each year, ASKs by five per cent in each year, long-term growth rates to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the downside lockdown case to 100 per cent, and increasing the fuel price by 40 per cent with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonable possible greater impact of climate change than that included in the impairment models.

While the recoverable amounts are estimated to exceed the carry amounts by £2,891 million, the recoverable amount would be below the carrying amount when applying reasonable possible changes in assumptions in each of the following scenarios:

- i) If operating margin had been two per cent lower;
- ii) If operating margin had been two per cent lower combined with an increase in the long-term growth rate of 0.1 per cent;
- iii) If ASKs had been five per cent lower combined with a fuel price increase of four per cent, with no assumed cost recovery;
- iv) If ASKs had been five per cent lower combined with a reduction in the long-term growth rate of 0.6 per cent;
- v) If the fuel price had been 11 per cent higher.

For the remainder of the reasonable possible changes in key assumptions applied no impairment arises.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

13 Intangible assets and impairment review continued

b Impairment review continued

Other asset-specific impairment charges and reversals

During the year to 31 December 2021, the Group recognised a credit of £7 million relating to previously impaired engines (2020: £417 million impairment charge relating to fleet and engines). The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021.

During the year to 31 December 2021, the Group recognised an impairment charge of £32 million, represented by an impairment of fleet assets of £17 million and an impairment of property assets of £15 million. The fleet impairment related to five leased Airbus A321 aircraft which were impaired down to their recoverable value at 31 December 2021.

ii Company

In 2021, the Company recognised an impairment charge of £5 million (2020: £427 million) in respect of its investment in subsidiaries. For investments where an indicator of impairment existed, an impairment test was performed to determine the recoverable amount, and where necessary, impair the carrying value to the recoverable amount. The recoverable amounts of the relevant investments have been determined as the higher of the fair value, being enterprise value and their value in use, using a discounted cash flow model. Cash flows for the next five years have been projected in line with the business plan to 31 December 2024 and expected growth rates. Reasonable possible changes in these cash flow assumptions could result in a further impairment, or reversal of previous impairment in the carrying value of the Company's investments in subsidiaries.

14 Investments

a Group

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

£ million	Group	
	2021	2020
Balance at 1 January	1,688	1,838
Additions ¹	7	-
Exchange differences	1	7
Share of attributable results	43	(144)
Share of movements in comprehensive income of associates	(1)	(12)
Dividends received ²	(1)	(1)
As at 31 December	1,737	1,688

¹In January 2021, British Airways invested in LanzaJet, a sustainable fuel technology company incorporated in the USA and attained 16.7% ownership of the company.

²The Group received dividends, net of withholding tax, of £1 million (2020: £1 million) from Dunwoody (2020: Dunwoody).

	Percentage of equity owned	Measurement basis	Principal activities	Holding	Country of incorporation and principal operations
Avios Group (AGL) Limited ('AGL')	86.26	Equity method	Airline marketing	Ordinary shares	England
Dunwoody Airline Services Limited	40.00	Equity method	Airline operations	Ordinary shares	England
IB Opco Holding, S.L. ('Iberia')	13.55	Equity method	Airline operations	Ordinary shares	Spain
LanzaJet, Inc.	16.70	Equity method	Sustainable fuel technology	Ordinary shares	USA

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

14 Investments continued

At 31 December 2021 there are no restrictions on the ability of associates or joint ventures to transfer funds to the Company and there are no related contingent liabilities.

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

£ million	Group			
	2021		2020	
	Iberia	AGL	Iberia	AGL
Non-current assets	4,083	228	4,889	36
Current assets	1,796	2,478	1,537	2,623
Current liabilities	(2,317)	(2,221)	(2,310)	(2,143)
Non-current liabilities	(3,684)	(336)	(4,065)	(433)
Net equity	(122)	149	51	83
Group's share of net equity	-	129	7	72
Goodwill attributable to investments in associates	-	1,598	9	1,598
Total investment in associates	-	1,727	16	1,670

The Group's carrying amount of investments in other associates was £9 million (2020: £2 million)

Revenue	2,430	376	2,032	290
Operating costs	(2,639)	(264)	(3,333)	(223)
Other income and costs (including tax)	(96)	(42)	(101)	(18)
Net (loss)/profit after tax	(305)	70	(1,402)	49
Other comprehensive income/(expenses)	222	(2)	(116)	2
Total comprehensive (expense)/income for the year (net of tax)	(83)	68	(1,518)	51

The Group's share of total comprehensive income of other associates was a loss of £1 million (2020: income £2 million)

b Company

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

£ million	Company			
	Cost	Impairments	2021	2020
Balance at 1 January	1,645	(798)	847	1,278
Disposals ¹	-	-	-	(4)
Impairments ²	-	(5)	(5)	(427)
As at 31 December	1,645	(803)	842	847

¹The Company did not de-recognise any investments in subsidiaries during the year (2020: two subsidiaries following liquidation and the net carrying value of the investments at the date of liquidation was £4 million).

²The Company recognised a £5 million (2020: £427 million) impairment charge in respect of its subsidiaries, see note 13 for further details.

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 106 and 107.

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

£ million	Company	
	2021	2020
Balance at 1 January	1,563	1,563
Additions	7	-
As at 31 December	1,570	1,563

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

15 Other equity investments

£ million	Group		Company	
	2021	2020	2021	2020
Unlisted securities (see note 23)	2	2	2	2
Other equity investments	2	2	2	2

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

16 Trade receivables and other assets

Trade receivables and other current assets are set out below:

£ million	Group		Company	
	2021	2020	2021	2020
Amounts falling due within one year				
Trade receivables	480	390	467	376
Allowance for expected credit loss	(26)	(34)	(26)	(34)
Net trade receivables	454	356	441	342
Prepayments and accrued income	276	265	269	246
Other non-trade receivables ¹	138	86	148	127
Trade receivables and other current assets	868	707	858	715

¹Within the Company, the balance is net of £44m of expected credit loss on receivables with subsidiary undertakings.

Other non-current assets are set out below:

£ million	Group		Company	
	2021	2020	2021	2020
Prepayments and accrued income	92	80	86	76
Other non-trade receivables	76	94	84	94
Other non-current assets	168	174	170	170

Movements in allowance for expected credit loss of trade receivables were as follows:

£ million	2021	2020
At the beginning of the year	34	30
Provided during the year	1	4
Receivables written off during the year	(9)	-
	26	34

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 days terms (2020: 30 days).

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

16 Trade receivables and other assets (continued)

	Group							
2021	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	304	91	39	10	8	4	24	480
Expected credit loss rate	0.1%	0.1%	0.3%	0.3%	2.1%	50.1%	100.0%	5.5%
Net trade receivables	304	91	39	10	8	2	-	454

	Group							
2020	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	248	60	35	11	5	5	26	390
Expected credit loss rate	1.0%	0.1%	0.1%	0.2%	13.8%	98.3%	100.0%	8.8%
Net trade receivables	246	60	35	11	4	-	-	356

	Company							
2021	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	291	91	39	10	8	4	24	467
Expected credit loss rate	0.1%	0.1%	0.3%	0.3%	2.1%	50.8%	100.0%	5.6%
Net trade receivables	291	91	39	10	8	2	-	441

	Company							
2020	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	236	60	33	11	5	5	26	376
Expected credit loss rate	1.1%	0.1%	0.1%	0.2%	13.8%	99.9%	100.0%	9.1%
Net trade receivables	234	60	33	11	4	-	-	342

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

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

a Cash and cash equivalents

£ million	Group		Company	
	2021	2020	2021	2020
Cash at bank and in hand	1,687	1,261	1,630	1,195

The fair value of cash and cash equivalents is £1,687 million for the Group (2020: £1,261 million) and £1,630 million for the Company (2020: £1,195 million).

At 31 December 2021, the Group and Company had no outstanding bank overdrafts (2020: Enil).

b Reconciliation of net cash flow to movement in net debt

Group						
£ million	Balance at 1 January 2021	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2021
Bank, other loans and asset financed liabilities	(3,296)	(1,648)	92	-	(49)	(4,901)
Lease liabilities	(5,491)	738	77	(122)	(51)	(4,849)
Liabilities from financing activities	(8,787)	(910)	169	(122)	(100)	(9,750)
Cash and cash equivalents	1,261	452	(26)	-	-	1,687
Net debt	(7,526)	(458)	143	(122)	(100)	(8,063)

Group						
£ million	Balance at 1 January 2020	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2020
Bank, other loans and asset financed liabilities	(663)	(2,643)	62	-	(52)	(3,296)
Lease liabilities	(5,647)	807	(10)	(584)	(57)	(5,491)
Liabilities from financing activities	(6,310)	(1,836)	52	(584)	(109)	(8,787)
Cash and cash equivalents	1,258	27	(24)	-	-	1,261
Other current interest-bearing deposits	1,330	(1,330)	-	-	-	-
Net debt	(3,722)	(3,139)	28	(584)	(109)	(7,526)

Company						
£ million	Balance at 1 January 2021	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2021
Bank, other loans and asset financed liabilities	(3,296)	(1,648)	92	-	(49)	(4,901)
Lease liabilities	(5,442)	724	75	(122)	(51)	(4,816)
Liabilities from financing activities	(8,738)	(924)	167	(122)	(100)	(9,717)
Cash and cash equivalents	1,195	463	(28)	-	-	1,630
Net debt	(7,543)	(461)	139	(122)	(100)	(8,087)

Company						
£ million	Balance at 1 January 2020	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2020
Bank, other loans and asset financed liabilities	(663)	(2,643)	62	-	(52)	(3,296)
Lease liabilities	(5,615)	794	(12)	(553)	(56)	(5,442)
Liabilities from financing activities	(6,278)	(1,849)	50	(553)	(108)	(8,738)
Cash and cash equivalents	1,158	66	(29)	-	-	1,195
Other current interest-bearing deposits	1,330	(1,330)	-	-	-	-
Net debt	(3,790)	(3,113)	21	(553)	(108)	(7,543)

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

18 Trade and other payables and deferred revenue on ticket sales

a Trade and other payables

£ million	Group		Company	
	2021	2020	2021	2020
Trade creditors and accrued expenses	1,139	871	1,068	833
Amounts owed to subsidiary companies	-	-	473	430
Other creditors	410	314	450	314
Other taxation and social security	26	31	25	25
Other accruals and deferred income	90	27	76	14
As at 31 December	1,665	1,243	2,092	1,616

b Deferred revenue on ticket sales

£ million	Group			Company		
	Customer loyalty	Sales in advance of carriage	Total	Customer loyalty	Sales in advance of carriage	Total
As at 1 January	36	2,393	2,429	36	2,402	2,438
Revenue recognised in income statement ¹	(7)	(2,479)	(2,486)	(7)	(2,115)	(2,122)
Loyalty points issued to customers	6	-	6	6	-	6
Cash received from customers ²	-	3,563	3,563	-	3,168	3,168
As at 31 December	35	3,477	3,512	35	3,455	3,490

£ million	Group			Company		
	Customer loyalty	Sales in advance of carriage	Total	Customer loyalty	Sales in advance of carriage	Total
As at 1 January	43	2,891	2,934	43	2,926	2,969
Revenue recognised in income statement ¹	(25)	(3,079)	(3,104)	(25)	(2,927)	(2,952)
Loyalty points issued to customers	18	-	18	18	-	18
Cash received from customers ²	-	2,581	2,581	-	2,403	2,403
As at 31 December	36	2,393	2,429	36	2,402	2,438

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. Included within revenue recognised in the income statement is an amount of £64 million (2020: £1,009 million) previously held as deferred revenue at the end of the comparative reporting period.

