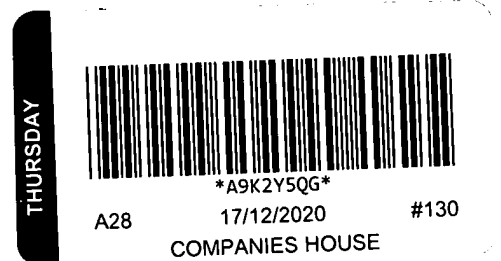


Registered No: 02571224

BA CityFlyer Limited

Annual Report and Financial Statements For the year ended 31 December 2019



BA CityFlyer Limited

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BA CityFlyer Limited

Company information

DIRECTORS

T. Stoddart
N. Chernoff
C. Lacy
S. Philcox
A. Quigley

COMPANY SECRETARY

K. Bishop

AUDITORS

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

REGISTERED OFFICE

Waterside
PO Box 365
Harmondsworth
UB7 0GB

REGISTERED NO. 02571224

The Directors present the Directors' Report, the Strategic Report and the financial statements of BA CityFlyer Limited (the "Company") for the year ended 31 December 2019.

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of approval of the financial statements were as follows:

T. Stoddart
C. Lacy (appointed 4 February 2019)
N. Chernoff (appointed 4 February 2019)
R. Napier (appointed 4 February 2019, resigned 30 August 2019)
A. Carson (resigned 4 February 2019)
S. Philcox (appointed 30 August 2019)
A. Quigley (appointed 30 August 2019)

RESULTS AND DIVIDENDS

The profit after tax for the year amounted to £21,889,000 (2018: £34,113,000). The Directors do not recommend the payment of a final dividend (2018: £ nil).

GOING CONCERN

The Company has received confirmation from its parent company, British Airways Plc ('BA'), that it will provide financial support to the Company should it be required for a period of at least 12 months from the date of approval of these financial statements. Having made an assessment of the ability of BA to provide such support if required, the Directors have a reasonable expectation that the Company has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2019.

However, the Company's financial position is significantly affected by the level of operating activity of BA. The Directors note the publication on 13 November 2020 of BA's condensed consolidated interim financial statements for the nine-month period to 30 September 2020 in which a material uncertainty in relation to going concern was disclosed.

As a consequence, the Directors of the Company consider there is also a material uncertainty over the level of the Company's operating activities and BA's ability to provide financial support to the Company and this could cast significant doubt upon the Company ability to continue as a going concern. Refer to note 2.1 for further information.

POST BALANCE SHEET EVENTS

Management has also evaluated the potential impact of COVID-19 on the valuation of its assets and concluded that there has been no material change from the balance sheet date.

ENVIRONMENTAL CONTRIBUTION

All airlines have to meet a comprehensive range of local, national and international environmental regulations. Our approach to these, in line with our parent company British Airways plc (BA), is to comply with all the regulations and to exceed them in a number of key areas. The Company operates a fleet of two-engined Embraer E-Jets, which have driven a significant improvement in the Company's environmental performance when compared to the historic fleet.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The ultimate parent company purchases insurance against Directors' and Officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and Officers of its subsidiary undertakings.

POLITICAL CONTRIBUTIONS

During the year, the Company made no political contributions (2018: £nil).

BA CityFlyer Limited

Directors' report (Continued)

EMPLOYEE INVOLVEMENT

The motivation and commitment of our employees are major contributors to the Company's long-term prospects. Internal communications systematically provide employees with information on matters of concern to them. During the period this has been achieved through a regular newsletter and provision of a company intranet. Open staff forums are regularly conducted and an online forum is hosted where employees are encouraged to raise suggestions and views on the Company's operations and performance.

DISABLED EMPLOYEES

The Company gives full consideration to applications for employment from disabled persons where a handicapped or disabled person can adequately fulfil the requirements of the job.

Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

AUDITOR

The Company's auditor, Ernst & Young LLP, will automatically continue in office in accordance with the terms of their appointment, as per section 487 of the Companies Act 2006.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who were members of the Board at the time of approving the Directors' Report are listed above. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

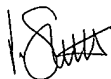
- to the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all steps a Director might reasonably be expected to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

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

INFORMATION INCLUDED IN THE STRATEGIC REPORT

Financial risk management objectives, the exposure to financial risks and future developments are disclosed in the strategic report, in accordance with Section 414C (11) of the Companies Act 2006.

By order of the Board



.....
T Stoddart
Director
11 December 2020

BA CityFlyer Limited

Strategic report

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Company, which is a wholly owned subsidiary undertaking of BA, forms an integral part of the BA Group activity. The principal activity of the Company during the period was flying scheduled passenger services out of London City Airport.

REVIEW OF THE YEAR

The Company took delivery of an additional two leased Embraer E-190 aircraft in April and July 2019, bringing the fleet to 24 aircraft, comprising six Embraer E-170s and 18 Embraer E-190 aircraft. These aircraft entered commercial service in May and July 2019. The wetlease of a SAAB 2000 aircraft, dedicated mainly to the Isle of Man route, continued throughout the year.