²Cash received from customers is net of refunds.

Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period, however, with the significant disruption caused by the COVID-19 pandemic, the Group has extended the expiry period up to 30 September 2023. In addition, the significant disruption caused by the COVID-19 pandemic led to a number of flight cancellations during both 2020 and 2021, which entitled the customer to either a refund or the issuance of a voucher for future redemption. Vouchers are presented within sales in advance of carriage.

19 Other long-term liabilities

£ million	Group		Company	
	2021	2020	2021	2020
Accruals and deferred income	33	29	31	27
Other non-trade creditors	58	40	58	40
As at 31 December	91	69	89	67

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

20 Long-term borrowings

a Total borrowings

£ million	Group			Group		
			2021			2020
	Current	Non-current	Total	Current	Non-current	Total
Bank and other loans	83	3,539	3,622	358	1,714	2,072
Other financing liabilities ¹	14	-	14	33	-	33
Asset financed liabilities	83	1,182	1,265	74	1,117	1,191
Lease liabilities	652	4,197	4,849	845	4,646	5,491
Interest bearing borrowings	832	8,918	9,750	1,310	7,477	8,787

£ million	Company			Company		
			2021			2020
	Current	Non-current	Total	Current	Non-current	Total
Bank and other loans	83	3,539	3,622	358	1,714	2,072
Other financing liabilities ¹	14	-	14	33	-	33
Asset financed liabilities	83	1,182	1,265	74	1,117	1,191
Lease liabilities	639	4,177	4,816	829	4,613	5,442
Interest bearing borrowings	819	8,898	9,717	1,294	7,444	8,738

¹Other financing liabilities include sale and repurchase agreements entered into during the course of 2021 and 2020 with regards to emission allowances and represents the amount the Group is expected to repurchase during the course of 2022 and 2021 respectively.

Long-term borrowings of the Group and Company amounting to £1,420 million (2020: £1,394 million) are secured on owned fleet assets with a net book value of £1,861 million (2020: £1,774 million). Asset financed liabilities are all secured on the associated aircraft.

b Bank and other loans

Bank and other loans are repayable by 2027 and comprise of the following:

£ million	Group		Company	
	2021	2020	2021	2020
Floating rate pound sterling loan guaranteed by UKEF (i)	2,003	-	2,003	-
Floating rate euro mortgage loans secured on aircraft (ii)	145	180	145	180
Fixed rate unsecured US dollar mortgage loans (iii)	73	88	73	88
Fixed rate Chinese yuan mortgage loans secured on aircraft (iv)	10	23	10	23
Fixed rate CCFF pound sterling unsecured loan (v)	-	299	-	299
Floating rate unsecured euro loans (vi)	1,391	1,482	1,391	1,482
	3,622	2,072	3,622	2,072
Less: current instalments due on bank and other loans	83	358	83	358
Non-current bank and other loans as at 31 December	3,539	1,714	3,539	1,714

(i) In February 2021, British Airways entered into a five-year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. British Airways is entitled to repay the loan at any time on notice. The arrangement contains some non-financial covenants, including restrictions on dividend payments by the airline to IAG.

(ii) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of up to 1.50 per cent. The loans are repayable between 2024 and 2027.

(iii) Fixed rate unsecured US dollar mortgage loans bearing interest between 1.38 to 2.86 per cent. The loans are repayable between 2023 and 2026.

(iv) 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.

(v) In April 2020, British Airways issued a commercial paper to the government of the United Kingdom the Coronavirus Corporate Finance Facility (CCFF) which was repaid in April 2021.

(vi) Floating rate unsecured euro loan bearing interest of EURIBOR + 4.60 per cent and is repayable in 2024.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

20 Long-term borrowings continued

b Bank and other loans continued

In July 2021, the Group entered into an asset-financing structure, under which seven aircraft are expected to be sold and leased back. These transactions mature between 2031 and 2035. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2021-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). In doing so the Group recognised £111 million (\$150 million) of Asset financed liabilities.

As at 31 December 2021, the Asset financed liabilities include cumulative amounts of £1,265 million (2020: £1,191 million) associated with transactions with unconsolidated structured entities having issued EETCs.

In addition, in March 2021, British Airways entered into a three-year US dollar secured Revolving Credit Facility. The amount available under the facility is \$1,346 million. As at 31 December 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had \$786 million undrawn and available at 31 December 2020. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft in the respective operating companies.

c Reconciliation of movements of liabilities to cash flows arising from financing activities

£ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at 1 January 2021	(3,296)	(5,491)	(221)	(9,008)
Proceeds from borrowings	(2,107)	-	-	(2,107)
Repayments of borrowings	459	-	-	459
Repayment of lease liabilities	-	738	-	738
Settlements of derivative financial instruments	-	-	245	245
Total changes arising from financing cash flows	(1,648)	738	245	(665)
Interest paid	180	146	-	326
Interest expense	(212)	(156)	-	(368)
New leases and modifications	-	(122)	-	(122)
Fair value movements	-	-	(10)	(10)
Other non-cash movements	(17)	(41)	(5)	(63)
Effect of changes in foreign exchange rates	92	77	-	169
Closing financial liabilities at 31 December 2021	(4,901)	(4,849)	9	(9,741)

£ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at 1 January 2020	(663)	(5,647)	(87)	(6,397)
Proceeds from borrowings	(3,541)	-	-	(3,541)
Repayments of borrowings	898	-	-	898
Repayment of lease liabilities	-	807	-	807
Settlements of derivative financial instruments	-	-	(22)	(22)
Total changes arising from financing cash flows	(2,643)	807	(22)	(1,858)
Interest paid	45	170	-	215
Interest expense	(53)	(169)	-	(222)
New leases and modifications	-	(646)	-	(646)
Fair value movements	-	-	(117)	(117)
Other non-cash movements	(44)	3	5	(36)
Effect of changes in foreign exchange rates	62	(9)	-	53
Closing financial liabilities at 31 December 2020	(3,296)	(5,491)	(221)	(9,008)

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

20 Long-term borrowings continued

d Total loans, lease liabilities, asset financed liabilities and other financing liabilities

Million	Group		Company	
	2021	2020	2021	2020
Loans:				
US dollar	\$98	\$121	\$98	\$121
Euro	€1,808	€1,867	€1,808	€1,867
Chinese yuan	¥78	¥201	¥78	¥201
Pound sterling	£2,003	£299	£2,003	£299
Pound sterling	3,622	2,072	3,622	2,072
Lease liabilities:				
US dollar	\$4,064	\$4,557	\$4,023	\$4,499
Euro	€968	€1,146	€968	€1,146
Japanese yen	¥72,423	¥71,807	¥72,423	¥71,807
Pound sterling	£564	£604	£562	£600
Pound sterling	4,849	5,491	4,816	5,442
Asset financed liabilities:				
US dollar	\$1,682	\$1,630	\$1,682	\$1,630
Japanese yen	¥3,365	-	¥3,365	-
Pound sterling	1,265	1,191	1,265	1,191
Other financing liabilities:				
Euro	€17	€37	€17	€37
Pound sterling	14	33	14	33
Total interest-bearing borrowings	9,750	8,787	9,717	8,738

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

21 Provisions

	Group				
£ million	Restoration and handback	Restructuring	Legal claims and contractual disputes	Other	Total
Balance at 1 January 2021	442	52	32	48	574
Provisions recorded during the year	66	11	63	65	205
Reclassifications	(6)	-	(5)	-	(11)
Utilised during the year	(9)	(18)	(23)	(51)	(101)
Release of unused amounts	(18)	(14)	(10)	(10)	(52)
Exchange differences	(2)	-	-	-	(2)
As at 31 December 2021	473	31	57	52	613
Analysis:					
Current	144	31	51	33	259
Non-current	329	-	6	19	354
	473	31	57	52	613

	Company				
£ million	Restoration and handback	Restructuring	Legal claims and contractual disputes	Other	Total
Balance at 1 January 2021	411	52	32	46	541
Provisions recorded during the year	51	11	61	63	186
Reclassifications	(11)	-	(5)	-	(16)
Utilised during the year	(6)	(18)	(23)	(49)	(96)
Release of unused amounts	(8)	(14)	(10)	(9)	(41)
Exchange differences	(3)	-	-	-	(3)
As at 31 December 2021	434	31	55	51	571
Analysis:					
Current	131	31	49	32	243
Non-current	303	-	6	19	328
	434	31	55	51	571

Restoration and handback provisions

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 2034.

Where amounts are finalised and the uncertainty relating to these provisions removed, the associated liability is reclassified to either current or non-current Other creditors, depending on the expected timing of the settlement.

Restructuring provisions

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans. The payments will be made within the next 12 months.

Legal claims and contractual dispute provisions

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. Contractual dispute provisions relate to ongoing contractual disputes arising from the Group's ongoing operations.

Other provisions

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 and other employee related provisions.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 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), credit risk and liquidity risk. The principal impact of these on the financial statements are discussed below:

a Fuel price risk

The Group is exposed to fuel price risk. In order to mitigate such risk, under the Group's fuel price risk management strategy a variety of over the counter derivative instruments are entered into. The Group strategy is to hedge a proportion of fuel consumption up to two years (previously three years) within the approved hedging profile.