The Company remains the largest operator at London City Airport in terms of capacity, passengers and departures. The Company continued to make tactical changes to its route network out of London City Airport including the cancellation of the Paris Orly route replaced by schedule increases on other existing business routes and commencement of year-round scheduled services to Munich in February 2019 and a summer service to Split from June 2019. The Company continued to operate a programme of weekend leisure routes from London Stansted, Manchester and Edinburgh airports.

KEY PERFORMANCE INDICATORS

The results for the Company show turnover of £290,669,000 (2018: £275,841,000) and the Company generated an operating profit in the year of £31,327,000 (2018: £36,619,000). The operating margin was 10.8% (2018: 13.3%). Capacity, in terms of the number of seats available increased by 4.6% over 2018.

FUTURE DEVELOPMENTS

The Company continues to make changes to its route network, to provide improved options for the customer. A lease agreement was signed during 2019 for a further six Embraer E-190 aircraft to be delivered during 2020 to replace the six Embraer E-170 aircraft in the fleet.

IMPACT OF COVID-19

Subsequent to the balance sheet date, the Company has been impacted by the outbreak and escalation of COVID-19. From late February, as the virus spread across the globe, many governments placed significant restrictions on the movement of people and on travel across international borders.

The Directors and management have taken action to preserve cash by more than halving the forecast 2020 operating costs and capital expenditure. The Company did not operate any scheduled services between 23 March 2020 and 9 July 2020, other than a daily service to Isle of Man. A limited number of flights recommenced on 10 July 2020. Further actions are being taken to adjust the business and reduce the costs base to reflect forecast demand in the market. The Directors continue to monitor and review the Company's cash flow forecasts regularly and will continue to take any necessary actions to support the Company's financial position.

BA CityFlyer Limited

Strategic report (Continued)

SECTION 172 STATEMENT

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

Customers	
Why it is important to engage and what matters to them?	<p>If the airline is unable to meet the expectation 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>BA provides a loyalty scheme to customers through the acquisition of points from Avios Group (AGL) Limited which are then issued to Executive Club members as part of the ticket for carriage on BA Cityflyer scheduled services. 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 also 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 Leadership Team receive regular updates regarding customer relationships, development and engagement, including results of customer feedback surveys, net promoter score and complaints data.</p> <p>The actions taken by the parent company regarding engagement with customers are detailed in the financial statements of BA.</p> <p>BA CityFlyer have continued to make changes to the flying schedule and have continued to focus on improving operational performance, in order to deliver an improved proposition to the customers. Strategic report on page 5 outlines details on these changes.</p>
Suppliers	
Why is it important to engage and what matters to them?	<p>The Company'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 Company to run uninterrupted operations. Key suppliers include aircraft manufacturers, fuel suppliers and 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 and the Board receives updates regarding material developments in key supplier relationships. IAG Global Business Services (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 CityFlyer must apply.</p> <p>The Board receives regular operational updates including updates on operational performance at London City Airport and the impact of the proposed City Airport Development Plans.</p>

BA CityFlyer Limited

Strategic report (Continued)

SECTION 172 STATEMENT (continued)

Workforce	
Why it is important to engage and what matters to them?	<p>The Company's long-term success is predicated on the commitment of the workforce to the airline's purpose and consistently demonstrating the BA CityFlyer values. To maintain a competitive advantage and meet the growing demand of the commercial aviation environment, the workforce needs to be adaptive and have a constantly evolving skills base.</p> <p>Engaging with the workforce is essential to ensure that the Company fosters an environment that the workforce is motivated to work in and that best supports their wellbeing.</p> <p>Colleagues are concerned with opportunities for personal development and career progression, a culture of inclusion and diversity, compensation and benefits and the ability to make a difference within BA CityFlyer.</p>
How management and/or Directors engaged and what was the impact of the engagement.	<p>During the year the Leadership Team visited areas across the business to meet with colleagues and gain insight into the challenges faced by operational colleagues on a day to day basis.</p> <p>Colleagues are provided with information that is of concern to them, including business and financial performance updates which are provided in person by the Managing Director and/or Head of Finance at financial results forums and via email. Colleagues are encouraged to share their views on all matters with senior management.</p> <p>An "Above and Beyond" recognition programme was launched by BA during the year in response to feedback from colleagues. BA CityFlyer has adopted this programme to facilitate recognition for colleagues' achievements and contribution to the business.</p>
Communities and environment	
Why it is important to engage and what matters to them?	<p>The communities in which the airline operates require BA CityFlyer to operate in a socially responsible manner and protect the environment.</p> <p>Sustainability is crucial and communities expect the Company to provide means to minimise the effect of flying on the environment from reducing noise levels, waste management and offsetting carbon emissions. Communities expect the airline to minimise the negative effects of globalisation, for example employing ethically responsible supply chains.</p>
How management and/or Directors engaged and what was the impact of the engagement.	<p>BA is contributing to IAG's commitment to achieving net zero CO2 emissions by 2050 and, during 2019, became the first UK airline to announce it would offset carbon emissions on domestic flights from 2020. This includes domestic flights operated by BA CityFlyer.</p> <p>The Company continues to support charitable giving through its involvement in the BA Flying Start charity.</p> <p>BA CityFlyer actively engages with the community local to London City Airport, conducting visits to local colleges, providing careers advice and insights into aviation careers, hosting airport visits for local students and providing engineering apprenticeships to local students.</p> <p>Further information on the BA culture and commitment to corporate responsibility is available in the financial statements of BA.</p>