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

			Group and Company		
			2021		
Increase/(decrease) in fuel price per cent	Effect on result before tax £ million	Effect on equity ¹ £ million	Increase/(decrease) in fuel price per cent	Effect on result before tax £ million	Effect on equity ¹ £ million
	Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)
30	-	431	30	90	253
(30)	-	(251)	(30)	(107)	(317)

¹ The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

During the year ended 31 December 2021, following a substantial recovery in the global price of crude oil, the fair value of such fuel derivative instruments was a £156 million asset at 31 December 2021, representing an increase of £537 million from 1 January 2021 (liability of £381 million). Since the outbreak of COVID-19, a significant proportion of the associated hedge relationships have no longer been expected to occur and subsequently hedge accounting was discontinued, with subsequent mark-to-market movements recorded in the Income statement. As a result of the updated forecasts a further £60 million of the gains recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs in 2021 as detailed in note 23.

The gain arising from the de-designated fuel derivative instruments has been recorded as an exceptional item. Refer to note 3 for further details.

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 has a number of strategies to hedge foreign currency risk. The Group strategy is to hedge a proportion of its foreign currency sales and purchases for up to three years.

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 loss before tax and equity¹. The sensitivity analysis has been performed on cash and cash equivalents, interest-bearing liabilities, lease liabilities and derivatives (both designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies, with the disclosure for 2020 updated to align with the current methodology. The methodology has been updated to better reflect the foreign exchange exposures arising from the Group's operations. 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 per cent	Effect on loss before tax £ million	Effect on equity £ million	Strengthening/(weakening) in euro rate per cent	Effect on loss before tax £ million	Effect on equity £ million	Strengthening/(weakening) in yen rate per cent	Effect on loss before tax £ million	Effect on equity £ million
		Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)
2021	10	129	234	10	9	(115)	10	(15)	(35)
	(10)	(131)	(242)	(10)	(9)	115	(10)	15	35
2020	10	145	125	10	8	(138)	10	(14)	(38)
	(10)	(152)	(173)	(10)	(8)	138	(10)	14	38

¹ The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 Financial risk management objectives and policies continued

b Foreign currency risk continued

At 31 December 2021, the fair value of foreign currency net asset derivatives instruments was £12 million, representing an increase of £257 million, since 1 January 2021. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated into a hedge relationship at inception. As with the fuel price risk above, a proportion of the hedge relationships associated with foreign currency derivatives designated against fuel and revenue were no longer expected to occur and subsequently hedge accounting was discontinued. As a result of this discontinuance, £11 million of the losses associated with the fuel foreign currency derivatives and £6 million of the gains associated with the revenue foreign currency derivatives were recorded in the Income statement and recognised within exceptional items. Refer to note 3 for further details.

Those derivatives not designated in a hedge relationship on inception have their mark-to-market movements recorded directly in the Income statement and recognised within Net currency retranslation (charges)/credits.

c Interest rate risk

The Group is exposed to changes in interest rates on debt, lease commitments and cash deposits. Interest rate risk on floating rate debt is managed through interest rate swaps and interest rate collars.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in interest rates with all other variables held constant, on result before tax and equity¹:

Group and Company	Strengthening / (weakening) in euro interest rate	Effect on result before tax £ million Increase / (decrease)	Effect on equity ¹ £ million Increase / (decrease)	Strengthening / (weakening) in sterling interest rate	Effect on result before tax £ million Increase / (decrease)	Effect on equity ¹ £ million Increase / (decrease)
2021	50 (50)	(1) 1	6 (5)	50 (50)	(2) 2	- -
2020	50 (50)	(1) 1	9 (7)	50 (50)	- -	- -

¹ The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

For details regarding the Group's management of interest rate benchmark reform, refer to note 22i.

d Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company and by only entering into transactions with counterparties with a low credit risk. The underlying exposures are monitored on a daily basis and the overall exposure limit by counterparty is periodically reviewed by using available market information.

At each period end, the Group assesses the effect of counterparties' and the Group's own credit risk on the fair value of derivatives. 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 28.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 Financial risk management objectives and policies continued

e Liquidity risk

The Group invests cash in interest-bearing accounts, time deposits and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom to readily generate cash inflows required to manage liquidity risk. The Group also has committed revolving credit facilities.

At 31 December 2021 the Group and Company had unused overdraft facilities of £11 million (2020: £11 million).

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

Million	31 December 2021	
	Currency	£ equivalent
<i>General facilities:</i>		
US dollar facility expiring March 2024 ¹	\$1,346	994
GBP pound sterling facility expiring November 2025 ²	£1,000	1,000
		1,994
<i>Committed aircraft facilities:</i>		
US dollar facility expiring September 2022 ³	\$635	469
US dollar facility expiring March 2024 ⁴	\$398	294
		763
Million	31 December 2020	
	Currency	£ equivalent
<i>General facilities:</i>		
US dollar facility expiring June 2021 ¹	\$786	584
		584
<i>Committed aircraft facilities:</i>		
US dollar facility expiring March 2021 ³	\$428	318
US dollar facility expiring July 2023 ⁴	\$658	489
		807

¹In March 2021, British Airways entered into a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is \$1,346 million and will be available for a period of three years plus two one-year extension periods at the discretion of the lenders. The facility is undrawn at the date of this report. Any resultant debt on drawing down on the Revolving Credit Facility would be securitised against specific landing rights and aircraft. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had \$786 million undrawn and available at 31 December 2020.

²Unsecured five year Export Development Guarantee committed Facility of £1.0 billion with UKEF and a syndicate of banks.

³The undrawn part of the EETC aircraft financing facility raised in July 2021. Refer to note 20 for further information.

⁴The aircraft facilities maturing in 2024 (2020: maturing in 2023) are available for specific committed aircraft deliveries.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 Financial risk management objectives and policies continued

e Liquidity risk continued

The following table analyses 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					
<i>£ million</i>	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2021
Interest-bearing loans and borrowings:						
Asset financing liabilities	(56)	(61)	(120)	(350)	(959)	(1,556)
Lease liabilities	(390)	(342)	(934)	(1,879)	(3,568)	(7,113)
Fixed rate borrowings	(18)	(9)	(18)	(39)	-	(84)
Floating rate borrowings	(90)	(101)	(214)	(3,913)	(14)	(4,332)
Other financing liabilities	(15)	-	-	-	-	(15)
Trade and other payables	(1,588)	-	(77)	-	-	(1,665)
Derivatives financial instruments (assets):						
Foreign exchange contracts (asset)	62	12	16	-	-	90
Fuel derivatives (asset)	81	62	17	-	-	160
Fuel currency options (asset)	-	-	2	-	-	2
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(36)	(23)	(12)	(3)	-	(74)
Fuel derivatives (liability)	-	(1)	(3)	-	-	(4)
Fuel currency options (liability)	(1)	(1)	(1)	-	-	(3)
Other currency options (liability)	(1)	(2)	(2)	(1)	-	(6)
Interest rate swap (liability)	(3)	(3)	(3)	(3)	-	(12)
As at 31 December	(2,065)	(469)	(1,349)	(6,188)	(4,541)	(14,613)

	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 2020
Interest-bearing loans and borrowings:						
Asset financing liabilities	(60)	(57)	(113)	(329)	(956)	(1,515)
Lease liabilities	(455)	(489)	(726)	(2,280)	(3,989)	(7,939)
Fixed rate borrowings	(321)	(13)	(27)	(50)	(7)	(418)
Floating rate borrowings	(46)	(51)	(97)	(1,668)	(38)	(1,900)
Other financing liabilities	(33)	-	-	-	-	(33)
Trade and other payables	(1,206)	-	(54)	-	-	(1,260)
Derivatives financial instruments (assets):						
Foreign exchange contracts (asset)	31	20	15	4	-	70
Interest rate swap (asset)	-	-	-	1	-	1
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(176)	(47)	(66)	(33)	-	(322)
Fuel derivatives (liability)	(216)	(121)	(53)	(2)	-	(392)
Interest rate swap (liability)	(4)	(3)	(6)	(10)	(1)	(24)
As at 31 December	(2,486)	(761)	(1,127)	(4,367)	(4,991)	(13,732)

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Company's (outflows) and inflows in respect of financial liabilities and derivative financial instruments 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.

	Company					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2021
Interest-bearing loans and borrowings:						
Asset financing liabilities	(66)	(61)	(120)	(350)	(959)	(1,556)
Lease liabilities	(383)	(335)	(923)	(1,869)	(3,568)	(7,078)
Fixed rate borrowings	(18)	(9)	(18)	(39)	-	(84)
Floating rate borrowings	(90)	(101)	(214)	(3,913)	(14)	(4,332)
Other financing liabilities	(15)	-	-	-	-	(15)
Trade and other payables	(2,051)	-	(78)	-	-	(2,129)
Derivatives financial instruments (assets):						
Foreign exchange contracts (asset)	63	13	18	-	-	94
Fuel derivatives (asset)	81	62	17	-	-	160
Fuel currency options (asset)	-	-	2	-	-	2
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(38)	(26)	(15)	(5)	-	(84)
Fuel derivatives (liability)	-	(1)	(3)	-	-	(4)
Fuel currency options (liability)	(1)	(1)	(1)	-	-	(3)
Other currency options (liability)	(1)	(2)	(2)	(2)	-	(7)
Interest rate swap (liability)	(3)	(3)	(3)	(3)	-	(12)
As at 31 December	(2,522)	(464)	(1,340)	(6,181)	(4,541)	(15,048)

	Company					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2020
Interest-bearing loans and borrowings:						
Asset financing liabilities	(60)	(57)	(113)	(329)	(956)	(1,515)
Lease liabilities	(446)	(483)	(712)	(2,262)	(3,989)	(7,892)
Fixed rate borrowings	(321)	(13)	(27)	(50)	(7)	(418)
Floating rate borrowings	(46)	(51)	(97)	(1,668)	(38)	(1,900)
Other financing liabilities	(33)	-	-	-	-	(33)
Trade and other payables	(1,586)	-	(54)	-	-	(1,640)
Derivatives financial instruments (assets):						
Foreign exchange contracts (asset)	33	21	16	5	-	75
Interest rate swap (asset)	-	-	-	1	-	1
Derivative financial instruments (liabilities):						
Forward currency contracts (liability)	(177)	(47)	(66)	(33)	-	(323)
Fuel derivatives (liability)	(216)	(121)	(53)	(2)	-	(392)
Interest rate swap (liability)	(4)	(3)	(6)	(10)	(1)	(24)
As at 31 December	(2,856)	(754)	(1,112)	(4,348)	(4,991)	(14,061)

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities

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

Group					
£ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements ¹	Net amounts of financial instruments in the balance sheet	Related financial instruments that are not offset ¹	Net amount
31 December 2021					
Financial assets					
Derivative financial assets	260	(7)	253	(7)	246
Financial liabilities					
Derivative financial liabilities	102	(7)	95	(7)	88

¹In 2020 the Group had pledged cash and cash equivalents as collateral against certain of its derivatives financial liabilities. As at 31 December 2021, the Group recognised £nil million of collateral (2020: £25 million) offset under netting arrangements.