BA CityFlyer Limited

Strategic report (Continued)

SECTION 172 STATEMENT (continued)

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 BA CityFlyer. The key investors of BA CityFlyer are the shareholder, BA, the ultimate parent Company, IAG and lenders that finance the acquisition of aircraft.</p> <p>Lenders value meeting repayment commitments on time.</p> <p>For BA and IAG, return on invested capital (ROIC), operating margins and free cash generated are important as value is created by generating strong and sustainable results. In addition to these financial measures, operating within the Groups 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 BA CityFlyer board includes representatives of BA in key areas of network and strategy, commercial and finance.</p> <p>Key decisions taken by the Board of BA CityFlyer require approval and ratification by BA and IAG, which depending on levels of financial investment and contractual terms may be at management committee and board levels.</p> <p>The Leadership Team provides regular operational and financial performance communications such as monthly trading results to BA.</p>

PRINCIPAL DECISIONS

Principal decisions are those that are material to the Company 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 key stakeholder engagements as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company. Principal decisions taken during the year include:

- Replacement of Embraer E170 fleet

The Company signed leases for six pre-owned Embraer E190 aircraft to replace its fleet of Embraer E170 aircraft during 2020. These aircraft will deliver increased capacity on key business routes, improved fuel burn per seat efficiency and reduced complexity of operating a single aircraft type.

- Pay deal

The Company agreed pay deals with both BALPA & Unite during the course of the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is subject to world events such as pandemics, terrorist attacks, civil unrest and security concerns affecting the whole travel industry and is affected by fiscal policy, the economic cycle and the uncertainty relating to Brexit affecting consumer spend and confidence. In addition, competition from other airlines poses a key business risk.

The Company is also exposed to the impact of fluctuations in foreign exchange rates and the risk of higher fuel prices, which are being partially mitigated through currency and fuel hedges on a group basis.

The Company has established robust processes to continually identify and monitor all risks and opportunities through the monthly financial and operational reporting and forecasting process, together with a detailed review of quantitative and qualitative performance indicators.

The Strategic Report was approved by the Board of Directors on 11 December 2020 and signed on its behalf by:



T Stoddart
Director
11 December 2020

BA CityFlyer Limited

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom 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 Company and the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BA CityFlyer Limited

Independent auditor's report to the members of BA CityFlyer Limited

Opinion

We have audited the financial statements of BA CityFlyer Limited for the year ended 31 December 2019 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Basis for Opinion

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

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

Material uncertainty in relation to going concern

We draw attention to note 2.1 of the financial statements, which describe that the Company's financial position is significantly affected by the level of operating activity of its parent company, British Airways Plc ("BA"). BA has disclosed it may require additional funds above those contractually committed should the impact of COVID-19 be more severe than the BA Directors' expectations. As set out in note 2.1, this condition indicates that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report set out on pages 3-8, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

BA CityFlyer Limited

Independent auditor's report to the members of

BA CityFlyer Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of Directors' responsibilities on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

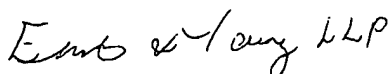
Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



J I Gordon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 December 2020

BA CityFlyer Limited
Statement of comprehensive income
For the year ended 31 December 2019

£000	Note	2019	2018 (restated) ¹
Turnover	3	290,669	275,841
Cost of sales		<u>(248,812)</u>	<u>(226,875)</u>
Gross profit		41,857	48,966
Administrative costs		<u>(10,530)</u>	<u>(12,347)</u>
Operating profit		31,327	36,619
Loss on disposal of fixed assets		<u>(1,064)</u>	<u>(568)</u>
Profit on ordinary activities before interest and taxation	4	30,263	36,051
Interest receivable and similar income	7	336	3,793
Interest payable and similar charges	7	(968)	(6,509)
(Losses) / Gains on derivatives not qualifying for hedge accounting		<u>(2,455)</u>	<u>8,782</u>
Profit on ordinary activities before taxation		27,176	42,117
Tax expense on ordinary activities	8	<u>(5,287)</u>	<u>(8,004)</u>
Profit on ordinary activities after taxation		21,889	34,113
Total comprehensive income for the year		21,889	34,113

¹Please refer to note 22 for further details on the effect of the restatement

The above results are all in respect of continuing operations.

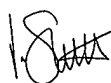
BA CityFlyer Limited

Balance sheet

As at 31 December 2019

£000	Note	2019	2018
Fixed assets			
Tangible assets	9	136,505	151,121
Intangible assets	10	39	24
Right-of-use assets	15	21,347	-
Total fixed assets		157,891	151,145
Current assets			
Stock	11	2,152	2,018
Debtors	12		
- due within one year		63,662	26,606
- due in more than one year		1,153	3,260
Total current assets		66,967	31,884
Creditors: amounts falling due within one year	13	(54,444)	(39,522)
Net current assets / (liabilities)		12,523	(7,638)
Total assets less current liabilities		170,414	143,507
Creditors: amounts falling due after more than one year	14	(12,937)	(200)
Provision for liabilities	16	(42,604)	(48,185)
Net assets		114,873	95,122
Capital and reserves			
Called up share capital	17	109,452	109,452
Share premium account		283	283
Capital redemption reserve	18	615	615
Retained earnings	18	4,523	(15,228)
Total equity		114,873	95,122