Within the Company the gross value of derivative financial assets was £262 million and the net value was £255 million. The gross value of derivative financial liabilities was £102 million and the net value was £96 million. The value of related financial instruments that are not offset was £7 million.

Group					
£ million	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 2020					
Financial assets					
Derivative financial assets	73	(1)	72	(9)	63
Financial liabilities					
Derivative financial liabilities	(746)	26	(720)	9	(711)

Within the Company the gross value of derivative financial assets was £77 million and the net value was £76 million. The gross value of derivative financial liabilities was £722 million and the net value was £721 million. The value of related financial instruments that are not offset was £9 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.

The Group monitors capital on the basis of the net debt to EBITDA ratio. For the year to 31 December 2021, the net debt to EBITDA was minus 8.81 times (2020: minus 6.02 times). Net debt is defined as the total borrowings, asset financing liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts and EBITDA is defined as operating loss before exceptional items, depreciation, amortisation and impairment.

Further detail on liquidity and capital resources and capital risk management is disclosed in the going concern section in note 2.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

22 Financial risk management objectives and policies continued

h Managing interest rate benchmark reform and associated risks

Overview

A reform of major interest rate benchmarks is being undertaken globally, including the replacement of certain interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that are expected to mature subsequent to 31 December 2021, and as such will be replaced as part of these market-wide initiatives. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

During 2020 the Group established an IBOR transition working group and project plan, led by IAG Treasury. This project has and continues to consider the required changes to systems, processes, risk management and valuation models, as well as managing any accounting and tax implications. During the course of 2021, the Group, and the counterparties to the financial instruments, have transitioned the majority of such instruments to an alternative benchmark rate and in order to enable such transitions, changes to systems, processes and models have been implemented. Those financial instruments that have not transitioned at 31 December 2021 predominantly relate to those with a US dollar LIBOR component, which is not expected to convert to an alternative risk-free rate until mid-2023, subject to further consultation.

In addition, during 2021, the Group has enquired of the trustees of the Group's pension schemes to understand the status of their IBOR transitions, if any. The Group has satisfied itself that all material derivative financial and non-derivative financial instruments with an IBOR component have been transitioned to an alternative benchmark at 31 December 2021.

Reforms to the Euro Interbank Offered Rate (EURIBOR) methodology to enable it to meet the criteria of a risk-free rate were completed in 2019. As such the Group expects to continue to utilise financial instruments with a EURIBOR component without transitioning to an alternative benchmark rate.

The table below provides an overview of the IBOR related exposures as at 31 December 2021. Non-derivative financial instruments are presented on the basis of their carrying values, while derivative financial instruments are presented on the basis of their nominal amounts.

£ million	Non- derivative financial instruments – carrying value ¹	Derivative financial instruments – nominal amount
USD LIBOR	118	-

¹Non-derivative financial instruments relates to floating rate borrowings and lease liabilities.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2021 and 31 December 2020 by nature and classification for measurement purposes was as follows:

At 31 December 2021

£ million	Financial assets			Non-financial assets	Group
	Amortised cost	Fair value through OCI	Fair value through income statement		Total carrying amount
Non-current financial assets					
Other equity investments	-	2	-	-	2
Derivative financial instruments ¹	-	-	35	-	35
Other non-current assets ²	76	-	-	92	168
Current financial assets					
Trade receivables	454	-	-	-	454
Derivative financial instruments ¹	-	-	218	-	218
Other current assets ²	148	-	-	266	414
Cash and cash equivalents	1,687	-	-	-	1,687

¹Within the Company, non-current derivative financial instrument assets are £35 million and current derivative financial instrument assets are £220 million.

²Within the Company, total other non-current assets are £170 million, of which loans and receivables (amortised cost) are £82 million and non-financial assets are £88 million. Total other current assets in the Company are £417 million, of which loans and receivables (amortised cost) are £157 million and non-financial assets are £260 million.

£ million	Financial liabilities			Non-financial liabilities	Group
	Amortised cost	Fair value through OCI	Fair value through income statement		Total carrying amount
Non-current financial liabilities					
Interest bearing long-term borrowings	4,721	-	-	-	4,721
Lease liabilities	4,197	-	-	-	4,197
Derivative financial instruments ¹	-	-	26	-	26
Other long-term liabilities ²	76	-	-	15	91
Current financial liabilities					
Current portion of long-term borrowings	180	-	-	-	180
Lease liabilities	652	-	-	-	652
Trade and other payables ²	1,622	-	-	43	1,665
Derivative financial instruments ¹	-	-	69	-	69

¹Within the Company, non-current derivative financial instrument liabilities are £26 million and current derivative financial instrument liabilities are £70 million.

²Within the Company, total other long-term liabilities are £89 million, of which loans and payables (amortised cost) are £79 million and non-financial liabilities are £10 million. Total trade and other payables in the Company are £2,092 million, of which loans and payables (amortised cost) are £2,051 million and non-financial liabilities are £41 million.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 Financial instruments continued

a Financial assets and liabilities by category continued

As at 31 December 2020

	Financial assets				Group
£ million	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial liabilities	Total carrying amount
Non-current financial assets					
Other equity investments	-	2	-	-	2
Derivative financial instruments ¹	-	-	20	-	20
Other non-current assets ²	94	-	-	80	174
Current financial assets					
Trade receivables	356	-	-	-	356
Derivative financial instruments ¹	-	-	52	-	52
Other current assets ²	86	-	-	265	351
Cash and cash equivalents	1,261	-	-	-	1,261

¹Within the Company, non-current derivative financial instrument assets are £22 million and current derivative financial instrument assets are £54 million.

²Within the Company, total other non-current assets are £170 million, of which loans and receivables (amortised cost) are £94 million and non-financial assets are £76 million. Total other current assets in the Company are £383 million, of which loans and receivables (amortised cost) are £137 million and non-financial assets are £246 million.

£ million	Financial liabilities			Non-financial assets	Group
	Amortised cost	Fair value through OCI	Fair value through income statement		Total carrying amount
Non-current financial liabilities					
Interest bearing long-term borrowings	2,831	-	-	-	2,831
Lease liabilities	4,646	-	-	-	4,646
Derivative financial instruments ¹	-	-	168	-	168
Other long-term liabilities ²	54	-	-	15	69
Current financial liabilities					
Current portion of long-term borrowings	465	-	-	-	465
Lease liabilities	845	-	-	-	845
Trade and other payables ²	1,206	-	-	37	1,243
Derivative financial instruments ¹	-	-	552	-	552

¹Within the Company, non-current derivative financial instrument liabilities are £168 million and current derivative financial instrument liabilities are £553 million.

²Within the Company, total other long-term liabilities are £67 million, of which loans and payables (amortised cost) are £54 million and non-financial liabilities are £13 million. Total trade and other payables in the Company are £1,616 million, of which loans and payables (amortised cost) are £1,586 million and non-financial liabilities are £30 million.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 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 and using the following methods and assumptions:

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 represent 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.

Derivative instruments are measured based on the market value of instruments with similar terms and conditions using forward pricing models, which include forward exchange rates, forward interest rates, forward fuel curves and corresponding volatility surface data at the reporting date. The fair value of derivative financial assets and liabilities are determined as follows, incorporating adjustments for own credit risk and counterparty credit risk:

- Commodity reference contracts including swaps and options transactions, referenced to (i) CIF NWE cargoes jet fuel; (ii) ICE Gasoil; (iii) ICE Brent; (iv) ICE Gasoil Brent crack; (v) Jet Differential and (vi) Jet fuel Brent crack - the mark-to-market valuation prices are determined by reference to current forward curve and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate;
- Currency forward and option contracts - by reference to current forward prices and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate; and
- Interest rate swap contracts - by discounting the future cash flows of the swap contracts at market interest rate valued with the current forward curve.

The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

Level 3: Inputs for the asset or liability that are not based on observable market data. The principal method of such valuation is performed using a valuation model that considers the present value of the dividend cash flows expected to be generated by the associated assets.

The fair value of cash and cash equivalents, other interest-bearing deposits, trade receivables, other current assets and trade and other payables approximate their carrying value largely due to the short-term maturities of these instruments.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 Financial instruments continued

b Fair values of financial assets and financial liabilities continued

The carrying amounts and fair values of the Group's financial assets and liabilities held at fair value as at 31 December 2021 are set out below:

£ million				Group	
	Level 1	Level 2	Level 3	Fair value Total	Carrying value Total
Financial assets:					
Other equity investments	-	-	2	2	2
Amounts owed by associated group undertakings	-	88	-	88	85
Derivative financial assets:					
Forward currency contracts ¹	-	90	-	90	90
Currency option contracts ¹	-	2	-	2	2
Fuel derivatives ¹	-	160	-	160	160
Interest rate swaps ¹	-	1	-	1	1
Financial liabilities:					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	1,419	-	1,419	1,265
Fixed rate borrowings	-	84	-	84	83
Floating rate borrowings	-	3,539	-	3,539	3,539
Other financing liabilities	-	14	-	14	14
Derivative financial liabilities:					
Forward currency contracts ²	-	72	-	72	72
Currency option contracts ²	-	9	-	9	9
Fuel derivatives ²	-	3	-	3	3
Interest rate swaps ²	-	11	-	11	11

The carrying amounts and fair values of the Group's financial assets and liabilities held at fair value as at 31 December 2020 are set out below:

£ million				Group	
	Level 1	Level 2	Level 3	Fair value Total	Carrying value Total
Financial assets:					
Other equity investments	-	-	2	2	2
Amounts owed by associated group undertakings	-	109	-	109	104
Derivative financial assets:					
Forward currency contracts ¹	-	71	-	71	71
Interest rate swaps ¹	-	1	-	1	1
Financial liabilities:					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	1,397	-	1,397	1,191
Fixed rate borrowings	-	418	-	418	410
Floating rate borrowings	-	1,662	-	1,662	1,662
Other financing liabilities	-	33	-	33	33
Derivative financial liabilities:					
Forward currency contracts ²	-	316	-	316	316
Fuel Derivatives ²	-	381	-	381	381
Interest rate swaps ²	-	23	-	23	23