The financial statements on pages 12-33 were approved by the Board of Directors on 11 December 2020 and signed on its behalf by:



T Stoddart
Director
11 December 2020

BA CityFlyer Limited

Statement of changes in equity

For the year ended 31 December 2019

£'000	Called up share capital	Share premium account	Other reserves (note 18)	Total shareholders' equity
Balance at 31 December 2018	109,452	283	(14,613)	95,122
Effect of adoption of IFRS16: Leases			(2,138)	(2,138)
Balance as at 1 January 2019	109,452	283	(16,751)	92,984
Profit for the year	-	-	21,889	21,889
Total comprehensive income for the year	-	-	21,889	21,889
At 31 December 2019	109,452	283	5,138	114,873

For the year ended 31 December 2018

£'000	Called up share capital	Share premium account	Other reserves (note 18)	Total shareholders' equity
Balance at 1 January 2018	109,452	283	(48,726)	61,009
Profit for the year	-	-	34,113	34,113
Total comprehensive income for the year	-	-	34,113	34,113
At 31 December 2018	109,452	283	(14,613)	95,122

BA CityFlyer Limited

Notes to the financial statements

1. Authorisation of financial statements

The financial statements of BA CityFlyer Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 11 December 2020 and the balance sheet was signed on the Board's behalf by T. Stoddart. BA CityFlyer Limited is incorporated and domiciled in England and Wales.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

These financial statements were prepared in accordance with FRS 101 and in accordance with the Companies Act 2006.

These financial statements have been prepared on a historical cost convention.

The Company's financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£ 000), except where indicated otherwise.

FRS 101 allows companies to take certain disclosure exemptions. As allowed under the standard, the disclosure exemptions under paragraph 8 to 9 of FRS 101 have been applied as the Company is a wholly owned subsidiary undertaking of BA whose accounts include an equivalent disclosure of the following standards:

- a) the requirement in paragraph 38 of IAS 1 "*Presentation of Financial Statements*" to present comparative information in respect of:
 - I. paragraph 79(a)(iv) of IAS 1;
 - II. paragraph 73(e) of IAS 16 "*Property, Plant and Equipment*";
 - III. paragraph 118(e) of IAS 38 "*Intangible Assets*" and
- b) the requirements of paragraphs 10(d), 10(f), 16, 38A–38D, 40A–40D, 111 and 134–136 of IAS 1 "*Presentation of Financial Statements*";
- c) the requirements of IAS 7 "*Statement of Cash Flows*",
- d) the requirements of paragraphs 30 and 31 of IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*",
- e) the requirements of paragraph 17 and 18a of IAS 24 "*Related Party Disclosures*",
- f) the requirements in IAS 24 "*Related Party Disclosures*" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member,
- g) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers,
- h) the requirements of paragraph 130(f)(ii), 130(f)(iii), 134(d)–134(f) and 135(c)–135(e) of IAS 36 "*Impairment of Assets*",
- i) the requirements of IFRS 7 "*Financial Instruments: Disclosures*",
- j) the requirements of paragraphs 91–99 of IFRS 13 "*Fair Value Measurement*".

BA CityFlyer Limited

Notes to the financial statements (continued)

Going concern

The Company has received confirmation from its parent company, British Airways Plc ("BA"), that it will provide financial support to the Company should it be required for a period of at least 12 months from the date of approval of these financial statements. Having made an assessment of the ability of BA to provide such support if required, the Director has a reasonable expectation that the Company has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2019.

However, the Company's financial position is significantly affected by the level of operating activity of BA. The Directors note the publication on 13 November 2020 of BA's condensed consolidated interim financial statements for the nine-month period ended 30 September 2020 in which a material uncertainty in relation to going concern was disclosed.

As disclosed in those condensed consolidated interim financial statements, given the economic uncertainty of the COVID-19 pandemic, BA modelled the impact of mitigating actions to offset further deteriorations in demand and capacity, including reductions in operating expenditure and capital expenditure. BA expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Furthermore, to add resilience to the liquidity position of BA, the Directors of BA have resolved to undertake a range of financing, including: renegotiations of existing financing arrangement, and securing additional long term financing facilities to raise approximately £3 billion of additional liquidity. The Directors of BA have a reasonable expectation that BA has sufficient liquidity to continue in operational existence for the foreseeable future and hence adopted the going concern basis in preparing the condensed consolidated interim financial statements.

Due to the uncertainty created by COVID-19 and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, BA is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the sensitivities in relation to the capacity operated, yield and cost mitigations achievable. In the event that such a scenario were to occur, or in the event that certain other assumptions, outside management's control, are not met, including funding secured against aircraft, agreement for the deferral of pension contributions or the additional cash inflows from an associated Group undertaking, the Group will need to secure additional funding. As set out above, the sources of additional funding are expected to include the renegotiation of existing financing arrangements and securing additional long term financial facilities.

BA's ability to obtain additional funding represents a material uncertainty that could cast significant doubt upon BA's ability to continue as a going concern.

As a consequence, the Directors of the Company consider this also represents a material uncertainty over the level of the Company's operating activities and BA's ability to provide financial support to the Company and this could cast significant doubt upon the Company ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

2.2 Summary of significant accounting policies

Turnover

Passenger tickets are generally paid for in advance of transportation, and are recognised as turnover when the transportation service is provided. Unused tickets are recognised as turnover using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends. Revenue is stated net of compensation for flight delays and cancellations, taking into consideration the level of expected claims.

Other turnover is recognised at the time the service is provided.

Commission costs are recognised at the same time as the turnover to which they relate and are charged to cost of sales.

Tangible fixed assets

Tangible fixed assets are held at cost. The Company has a policy of not revaluing tangible fixed assets. 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.

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 tangible fixed assets.

a Capitalisation of interest on progress payments

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

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance lease or hire purchase arrangements, are depreciated at rates calculated to write down the cost to the estimated residual value on a straight line basis over a depreciation period of 18 years. Aircraft modifications are depreciated over the remaining life of the aircraft.

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

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

c Equipment

Provision is made for the depreciation of all equipment based upon expected useful lives on a straight-line basis over a depreciation period of 4 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. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of the changes is disclosed in note 22.

Policy applicable from 1 January 2019

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

BA CityFlyer Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

d Leases (continued)

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 Company.

Right of use (ROU) assets

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

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Company 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 Company under residual value guarantees; the exercise price of a purchase option if the Company is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option; and payments to be made under reasonably certain extension options.

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

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

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

Policy applicable before 1 January 2019

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Company, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings. The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs on fleet and the interest element of lease payments made is included as an interest expense in the income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease.

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

Rentals paid under operating leases are charged to the income statement on a straight line basis over the lease term.

BA CityFlyer Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets are held at cost and 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.

The cost of purchased or developed software that is separable from an item of related hardware is capitalised separately and amortised over a period of four years on a straight-line basis.

Inventories

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

Employee benefits

Employee benefits, including pensions, are presented in these financial statements in accordance with IAS 19 'Employee Benefits'. The Company has defined contribution pension plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions are charged to operating profit as incurred.

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;
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Foreign currencies

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

Derivative financial instruments

The Company enters into derivatives in the form of foreign exchange forward contracts with BA to manage its exposure to foreign exchange rate risk. The contracts are initially recognised at fair value at the date the contracts are entered into and are subsequently measured at fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. The fair value is measured using the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Changes in the BA and own credit risk are deemed to be insignificant.

BA CityFlyer Limited

Notes to the financial statements (continued)

2.2 Summary of significant accounting policies (continued)

Financial instruments

In accordance with IFRS 9 'Financial Instruments', financial instruments are initially recorded at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Company determines the classification at initial recognition and re-evaluates this designation at each period end except for those financial instruments measured at fair value through the income statement.

a. Debtors

Loans and receivables are non-derivative financial assets which are held within the business model to collect contractual cash flows. Such assets are carried at amortised cost using the effective interest method if the time value of money is insignificant. This category of financial assets includes debtors. Interest income on debtors is recognised as interest accrued using the effective interest method.

b. Financial liabilities measured at amortised cost

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

Impairment of financial assets

At each balance sheet date, the Company 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 debtors.

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.

2.3 Key accounting estimates and judgements

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

a. Passenger turnover recognition

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

b. Residual values and useful lives of assets

The Company exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives.

BA CityFlyer Limited

Notes to the financial statements (continued)

3. Turnover

Turnover, which is stated net of value added tax, represents revenue by area of sale from the passenger airline business and is analysed as follows:

£000	2019	2018
UK	201,585	196,395
Europe	74,305	67,312
Americas	9,157	7,924
Asia	5,622	4,210
Turnover from continuing operations	290,669	275,841

4. Profit on ordinary activities before interest and taxation

Profit on ordinary activities before interest and taxation is arrived at after charging/(crediting):

£000	2019	2018
Depreciation of owned assets	12,812	12,381
Depreciation of right of use assets (2018: Finance leased assets)	14,123	82
Operating lease rentals – aircraft ¹	-	16,127
Inventories recognised as an expense	2,406	1,657
Foreign exchange (gains) / losses recognised in the income statement	89	2,305

¹Operating lease rentals are not applicable for 2019 following transition to IFRS16 on 1 January 2019. See note 15 for amounts recognised in the income statement.

5. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Company.

£000	2019	2018
Fees payable to the auditor for audit of the statutory accounts	43	43

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of BA.

6. Employee costs and numbers

a) Staff costs

£000	2019	2018
Wages and salaries	28,154	26,962
Social security costs	3,325	3,246
Pension costs	1,858	1,616
Other employee costs	10,867	10,421
	44,204	42,245

BA CityFlyer Limited

Notes to the financial statements (continued)

6. Employee costs and numbers (continued)

a) Staff costs (Continued)

The average number of employees during the period was as follows

	2019	2018
Flight and Cabin Crew	463	434
Engineering	64	50
Ground Support and Administrative	89	89
	616	573

Other employee costs include allowances and accommodation for crew and employee training.

b) Directors' emoluments

£'000	2019	2018
Emoluments	266	307
Company pension contributions	24	15
	290	322

The emoluments above relate to two Executive Directors.