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 Financial instruments continued

b Fair values of financial assets and financial liabilities continued

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

c Level 3 financial assets reconciliation

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

£ million	Group		Company	
	2021	2020	2021	2020
Balance at 1 January	2	40	2	40
Fair value adjustment ¹	-	(38)	-	(38)
As at 31 December	2	2	2	2

¹During 2020, evidence of a decline in the fair value of shares held in The Airline Group Limited became available. The Company's most recent Annual Report and Accounts indicated an expected dividend distribution of nil for the foreseeable future, as such a valuation based on the future cash flows has resulted in a fair value reduction of this asset of £38 million recognised in the Consolidated statement of other comprehensive income.

d Cash flow hedges

At 31 December 2021 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. Remeasurement gains and losses on the loans are recognised in equity and transferred to the income statement within revenue when the loan is repaid (generally in instalments over the life of the loan);
- Forward jet fuel and jet fuel component derivative contracts, hedging price risk on fuel cash outflows. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement within fuel, oil costs and emissions charges to match against the related fuel cash outflow. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the income statement within fuel, oil costs and emissions charges when the future transaction is no longer expected to occur;
- Foreign exchange contracts, hedging foreign currency exchange risk on revenue cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement, where the hedged item is recorded directly in the Income statement, to the same caption as the underlying hedged item is classified; (ii) recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability, in the same caption as the hedged item is recognised; and (iii) recognised in equity and transferred to the Income statement, where the hedged item is a financial asset or liability, at the same time as the financial asset or liability is recorded in the Income statement. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement when the future transaction is no longer expected to occur and recorded in the relevant Income statement caption to which the hedged item is classified;
- Interest rate contracts, hedging interest rate risk on floating rate debt. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Interest expense.

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

£ million	Group	
	Total 2021	Total 2020
Loan repayments to hedge future revenue	84	203
Foreign exchange contracts to hedge future revenue and expenditure	53	116
Hedges of future fuel purchases	(147)	152
Interest rate hedges	36	23
Instruments for which hedge accounting no longer applies ¹	210	256
	236	750
Related deferred tax credit	(45)	(143)
Total amount included within equity	191	607

¹Relates to previously terminated hedge relationships for which the underlying forecast transaction remains expected to occur.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 Financial instruments continued

d Cash flow hedges continued

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

Notional principal amounts		Group and Company				
£ million	Hedge range	Within 1 year	1-2 years	2-5 years	More than 5 years	Total 2021
Foreign exchange contracts to hedge future revenue and expenditure						
USD	1.23 – 1.45	2,214	876	36	-	3,126
EUR	1.08 – 1.18	170	88	-	-	258

Notional principal amounts		Group and Company				
£ million	Hedge range	Within 1 year	1-2 years	2-5 years	More than 5 years	Total 2020
Foreign exchange contracts to hedge future revenue and expenditure						
USD	1.15 – 1.40	1,350	698	402	-	2,450
EUR	1.08 – 1.19	163	149	28	-	340

The Group's loan repayment instalments used to hedge foreign currency risk on future revenue inflows were predominantly in euros and Japanese yen. The total notional amounts at 31 December 2021 were €1,134 million (2020: €1,327 million) and ¥53,268 million (2020: ¥52,994 million).

Derivative contracts are used to hedge fuel purchases over a period of up to two years (previously three years). Notional quantities associated with these contracts at 31 December 2021 amounted to 4 million tonnes (2020: 4 million tonnes) with a hedge price range of USD 378 – 715 (2020: USD 584 – 941).

The notional amount of the Group's interest rate contracts to hedge the floating interest rate on euro-denominated debt at 31 December 2021 was €796 million (2020: €943 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

23 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 2021

£ million	Amounts recognised in other comprehensive income ¹	Amounts associated with ineffectiveness recognised in the income statement	Discontinuance of hedge reclassified to the income statement	Total recognised losses	Other amounts reclassified to the income statement	Amounts reclassified to the balance sheet
Debt repayments to hedge future revenue	(106)	-	-	(106)	(13)	-
Foreign exchange contracts to hedge future revenue and expenditure	(68)	-	3	(65)	16	(15)
Hedge of future fuel purchases	(390)	-	60	(330)	29	-
Interest rate hedges	(6)	-	-	(6)	(9)	27
Instruments for which hedge accounting no longer applies	-	-	-	-	(46)	-
	(570)	-	63	(507)	(23)	12

¹Amounts recognised in other comprehensive income represent gains on the hedging instruments.

As at 31 December 2020

£ million	Amounts recognised in other comprehensive income ¹	Amounts associated with ineffectiveness recognised in the income statement	Discontinuance of hedge reclassified to the income statement	Total recognised losses	Other amounts reclassified to the income statement	Amounts reclassified to the balance sheet
Debt repayments to hedge future revenue	110	-	(19)	91	(17)	-
Foreign exchange contracts to hedge future revenue and expenditure	23	-	41	64	16	4
Hedge of future fuel purchases	1,304	-	(940)	364	(258)	-
Interest rate hedges	27	-	-	27	(7)	(29)
Instruments for which hedge accounting no longer applies	-	-	-	-	(56)	-
	1,464	-	(918)	546	(322)	(25)

¹Amounts recognised in other comprehensive income represent losses on the hedging instruments.

The (gains)/losses associated with the discontinuance of hedge accounting recognised in the income statement and the subsequent fair value movements of those derivative instruments recorded in the income statement as an exceptional item (see note 3) through to the earlier of the balance sheet date and the maturity date of the derivatives are set out below:

£ million	2021	2020
(Gains)/losses associated with the discontinuance of hedge accounting recognised in the income statement	(63)	927
Fair value movements subsequently recorded in the income statement	(50)	(37)
Total effect of discontinuance of hedge accounting in the income statement	(113)	890

The Group has no fair value hedges at 31 December 2021 and 2020.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

24 Share capital and share premium

	Group and Company			
	2021		2020	
	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

£ million	Group and Company	
	2021	2020
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 share have full economic rights in accordance with the percentage of shares held, however are non-voting.

25 Share options

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

£ million	2021	2020
Share option schemes recharged/(credited) from IAG	3	(1)
Total share-based payments charge/(credit) recorded in employee costs	3	(1)

BA participates in 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 30 ('Related party transactions'). A brief description of the schemes is set out below:

a) 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. Since 2015, awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options can be exercised. All awards since 2015 have three independent performance measures with equal weighting: Total Shareholder Return ('TSR') relative to the STOXX Europe 600 Travel and Leisure Index (for 2020 awards) or MSCI European Transportation Index (for prior to 2020 awards), earnings per share, and Return on Invested Capital.

b) IAG Restricted Share Plan

During 2021, IAG revised its approach to long-term incentives, replacing the existing PSP with a Restricted Share Plan proposal under the new Executive Share Plan ('RSP') approved by shareholders in June 2021. The RSP was introduced to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Group. Awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options can be exercised. There are no performance measures associated with the awards, although approval at the end of the vesting period will be at the discretion of the Remuneration Committee, considering the IAG Group's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified.

c) IAG Full Potential Incentive Plan

During 2021, IAG launched the new Full Potential Incentive Plan ('FPIP'), which is granted to key individuals involved in the delivery of a series of transformation projects that will enable the Group to deliver business success over the medium to long term. The Awards have been made as nil-cost options, vesting in 2025 and dependent on stretch performance targets for 2024 and the approval of the Board.

d) 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 IAG 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

26 Other reserves

a Group

£ million	Retained earnings	Unrealised gains and losses	Cost of hedging reserve	Currency translation	Group Total other reserves
Balance at 1 January 2020 as reported ¹	4,373	(410)	42	-	4,005
Change in accounting policy ¹	246	-	-	-	246
Balance at 1 January 2020 restated	4,619	(410)	42	-	4,251
Loss for the year	(3,500)	-	-	-	(3,500)
Other comprehensive loss for the year:					
Exchange gains	-	-	-	15	15
Fair value of cash flow hedges transferred to passenger revenue	-	51	-	-	51
Fair value of cash flow hedges transferred to fuel and oil costs	-	204	-	-	204
Fair value of cash flow hedges transferred to finance costs	-	29	-	-	29
Derecognition of fuel hedges	-	743	8	-	751
Net change in fair value of cash flow hedges	-	(1,174)	-	-	(1,174)
Net change in fair value of cost of hedging	-	-	12	-	12
Cost of hedging reclassified and reported in net loss	-	-	(11)	-	(11)
Share of movement in reserves of associates	(12)	-	-	-	(12)
Other equity investments - fair value movements in equity	-	(47)	-	-	(47)
Pension remeasurements	(522)	-	-	-	(522)
Hedges reclassified and reported in property, plant and equipment	-	(3)	(11)	-	(14)
Cost of share-based payments	(1)	-	-	-	(1)
Total income and expense for the year	(4,035)	(197)	(2)	15	(4,219)
Balance at 1 January 2021 restated ¹	584	(607)	40	15	32
Loss for the year	(1,648)	-	-	-	(1,648)
Other comprehensive income for the year:					
Exchange losses	-	-	-	(9)	(9)
Fair value of cash flow hedges transferred to passenger revenue	-	16	-	-	16
Fair value of cash flow hedges transferred to fuel and oil costs	-	(4)	-	-	(4)
Fair value of cash flow hedges transferred to finance costs	-	7	-	-	7
Derecognition of fuel hedges	-	(51)	-	-	(51)
Net change in fair value of cash flow hedges	-	448	-	-	448
Net change in fair value of cost of hedging	-	-	12	-	12
Cost of hedging reclassified and reported in net loss	-	-	(11)	-	(11)
Share of movement in reserves of associates	(1)	-	-	-	(1)
Pension remeasurements	1,197	-	-	-	1,197
Hedges reclassified and reported in property, plant and equipment	-	12	(10)	-	2
Total income and expense for the year	(452)	428	(9)	(9)	(42)
As at 31 December 2021	132	(179)	31	6	(10)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

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.