The highest paid director's emoluments were as follows:

£'000	2019	2018
Emoluments	227	171
Company pension contributions	20	5
	247	176

The following statement relates to all of the Directors who served during the year ended 31 December 2019.

The other Directors of the Company were employed and remunerated during the year by BA in respect of their services to the Group as a whole. The qualifying services provided to the Company by these Directors were incidental compared to their main roles, therefore their remuneration amount relating to the Company is £nil for the year ended 31 December 2019 (2018: £nil).

During the year, one Director qualified for a group personal pension scheme provided by the Company (2018: one) and six Directors (2018: four) qualified for a defined contribution scheme provided by the Company's immediate parent undertaking, BA. Full disclosure of the scheme can be found in the financial statements of BA on the website www.iagshares.com.

At 31 December 2019, none of the Directors held any direct interest in any shares of the Company. However, in accordance with Schedule 5 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, six Directors (2018: five Directors) participated in IAG's Long Term Incentive Schemes and awards were exercised in the form of IAG shares by five Directors (2018: five directors.)

No other transactions (other than the ones already disclosed above) or loans were outstanding with the directors of the Company at the end of the year, which need to be disclosed in accordance with the requirements of section 412 and 413 of the Companies Act 2006.

BA CityFlyer Limited

Notes to the financial statements (continued)

6. Employee costs and numbers (continued)

b) Directors' emoluments (Continued)

Compensation for loss of office is paid in accordance with the Executive Director's service contract and the contract is terminable on 6-12 months' notice.

7. Finance costs and income

a) Finance costs

£000	2019	2018
Interest on lease liabilities (2018: Finance leases)	968	3,344
Interest on loans from other group companies	-	3,165
	<u>968</u>	<u>6,509</u>

b) Finance income

£000	2019	2018
Interest receivable on loans to group companies	336	3,793
	<u>336</u>	<u>3,793</u>

BA CityFlyer Limited

Notes to the financial statements (continued)

8. Tax

a) Tax on profit on ordinary activities

Tax charge in the statement of comprehensive income

For the year ended 31 December 2019

£'000	2019 Income Statement	2018 Income Statement
Current tax		
- Movement in respect of current year	8,492	6,365
- Movement in respect of prior years	(131)	(12)
Total current income tax charge	8,361	6,353
Deferred tax		
- Movement in respect of current year	(3,326)	1,639
- Movement in respect of prior years	-	11
- Rate change	252	1
Total deferred tax charge/(credit)	(3,074)	1,651
Total tax	5,287	8,004

b) Deferred tax asset/(liability)

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

£'000	Fixed assets	Foreign currency derivatives not qualifying for hedge accounting	Total
Balance at January 1, 2019	(9,031)	(1,247)	(10,278)
Adjustments arising on adoption of IFRS16	483	-	483
Income statement	1,873	1,201	3,074
Balance at December 31, 2019	(6,675)	(46)	(6,721)
Balance at January 1, 2018	(9,041)	414	(8,627)
Income statement	10	(1,661)	(1,651)
Balance at December 31, 2018	(9,031)	(1,247)	(10,278)

BA CityFlyer Limited

Notes to the financial statements (continued)

8. Tax (continued)

c) Reconciliation of the total tax charge in the statement of comprehensive income

The total tax charge is calculated at the standard rate of UK corporation tax. The tax charge on the profit for the year to 31 December 2019 is higher (2018: higher) than the expected tax charge at the UK rate. The Company's effective tax rate is 19.45% (2018: 19.01%) and the differences to the UK rate are explained below:

£000	2019	2018
Accounting profit before tax	27,176	42,117
Tax calculated at the standard rate of corporation tax in the UK of 19 % (2018: 19 %)	5,164	8,002
Effects of:		
Non-deductible expenses	2	2
Adjustments in respect of prior years	(131)	(1)
Effect of tax rate changes	252	1
Tax charge in the income statement	5,287	8,004

d) Factors that may affect future tax charges

The deferred tax on temporary differences at 31 December 2019 was calculated at the rate applicable to the year in which the temporary differences are expected to reverse. In the UK, at 31 December 2019, the enacted tax rate effective 1 April 2020 was 17% and this was the rate used to calculate the deferred tax liability at the balance sheet date. In Finance Bill 2020, the UK government legislated that the UK corporation tax rate would remain at 19% on 1 April 2020. The deferred tax liability calculated at a rate of 19% would have been approximately £795,000 more than the amount included in the balance sheet at 31 December 2019.

9. Tangible assets

£000	Property	Fleet	Equipment	Total
Cost:				
Balance 1 January 2019	-	264,880	906	265,786
Adoption of IFRS16: Leases	104	59,753	-	59,857
Additions	173	22,077	225	22,475
Disposals	-	(2,103)	(241)	(2,344)
At 31 December 2019	277	344,607	890	345,774
Depreciation:				
Balance 1 January 2019	-	(113,936)	(729)	(114,665)
Adoption of IFRS16: Leases	(73)	(47,616)	-	(47,616)
Charge for the period	-	(26,747)	(101)	(26,921)
Disposals	-	1,043	237	1,280
At 31 December 2019	(73)	(187,256)	(593)	(187,922)
Net book amounts:				
At 31 December 2019	204	157,351	297	157,852
At 31 December 2018	-	150,944	177	151,121
Analysis at 31 December				
Owned	-	136,208	297	136,505
Right of use assets	204	21,143	-	21,347
	204	157,351	297	157,852

BA CityFlyer Limited

Notes to the financial statements (continued)

10. Intangible assets

£000	Software
Cost:	
Balance 1 January 2019	386
Additions	29
At 31 December 2019	415
Depreciation:	
Balance 1 January 2019	(362)
Charge for the period	(14)
At 31 December 2019	(376)
Net book amounts:	
At 31 December 2019	39
At 31 December 2018	24

11. Stock

£000	2019	2018
Expendables and consumables	2,152	2,018
At 31 December	2,152	2,018

12. Debtors

£000	2019	2018
Amount owed by parent company	56,866	18,725
Prepayments, accrued income and Other Receivables	5,771	4,577
Derivative financial instruments	2,178	6,564
At 31 December	64,815	29,866

Amounts falling due in more than one year included above are:

£000	2019	2018
Derivative financial instruments	1,153	3,260
At 31 December	1,153	3,260

13. Creditors: amounts falling due within one year

£000	2019	2018
Lease liabilities (2018: Obligations under finance leases) (note 15)	11,693	72
Trade creditors	31,747	31,927
Amounts owed to other group companies	787	766
Corporation tax payable	8,492	6,469
Accruals and deferred income	680	288
Derivative financial instruments	1,045	-
At 31 December	54,444	39,522

BA CityFlyer Limited

Notes to the financial statements (continued)

14. Creditors: Amounts falling due after more than one year

£000	2019	2018
Lease liabilities (note 15)	12,067	200
Derivative financial instruments maturing after one year	870	-
At 31 December	12,937	200

15. Leases

The Company has entered into commercial leases on aircraft, property & equipment. These leases have durations ranging from one to five years.

(i) Amounts recognised in the Balance Sheet

£000	
Cost:	
Balance 1 January 2019	60,175
Additions	11,728
At 31 December 2019	71,903
Depreciation:	
Balance 1 January 2019	(36,275)
Charge for the period	(14,123)
At 31 December 2019	(50,398)
Net book amounts:	
At 1 January 2019	23,900
At 31 December 2019	21,505

¹The net book value of ROU assets recognised at 1 January 2019 included £236,000 in respect of assets previously financed through finance leases before the adoption of IFRS 16 (split between £318,000 at cost and £82,000 of accumulated depreciation). In 2018 the Company only recognised lease assets and liabilities in relation to leases that were classified as finance leases under IAS 17 Leases. The assets were presented in property, plant and equipment and the obligations under finance leases in the Company's creditors.

£'000	Total
Finance lease liabilities 31 December 2018	(272)
IFRS16 liability 1 January 2019	(26,285)
Additions	(11,728)
Repayments	14,435
Interest expenses	(968)
Exchange movements	1,058
Finance lease liabilities 31 December 2019	(23,760)
Current	(11,693)
Non-current	(12,067)

¹See note 22 for impact on transition.

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

£000	2019
Short-term leases	(11,385)
Interest on lease liabilities	(968)
Depreciation	(14,123)
	(26,476)

BA CityFlyer Limited

Notes to the financial statements (continued)

15. Leases (continued)

(iii) Operating lease commitments

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

£000	2018
Within a year	14,128
Between one and five years	14,625
	28,753

(iv) Obligations under finance leases

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

£000	2018
Future minimum lease payments due:	
Within one year	85
After more than one year but within five years	211
	296
Less: finance charges	(24)
Present value of minimum lease payments	272
The present value of minimum lease payments is analysed as follows:	
Within one year	72
After more than one year but within five years	200
As at 31 December	272

(v) Extensions

The company does not have any extensions included in the leases.

BA CityFlyer Limited

Notes to the financial statements (continued)

16. Provision for liabilities

£'000	Restoration and handback provisions	Deferred tax	Other	Total
Balance at 1 January 2019	(33,652)	(10,278)	(4,255)	(48,185)
Effect of change in EU261 accounting treatment	-	-	1,217	1,217
Adoption of IFRS16: Leases	11,423	483	-	11,906
Adjusted balance at 1 January 2019	(22,229)	(9,795)	(3,038)	(35,062)
Arising during the year	(8,319)	3,074	(6,017)	(11,262)
Utilised	-	-	2,801	2,801
Foreign exchange gain	919	-	-	919
As at 31 December 2019	(29,629)	(6,721)	(6,254)	(42,604)

Restoration and handback costs include provision for the costs to meet the contractual return conditions on aircraft held under operating leases and the costs incurred in performing contractual restoration checks. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. This provision will be utilised by July 2023.

The other provisions include a provision for the EU Emissions Trading Scheme that represents the excess of the Company's CO2 emitted on a flight within the EU in excess of the EU Emissions Allowances granted. All of these are expected to be settled within 12 months.