Cost of hedging reserve

The cost of hedging reserve records, amongst others, changes on the time value of options.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

26 Other reserves continued

b Company

£ million	Company			
	Retained earnings	Unrealised gains and losses	Cost of hedging reserve	Total other reserves
Balance at 1 January 2020 as reported ¹	4,796	(423)	42	4,416
Change in accounting policy ¹	246	-	-	246
Balance at 1 January 2020 restated	5,042	(423)	42	4,662
Loss for the year	(3,717)	-	-	(3,717)
Other comprehensive loss for the year:				
Fair value of cash flow hedges transferred to passenger revenue	-	51	-	51
Fair value of cash flow hedges transferred to fuel and oil costs	-	204	-	204
Fair value of cash flow hedges transferred to finance costs	-	29	-	29
Derecognition of fuel hedges	-	743	8	751
Net change in fair value of cash flow hedges	-	(1,174)	-	(1,174)
Net change in fair value of cost of hedging	-	-	12	12
Cost of hedging reclassified and reported in net loss	-	-	(11)	(11)
Other equity investments - fair value movements in equity	-	(39)	-	(39)
Pension remeasurements	(516)	-	-	(516)
Hedges reclassified and reported in property, plant and equipment	-	(3)	(11)	(14)
Cost of share-based payments	(1)	-	-	(1)
Total income and expense for the year	(4,234)	(189)	(2)	(4,425)
Balance at 1 January 2021 restated ¹	808	(612)	40	237
Loss for the year	(1,675)	-	-	(1,675)
Other comprehensive income for the year:				
Fair value of cash flow hedges transferred to passenger revenue	-	16	-	16
Fair value of cash flow hedges transferred to fuel and oil costs	-	(4)	-	(4)
Fair value of cash flow hedges transferred to finance costs	-	7	-	7
Derecognition of fuel hedges	-	(51)	-	(51)
Net change in fair value of cash flow hedges	-	448	-	448
Net change in fair value of cost of hedging	-	-	12	12
Cost of hedging reclassified and reported in net loss	-	-	(11)	(11)
Pension remeasurements	1,192	-	-	1,192
Hedges reclassified and reported in property, plant and equipment	-	12	(10)	2
Total income and expense for the year	(483)	428	(9)	(65)
As at 31 December 2021	325	(184)	31	172

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2 of this report.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes.

Defined contribution schemes

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.

Costs recognised in respect of the defined contribution pension plan for the year to 31 December 2021 were £116 million (2020: £136 million).

Defined benefit schemes

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme ('APS') and the New Airways Pension Scheme ('NAPS').

APS has been closed to new members since 1984, but remains open to future accrual. 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.

NAPS has been closed to new members since 2004 and closed to future accrual since 2018, resulting in a reduction of the defined benefit obligation. Following closure 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).

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much 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.

Triennially, the Trustees of APS and NAPS undertake actuarial valuations, which are subsequently agreed with British Airways to determine the cash contributions and any deficit payment plans through to the next valuation date, as well as ensuring that the schemes have sufficient funds available to meet future benefit payments to members. These actuarial valuations are prepared using the principles set out in UK Pension legislation. This differs from the IAS 19 'Employee benefits' valuation, which is used for deriving the Income statement and Balance sheet positions, and uses a best-estimate approach overall. The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and deficit.

At 31 December 2021, the triennial valuations as at 31 March 2021 were not finalised and accordingly the latest actuarial valuations of both APS and NAPS were performed as at 31 March 2018, which resulted in a surplus of £599 million for APS and a deficit of £2,399 million for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at 31 December 2021 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.

Other plans

British Airways also operates post-retirement schemes in a number of jurisdictions outside of the UK. The principal scheme is the British Airways Plc Pension Plan (USA) based in the United States and referred to as the 'US Plan'. The US Plan is considered to be a defined benefit scheme and is closed to new members and to future accrual.

The majority of the Group's other plans are fully funded, but there are also a number of unfunded plans, where the Group meets the benefit payment obligations as they fall due.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

Risks associated with the defined benefit schemes

The defined benefit schemes expose the Group to a range of risks, with the following being the most significant:

- Asset volatility risk - the scheme obligations are calculated using a discount rate set with reference to high quality corporate bond yields. If scheme assets underperform this yield, this will reduce the surplus / increase the deficit, depending on the scheme. Certain of the schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while creating volatility and risk in the short term;
- Longevity risk - the majority of the scheme obligations are to provide benefits over the life of the scheme members. An increase in life expectancy will result in a corresponding increase in the defined benefit obligation;
- Interest rate risk - A decrease in interest rates will increase plan liabilities, although this will be partially offset by an increase in the value of certain of the scheme assets;
- Inflation risk - a significant proportion of the scheme obligations are linked to inflation, such that any increase in inflation will cause an increase in the obligations. While certain of the scheme assets are indexed to inflation, any expected increase in the scheme assets from inflation would be disproportionately lower than the increase in the scheme obligations; and
- Currency risk - a number of scheme assets are denominated in currencies other than sterling. Weakening of those currencies, or strengthening of sterling, in the long term, will have the effect of reducing the value of scheme assets.

a Cash payments and funding arrangements

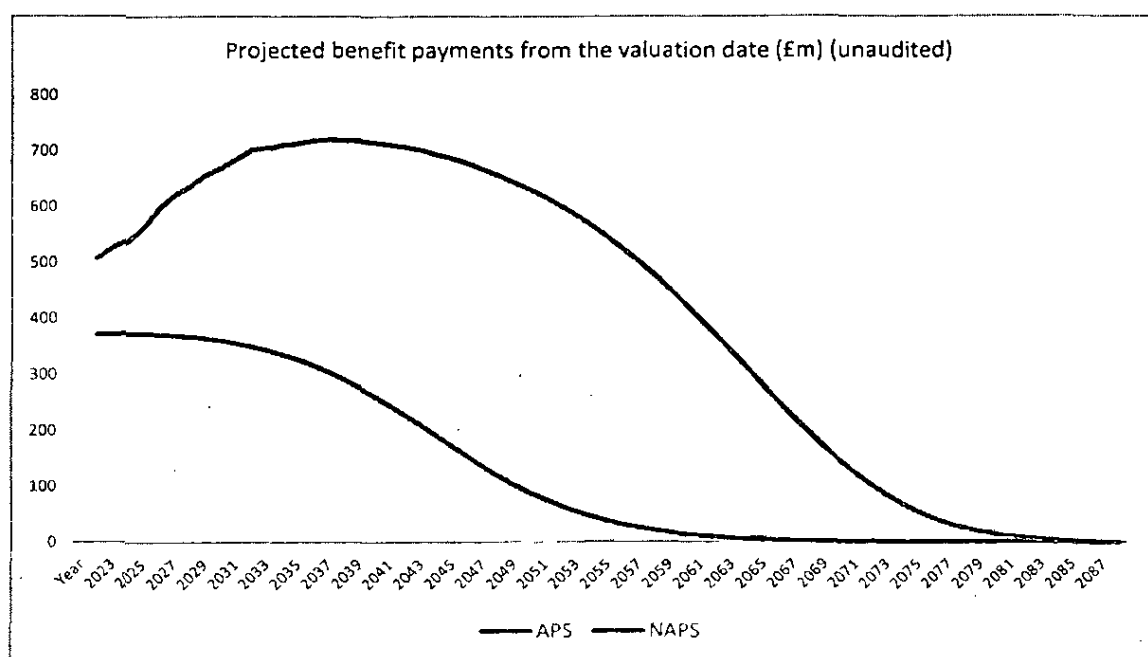
Cash payments in respect of pension obligations comprise normal employer contributions made by the Group and deficit contributions based on agreed deficit payment plans with APS and NAPS. Total payments for the year ended 31 December 2021 net of service costs made by the Group were £35 million (2020: £283 million) less the current service cost of £3 million (2020: £3 million) (note 27b).

Future funding arrangements

Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2018, using assumptions and methodologies agreed between the Group and Trustee of each scheme.

In total, the Group expects to pay £1 million in employer contributions to APS and £nil to NAPS in 2022.

The following graph provides the undiscounted benefit payments to be made by the trustees of APS and NAPS over the remaining expected duration of the schemes:



Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

a Cash payments and funding arrangements continued

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, the Group has committed to deficit contribution payments through to the end of the first quarter of 2023 amounting to approximately £112.5 million per quarter. The deficit contribution plan includes an over-funding mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are paid into an escrow account if the scheme funding level reaches 97 per cent, and are suspended if the funding level reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, which includes additional contributions equivalent to those months where contributions had been suspended, or until such point as the scheme funding level reaches 97 per cent.

During the year ended and as at 31 December 2021, the NAPS funding level exceeded 100 per cent and accordingly deficit contributions were suspended. At 31 December 2021, the valuation of the funding level incorporates significant forward-looking assumptions, as disclosed in note 2, such that the Group currently does not expect to make further deficit contributions. Given the long-term nature of the NAPS scheme, these assumptions are subject to uncertainty and there can be no guarantee that deficit contributions will not resume in the future or that additional deficit contributions will be incorporated into future triennial actuarial valuations.

At 31 December 2021, had the over-funding mechanism not been applied, then the asset ceiling adjustment (as detailed in note 27c) would have been £246 million higher.

On 18 December 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between 1 September 2020 and 31 January 2021. On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions previously agreed in October 2019 on the 31 March 2018 valuation, through to 31 August 2021. Under this deferral agreement, the deferred payments will be incorporated into the future deficit payment plan and associated deficit contributions arising from the triennial valuation of the NAPS scheme as at 31 March 2021. The deferred deficit contribution payments do not include an over-funding mechanism.

At 31 December 2021, the Group is committed to the following undiscounted deficit payments, including interest, which are deductible for tax purposes at the statutory rate of tax:

£ million	NAPS
Within twelve months	-
One to two years	337
Two to five years	149
Total expected deficit payments	486

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

Under the contribution deferral agreement between British Airways and the Trustee of NAPS, in the period up to 31 December 2023, no dividend payment is permitted from British Airways to IAG. From 2024 onwards, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. Any such payments to NAPS will reduce the outstanding repayment balance and are capped at that level. The requirement to make such payments to NAPS ceases after deferred contributions have been repaid.

b Employee benefit schemes recognised in the financial statements

i Amounts recognised on the Balance sheet

£ million	As at 31 December 2021			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	7,536	21,291	378	29,205
Present value of scheme liabilities ⁴	(7,081)	(19,190)	(598)	(26,869)
Net pension asset/(liability)	455	2,101	(220)	2,336
Effect of the asset ceiling ²	(159)	(901)	-	(1,060)
Other employee benefit obligations	-	-	(9)	(9)
	296	1,200	(229)	1,267
Represented by				
Employee benefit assets				1,508
Employee benefit obligations ⁴				(241)
Net employee benefit assets ⁵				1,267

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

b Employee benefit schemes recognised in the financial statements continued

i Amounts recognised on the Balance sheet continued

£ million	As at 31 December 2020 ³			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	7,752	20,196	369	28,317
Present value of scheme liabilities ⁴	(7,323)	(19,776)	(646)	(27,745)
Net pension asset/(liability)	429	420	(277)	572
Effect of the asset ceiling ²	(138)	(553)	-	(691)
Other employee benefit obligations	-	-	(9)	(9)
	291	(133)	(286)	(128)
Represented by				
Employee benefit assets				303
Employee benefit obligations ⁴				(431)
Net employee benefit obligations ⁵				(128)

¹The defined benefit obligation includes £20 million (2020: £21 million) arising from unfunded plans.

²APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.

³The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

⁴Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At 31 December 2021, such assets were £332 million (2020: £396 million) with a corresponding amount recorded in the scheme liabilities.

⁵The net deferred tax asset recognised on the net employee benefit assets was £53 million at 31 December 2021 (2020: £266 million on net employee benefit obligations).

ii Amounts recognised in the Income statement

Pension costs charged to operating loss before exceptional items:

£ million	2021	2020
Defined benefit plans:		
Current service cost	3	3
Past service cost ¹	-	6
Administrative expenses ²	26	22
	29	31
Defined contribution plans	116	136
Pension costs recorded as employee costs	145	167

¹In 2020 there was a past service charge of £6m due to GMP equalisation, £1m related to APS and £5m to NAPS.

²The 2020 results have been restated for treatment of administrative costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Pension costs (charged)/credited as finance costs:

£ million	2021	2020 ¹
Interest income on scheme assets	(373)	(530)
Interest expense on scheme liabilities	367	507
Interest expense on assets ceiling	8	12
Net financing charge/(credit) relating to pensions	2	(11)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

b Employee benefit schemes recognised in the financial statements continued

iii Amounts recognised in the Statement of other comprehensive income

£ million	2021	2020 ¹
Return on plan assets excluding interest income	2,153	2,053
Remeasurement of plan liabilities from changes in financial assumptions	(40)	(3,289)
Remeasurement of experience (losses)/gains	(369)	380
Remeasurement of the APS and NAPS asset ceilings	(361)	278
Exchange differences	-	6
Pension remeasurements charged to Other comprehensive income	1,383	(572)
Deferred tax arising on pension remeasurement	(186)	50
Pension remeasurements charged to Other comprehensive income, net of tax	1,197	(522)

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

c Fair value of scheme assets

i Investment strategies

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. Longevity risk is managed through the use of buy-in insurance contracts, asset swaps and longevity swaps.

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 2021 the benchmark for NAPS was 36.6 per cent (2020: 42.3 per cent) in return seeking assets and 63.4 per cent (2020: 57.7 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 2021 was 1.1 per cent (2020: 1.4 per cent) in return seeking assets and 98.9 per cent (2020: 98.6 per cent) in liability matching investments.

ii Movement in scheme assets

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

£ million	2021	2020
As at 1 January	28,317	26,818
Administration expenses	(18)	(15)
Interest income	373	530
Return on plan assets excluding interest income	2,153	2,053
Employer contributions ¹	35	283
Employee contributions	11	12
Benefits paid	(1,666)	(1,362)
Exchange differences	-	(2)
Fair value of scheme assets	29,205	28,317

¹Includes employer contributions to APS of £1 million (2020: £2 million) and to NAPS of £nil million (2020: £269 million), of which deficit funding payments represented £nil million for APS (2020: £nil million) and £nil million for NAPS (2020: £263 million).

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

iii Composition of scheme assets

Scheme assets held by the Group at 31 December comprise:

£ million	2021				2020
	APS	NAPS	Other	Total	
Return seeking investments					
Listed equities – UK	-	187	3	190	1,333
Listed equities – Rest of world	10	3,588	176	3,774	4,290
Private equities	33	1,363	-	1,396	964
Properties	3	2,103	2	2,108	1,633
Alternative investments	45	1,554	37	1,636	799
	91	8,795	218	9,104	9,019
Liabilities matching investments					
Government issued fixed bonds	623	8,348	103	9,074	6,343
Government issued index linked bonds	1,114	6,110	9	7,233	5,924
Assets and longevity swaps	3,816	-	-	3,816	4,017
Insurance contracts	1,581	-	23	1,604	1,508
	7,134	14,458	135	21,727	17,792
Other					
Cash and cash equivalents	248	711	8	967	862
Derivatives financial instruments	71	(2,735)	-	(2,664)	(207)
Other investments	(8)	62	17	71	851
	311	(1,962)	25	(1,626)	1,506
Total scheme assets	7,536	21,291	378	29,205	28,317

The scheme assets at 31 December 2020 have been re-presented to conform with the 2021 presentation. There has been no change in the overall fair value of the scheme assets.

The fair values of the Group's scheme assets, which are not derived from quoted process on active markets, are determined depending on the nature of the inputs used in determining the fair values (see note 23b for further details) and using the following methods and assumptions:

- Private equities are valued at fair value based on the most recent transaction price or third-party net asset, revenue or earnings based valuations that generally result in the use of significant unobservable inputs.
- Properties are valued based on an analysis of recent market transactions supported by market knowledge derived from third-party professional valuers that generally result in the use of significant unobservable inputs.
- Alternative investments fair values, which predominantly include holdings in investment and infrastructure funds are determined based on the most recent available valuations applying the Net Asset Value methodology and issued by fund administrators or investment managers and adjusted for any cash movements having occurred from the date of the valuation and the reporting date.
- Other investments predominantly includes: interest receivable on bonds; dividends from listed and private equities that have been declared but not received at the Balance sheet date; receivables from the sale of assets for which the proceeds have not been collected at the Balance sheet date, and; payables for the purchase of assets which have not been settled at the Balance sheet date.
- Asset and longevity swaps – APS has a contract with Rothesay Life, entered into in 2010 and extended in 2013, which covers 25.02 per cent (2020: 24 per cent) of the pensioner liabilities for the same agreed list of members. Under the contract, to reduce the risk of long-term longevity risk, Rothesay Life makes benefit payments monthly in respect of the agreed list of members in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt, asset swaps and longevity swaps) held by the scheme. The Group holds the portfolio of assets at their fair value, with the government debt held at their quoted market price and the swaps accounted for at their estimated discounted future cash flows.

During 2011, APS entered into a longevity swap with Rothesay Life, which covers an additional 20.85 per cent (2020: 20 per cent) of the pensioner liabilities for the same agreed list of members as the 2010 contract. Under the longevity swap, to reduce the risk of long-term longevity risk, APS makes a fixed payment to Rothesay Life each month reflecting the prevailing mortality assumptions at the inception of the contract, and Rothesay Life make a monthly payment to APS reflecting the actual monthly benefit payments to members. The cash flows are settled net each month. If pensioners live longer than expected at inception of the longevity swap, Rothesay Life will make payments to the scheme to offset the additional cost of paying pensioners and if pensioners do not live as long as expected, then the scheme will make payments to Rothesay Life. The Group holds the longevity swap at fair value, determined at the estimated discounted future cash flows.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

iii Composition of scheme assets continued

- Insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at 31 March 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension only benefits, who were 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. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future. Along with existing contracts with Rothesay Life, APS is 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).

iv Effect of the asset ceiling

In measuring the valuation of the net defined benefit asset for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available in the form of a refund or a reduction in future contributions after they are paid into the plan. The Group has determined that the recoverability of such surpluses, including minimum funding requirements, will be subject to withholding taxes in the UK, payable by the Trustee, of 35 per cent.

The future committed NAPS deficit contributions, as detailed in note 27 (i), are treated as minimum funding requirements under IAS 19 and are not recognised as part of the scheme assets or liabilities. The Group has determined that upon the wind up of the scheme, that if the scheme is in surplus, including the incorporation of the minimum funding requirements, then the surplus will be available as a refund or a reduction in future contributions after they are paid into the scheme. The recovery of such amounts are subject to UK withholding tax payable by the Trustee. In measuring the recoverability of the surplus for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available upon wind up of the scheme, less the application of withholding taxes in the UK, payable by the Trustee, at 35 per cent.

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

£ million	2021	2020 ¹
As at 1 January	691	957
Interest expense	8	12
Remeasurements	361	(278)
As at 31 December	1,060	691

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

d Present value of scheme liabilities

i Movement in scheme liabilities

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

£ million	2021	2020 ¹
As at 1 January	27,745	25,678
Current service cost	3	3
Past service cost	-	6
Interest expense	367	507
Remeasurements – financial assumptions	40	3,289
Remeasurement of experience losses/(gains)	369	(380)
Benefits paid	(1,666)	(1,362)
Employee contributions	11	12
Exchange differences	-	(8)
At 31 December	26,869	27,745

¹The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27 Employee benefits continued

ii Scheme liability assumptions

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

£ million	2021			2020		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate ¹	1.80	1.90	1.9 – 3.0	1.20	1.40	1.4 – 2.4
Rate of increase in pensionable pay ²	3.55	N/A	2.50	2.95	N/A	2.50
Rate of increase of pensions in payment ³	3.55	2.85	2.0 – 3.0	2.95	2.25	2.0 – 3.5
RPI rate inflation	3.55	N/A	2.5 – 3.0	2.95	N/A	2.5 – 2.7
CPI rate of inflation	N/A	2.85	2.5 – 3.0	N/A	2.25	2.2 – 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 increases in RPI.

³It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and RPI for APS as at 31 December 2021.

For US PRMB the rate of increase in healthcare costs is based on medical trend rates of 6.0 per cent grading down to 5.0 per cent over five years (2020: 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. Life expectancy assumptions do not reflect any adjustments for the impact of COVID-19 due to the uncertainty of the long term effects. The current weighted average longevity assumptions underlying the values of the scheme liabilities were as follows:

Mortality Assumptions	UK	
	2021	2020
Life expectancy at age 60 for a:		
- male currently aged 60	28.1	28.2
- male currently aged 40	29.9	29.9
- female currently aged 60	29.5	29.3
- female currently aged 40	31.9	31.8

For schemes in the United States, mortality rates were based on the MP-2021 mortality tables.

As at 31 December 2021, the weighted-average duration of the defined benefit obligation was 12 years for APS (2020: 12 years) and 19 years for NAPS (2020: 20 years). The weighted-average duration of the defined benefit obligations was 4 to 23 years for other schemes (2020: 6 to 24 years). The weighted average duration represents a single figure for the average number of years over which the employee benefit liability discounted cash flows is extinguished and is highly dependent to movements in the aforementioned discount rates.

iii Sensitivity analysis

Reasonable 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.

£ million	Increase in present value of scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	40	360	7
Future salary growth (increase of 10 basis points)	N/A	N/A	2
Future pension growth (increase of 10 basis points)	40	340	3
Future mortality rate (one year increase in life expectancy)	30	740	29

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

28 Contingent liabilities and guarantees

a Contingent liabilities

Details of contingent liabilities are set out below. The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provision for these proceedings has been recognised.

Contingent liabilities associated with income and deferred taxes are presented note 8.

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at 31 December 2021 amounted to £19 million (2020: £15 million).

b Guarantees

The Group also has guarantees and indemnities entered into as part of the normal course of business, which at 31 December 2021 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 32 in respect of audit exemptions.

29 Government grants and assistance

The Group has availed itself of government grants and assistance as follows:

a The Coronavirus Job Retention Scheme ('CJRS') – recognised net within employee costs

The CJRS was implemented by the government of the United Kingdom from 1 March 2020 to 31 August 2020, where those employees designated as being 'furloughed workers' were eligible to have 80 per cent of their wage costs paid up to a maximum of £2,500 per month.

From 1 September 2020 to 30 September 2020, the level eligibility reduced to 70 per cent of wage costs and up to a maximum of £2,197.50 per month. From 1 October 2020 to 31 October 2020, the level of eligibility reduced to 60 per cent of wage costs and up to a maximum of £1,875 per month. Following the introduction of further lockdown restrictions in the United Kingdom in November 2020, the CJRS was extended from 1 November 2020 to 30 November 2020 and then further to 31 March 2021 and then further again to 30 September 2021 with the level of eligibility increased to 80 per cent of wage costs and a maximum of £2,500 per month through to the end of June 2021, after which the eligibility decreased down each month to 60 per cent of wage costs and a maximum of £1,875 per month by 30 September 2021, at which time the CJRS ended.

Such costs are paid by the government to the Group in arrears. The Group is obliged to continue to pay the associated social security costs and employer pension contributions.

The total amount of the relieve received under the CJRS by the Group during 2021 amounted to £190 million (2020: £258 million).

b The UK Export Finance ('UKEF')

In February 2021, British Airways entered into a 5 year term loan Export Development Guarantee Facility of £2 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UK Export Finance (UKEF). The facility is unsecured.

In November 2021, British Airways reached agreement with UKEF and a syndicate of banks for a 5-year Export Development Guarantee committed Credit Facility (UKEF facility) of £1.0 billion. This is additional to a £2.0 billion UKEF guaranteed facility above. The facility is unsecured. At 31 December 2021 the facility remains undrawn.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

30 Related party transactions

The following transactions took place with related parties for the financial year ended 31 December 2021:

£ million	Group		Company	
	2021	2020	2021	2020
Sales of goods and services:				
Sales to/purchases on behalf of IAG ¹	6	7	6	7
Sales to/purchases on behalf of subsidiary undertakings of the parent ²	55	147	55	147
Sales to/purchases on behalf of significant shareholders of the parent ³	13	10	13	10
Sales to associates ⁴	143	138	143	138
Sales to subsidiaries ⁵	-	-	128	108
Purchases of goods and services:				
Purchases from IAG ¹	42	27	42	27
Purchases from subsidiary undertakings of the parent ²	197	233	197	233
Purchases from significant shareholders of the parent ³	59	69	59	69
Purchases from associates ⁴	114	80	113	79
Purchases from subsidiaries ⁵	-	-	78	89

Period end balances arising from sales and purchases of goods and services:

£ million	Group		Company	
	2021	2020	2021	2020
Receivables from related parties:				
Amounts owed by IAG ¹	101	105	101	105
Amounts owed by subsidiary undertakings of the parent ²	47	64	47	64
Amounts owed by significant shareholders of the parent ³	4	-	4	-
Amounts owed by associates ⁴	60	19	60	19
Amounts owed by subsidiaries ⁵	-	-	24	42
Payables to related parties:				
Amounts owed to IAG ¹	1,442	1,483	1,442	1,483
Amounts owed to subsidiary undertakings of the parent ²	42	21	42	21
Amounts owed to significant shareholders of the parent ³	2	-	2	-
Amounts owed to associates ⁴	1,405	1,082	1,404	1,082
Amounts owed to subsidiaries ⁵	-	-	473	430

¹The transactions between the Group and IAG principally comprise mainly of a long-term loan, 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. The long-term loans owed to and from the Group bear market rates of interest.

²Amounts owed by and to subsidiary undertakings of the parent related to other subsidiaries of the IAG Group.

³Amounts owed by and to significant shareholders of the parent related to Qatar Airways.

⁴Sales 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.

⁵Outstanding 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 £5 million in relation to the Pension Protection Fund levy (2020: £6 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 2021 the Group has not made any allowance for expected credit losses relating to amounts owed by related parties (2020: £nil). The Company has made an allowance for expected credit losses related to amounts owed by related parties of £44 million (2020: £44 million).

In November 2020, British Airways entered into a floating rate fixed term loan agreement with IAG, the ultimate parent undertaking, for £1,453 million (£1,645 million). The loan is repayable in January 2024.

Directors' and Officers' loans and transactions

There were no loans or credit transactions with Directors or Officers of the Company at 31 December 2021 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

31 Post balance sheet events

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

32 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2021 by virtue of Section 479A of the Companies Act 2006:

BA and AA Holdings Limited (03840072)
BA European Limited (06346489)
BA Excepted Group Life Scheme Limited (11283644)
BA Healthcare Trust Limited (09619950)
BA Holdco Limited (12278609)
BritAir Holdings Limited (03537574)
British Airways (BA) Limited (07990613)
British Airways 777 Leasing Limited (04954270)
British Airways Associated Companies Limited (00590083)
British Airways Avionic Engineering Limited (02775232)
British Airways Interior Engineering Limited (03109109)
British Airways Leasing Limited (04150220)
British Airways Maintenance Cardiff Limited (02204178)
British Midland Airways Limited (00464648)
Gatwick Ground Services Limited (10390742)
Teleflight Limited (03918190)

33 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking and controlling party as at 31 December 2021 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

Subsidiary undertakings at 31 December 2021

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 EuroFlyer Limited	England	Airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA European Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Excepted Group Life Scheme Limited	England	Life Insurance	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Healthcare Trust Limited	England	Healthcare	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Holdco Limited	England	Holding 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 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
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

¹Not directly owned by British Airways Plc

²99.0% holding

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

Associated undertakings at 31 December 2021

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principal activities	Registered address
Avios Group (AGL) Limited	86.26	England	Airline marketing	Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY
Dunwoody Airline Services Limited	40.00	England	Airline operations	Building 552, Shoreham Road East, Heathrow Airport, TW6 3UA
IB Opco Holding S.L. ¹	13.55	Spain	Airline operations	Calle Velazquez 130, 28006 Madrid
LanzaJet, Inc.	16.70	USA	Sustainable fuel technology	520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015, USA

¹Not directly owned by British Airways Plc

Other equity investments at 31 December 2021

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principal activities	Registered address
Comair Limited ¹	0.11	South Africa	Airline operations	1 Marignane Drive, Bonaero Park, 1619 El Caserio, Iberia Zona Industrial n° 2 (La Muñoz), Camino de La Muñoz, s/n, 28042 Madrid.
International Consolidated Airlines Group S.A.	0.002	Spain	Airline operations	Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN
The Airline Group Limited	16.68	England	Air traffic control holding company	

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		2021	2020 ¹	2019 ¹
Traffic and capacity				
Revenue passenger kilometre ('km') ('RPK')	m	30,700	39,118	155,580
Available seat km ('ASK')	m	52,635	63,725	186,170
Passenger load factor	%	58.3	61.4	83.6
Cargo tonne km ('CTK')	m	2,981	2,721	4,211
Passengers carried	'000	10,322	12,282	47,710
Tonnes of cargo carried	'000	379	341	480
Operations				
Average manpower equivalent ('MPE')		26,890	33,898	38,230
ASKs per MPE		1,957	1,880	4,870
Aircraft in service at year end		276	277	305
Aircraft utilisation (average hours per aircraft per day)		5.90	4.37	10.81
Punctuality – within 15 minutes	%	77	85	76
Regularity	%	92.0	82.0	98.4
Financial				
Passenger revenue per RPK	p	7.54	7.40	7.65
Passenger revenue per ASK	p	4.40	4.54	6.39
Cargo revenue per CTK	p	36.80	32.71	16.88
Average fuel price (US cents/US gallon)		211.30	160.17	207.65
Operating margin	%	(47.9)%	(97.6)%	9.8%
Operating margin before exceptional items	%	(51.4)%	(58.7)%	14.2%
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	£m	(916)	(1,274)	2,996
Net debt/total capital ratio	%	128.3	82.8	39.1
Total traffic revenue per ASK	p	7.0	6.3	7.1
Total expenditure before exceptional items on operations per ASK	p	10.63	9.97	6.12
Total expenditure before exceptional items on operations excluding fuel per ASK	p	8.84	8.15	4.38

¹The 2020 and 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 2.

m = millions

p = pence

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

Fleet table

Number in service with Group companies at 31 December 2021

	Owned	Right of use	Total December 2021	Total December 2020	Changes since December 2020 (Note 2)	Future deliveries	Options
Airline Operations (Note 1)							
Airbus A319	8	22	30	35	(5)		
Airbus A320	38	46	84	80	4	5	10
Airbus A321	13	15	28	28		3	
Airbus A350	8		8	8		10	36
Airbus A380	2	10	12	12			
Boeing 777-200	38	5	43	43			
Boeing 777-300	4	12	16	16			
Boeing 777-900						18	24
Boeing 787-8		12	12	12			
Boeing 787-9	1	17	18	18			
Boeing 787-10	2		2	2		10	6
Embraer E170				1	(1)		
Embraer E190	9	14	23	22	1		
Total Operations	123	153	276	277	(1)	46	76

Notes:

- Includes aircraft operated by British Airways Plc and BA CityFlyer Limited.
- Four Airbus A320neo and two Embraer E190s entered service during the year, with one Embraer E190 permanently stood down.

Glossary

Airline operations	This includes British Airways Plc and BA CityFlyer Limited.
Available seat kilometres ('ASK')	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres ('ATK')	The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
Cargo 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.
EBITDA	Earnings before interest, tax, depreciation and amortisation
Exceptional items	Those items that in management's view need to be separately disclosed by virtue of their size or nature.
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.
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.
Passenger revenue per ASK	Passenger revenue divided by ASK.
Passenger revenue per RPK	Passenger revenue divided by RPK.
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.
Revenue tonne kilometres ('RTK')	The revenue load in tonnes multiplied by the distance flown.
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.