17. Share capital

		2019		2018
	Shares	£'000	Shares	£'000
Allotted, issued and fully paid				
Ordinary shares of £1 each	109,452,014	109,452	109,452,014	109,452
	109,452,014	109,452	109,452,014	109,452

18. Other reserves

For the year ended 31 December 2019

£'000	Capital redemption reserve	Retained earnings	Total other reserves
Balance at 1 January 2019	615	(15,228)	(14,613)
Effect of adoption of IFRS16: Leases	-	(2,138)	(2,138)
Profit for the year attributable to shareholders	-	21,889	21,889
As at 31 December 2019	615	4,523	5,138

For the year ended 31 December 2018

£'000	Capital redemption reserve	Retained earnings	Total other reserves
Balance at 1 January 2018	615	(49,341)	(48,726)
Profit for the year attributable to shareholders	-	34,113	34,113
As at 31 December 2018	615	(15,228)	(14,613)

19. Pension costs

The Company operates a Group Personal Pension Plan, BA CityFlyer Group Personal Pension Plan. This is a defined contribution scheme. The pension contributions by the Company for the period to this plan amounted to £1,858,000 (2018: £1,616,000).

BA CityFlyer Limited

Notes to the financial statements (continued)

20. Related party transactions

No loans or credits were outstanding with Directors or Officers of the Company as of 31 December 2019 or arose during the year that needed to be disclosed in accordance with the requirements of Sections 412 and 413 of the Companies Act 2006.

21. Ultimate parent undertaking

The Company's immediate parent undertaking as at 31 December 2019 was British Airways plc, a Company registered in England and Wales. As at 31 December 2019, the ultimate parent undertaking of the Company was International Consolidated Airlines Group S.A. ('IAG'), which is incorporated in Spain. Of the Group of which the Company is a member, IAG was the largest undertaking preparing group financial statements and BA was the smallest undertaking preparing group financial statements.

Copies of the consolidated financial statements of IAG and BA can be found on the website www.iagshares.com.

22. Impact of new International Financial Reporting Standards

a Standards adopted in the year ended 31 December 2019

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

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

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

BA CityFlyer Limited

Notes to the financial statements (continued)

22. Impact of new International Financial Reporting Standards (continued)

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

The above adjustments resulted in a post-tax charge to equity of £2,138,000.

Foreign currency balances on lease obligations, which are predominantly denominated in US Dollars, are remeasured at each balance sheet date, with the ROU asset recognised at the historic exchange rate.

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

Balance sheet (extract as at 1 January 2019)

	As reported	IFRS16 Adjustments	Restated
Fixed assets			
Tangible assets	151,121	12,241	163,362
Intangible assets	24	-	24
Total fixed assets	151,145	12,241	163,386
Current assets			
Stock	2,018	-	2,018
Debtors			
- due within one year	26,606	-	26,606
- due in more than one year	3,260	-	3,260
Total current assets	31,884	-	31,884
Creditors: amounts falling due within one year	(39,522)	(11,508)	(51,030)
Net current (liabilities) / assets	(7,638)	(11,508)	(19,146)
Total assets less current liabilities	143,507	733	144,240
Creditors: amounts falling due after more than one year	(200)	(14,294)	(14,494)
Provision for liabilities	(48,185)	11,423	(36,762)
Net assets	95,122	(2,138)	92,984
Capital and reserves			
Called up share capital	109,452	-	109,452
Share premium account	283	-	283
Capital redemption reserve	615	-	615
Retained earnings	(15,228)	(2,138)	(17,366)
Total equity	95,122	(2,138)	92,984

BA CityFlyer Limited

Notes to the financial statements (continued)

22. Impact of new International Financial Reporting Standards (continued)

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

£'000	
Operating lease commitments at 31 December 2018	28,753
Weighted average incremental borrowing rate at 1 January 2019	3.98%
Operating lease commitments discounted using the weighted average increment	27,675
Less: Leases considered to be short-term (less than 12 months duration)	(1,390)
Lease liabilities on right of use assets recognised at 1 January 2019	26,285
Add: Reclassification from finance lease obligations	272
Lease liabilities at 1 January 2019	26,557

b Change in accounting policy

In September 2019, the IFRS Interpretations Committee clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Company to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Company has restated the comparative period for 2018 to reflect £2,554,000 of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The following table summarises the impact of the change in accounting policy on the income statement for the year ended 31 December 2018

£000	Previously reported	Adjustment	Restated
Turnover	278,395	(2,554)	275,841
Cost of sales	(229,429)	2,554	(226,875)
Gross profit	48,966	-	48,966
Administrative costs	(12,347)	-	(12,347)
Operating profit	36,619	-	36,619
Loss on disposal of fixed assets	(568)	-	(568)
Profit on ordinary activities before interest and taxation	36,051	-	36,051
Interest receivable and similar income	3,793	-	3,793
Interest payable and similar charges	(6,509)	-	(6,509)
Gains / (losses) on derivatives not qualifying for hedge accounting	8,782	-	8,782
Profit on ordinary activities before taxation	42,117	-	42,117
Tax expense on ordinary activities	(8,004)	-	(8,004)
Profit on ordinary activities after taxation	34,113	-	34,113
Total comprehensive income for the year	34,113	-	34,113

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

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Notes to the financial statements (continued)

23. Post balance sheet events

Management has evaluated the potential impact of COVID-19 on the valuation of its assets and concluded that there has been no material change from the balance sheet date.