Registered No: 02571224

BA Cityflyer Limited

Annual Report and Financial Statements
For the year ended 31 December 2022

BA Cityflyer Limited
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BA Cityflyer Limited
Company Information

DIRECTORS
T. Stoddart (Chief Executive Officer)
A. Quigley (Chief Financial Officer)
N. Chernoff
C. Lacy
S. Philcox
L. Baxter (appointed 12th September 2022)

COMPANY SECRETARY
K. Bailey

AUDITOR
KPMG LLP
15 Canada Square
London
E14 5GL

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 2022.

DIRECTORS

The Directors of the Company during the year ended 31 December 2022 and up to the date of approval of the financial statements were as follows:

T. Stoddart (Chief Executive Officer)
A. Quigley (Chief Financial Officer)
C. Lacy
N. Chernoff
S. Philcox
L. Baxter (appointed 12th September 2022)

RESULTS AND DIVIDENDS
The profit after tax for the year amounted to £5,010,000 (2021: loss £25,791,000). The Directors do not recommend the payment of a dividend (2021: £ 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 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 2022.

BA's consolidated financial statements for the year ended 31 December 2022 concluded there was a reasonable expectation that BA has sufficient liquidity to continue in operational existence over the going concern period through to 30 June 2024, and hence continue to adopt the going concern basis. The inclusion of a material uncertainty was removed for BA's consolidated financial statements, as a result of the reduction in uncertainty over the going concern period, due to both the continued recovery subsequent to the COVID-19 pandemic and the strength of BA's liquidity

As a consequence of the above information and having made appropriate enquiries of the Directors of British Airways Plc on its current financial position, the Directors have a reasonable expectation that the Company has sufficient liquidity to continue in operational existence and to continue to meet commitments as they fall due over the going concern period and hence continue to adopt the going concern basis in preparing the Company financial statements for year ended 31 December 2022. In adopting the going concern basis of accounting, the Company financial statements have been prepared without the inclusion of a material uncertainty. The removal of the material uncertainty arises from the reduction in uncertainty over the going concern period due to both the continued recovery subsequent to the COVID-19 pandemic and the strength of the Company's liquidity at 31 December 2022.
Refer to note 2.1 for further information.

POST BALANCE SHEET EVENTS
There have been no material post balance sheet events.

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

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 regular email updates, provision of a Company intranet and regular open staff forums and colleague briefings with the Leadership Team. We have adapted our approach and increased accessibility using digital platforms in response to the current remote working measures. 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

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 of British Airways Plc.

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

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T Stoddart

Director
25 May 2023

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

Following two years of turbulence because of the COVID-19 pandemic which severely impacted the aviation industry, during 2022 we continued to focus on the recovery of our business. This phase was an extremely challenging period as we sought to bring our grounded aircraft back into service, recruit and re-train colleagues and ramp up our schedule.

The continuing impact of the Omicron variant of COVID-19 in January and February 2022 made for a challenging start to the year, with UK travel restrictions remaining in place until March 2022. Capacity increased significantly once restrictions were lifted with overall capacity for the year, in terms of number of seats available, reaching 78.8% of that operated in 2019. This is significantly higher than the 27% of 2019 capacity operated in 2021.

In addition to the travel restrictions, various disruption events throughout the year caused by factors including adverse weather, system issues and resourcing constraints, impacted our operation at these times. An average of 69% of scheduled flights departed within 15 minutes of their schedule departure time during the year.

In 2022, we undertook a significant recruitment drive with approximately 118 colleagues joining the business. Positive changes to the referencing process were introduced by HMRC during the year which has speeded up the process of new colleagues joining the business, but it continues to take longer than pre-pandemic for applicants to obtain clearance to work at airports or airside. We understand these issues and our recruitment drive is continuing to ensure that we are ready to operate our summer schedule in 2023.

We continued to work closely with our partners and suppliers across the aviation ecosystem to understand their capabilities and ensure contingency measures were put in place to limit any disruption so that we could deliver a service that our customers expect from us.

In addition to these challenges, we saw fuel prices significantly increase, notably following Russia's invasion of Ukraine in February 2022. Although the BA group has mitigated some of this through fuel price hedging, the record high fuel prices drove an increase in our operating cost base throughout the year. Sterling also hit its lowest point in over 35 years against the US dollar in September. This also resulted in an increase in our operating cost base, with a large proportion of fuel, maintenance and leasing costs priced in US dollars.

New services were introduced from London City to Milan Malpensa, Luxembourg, Barcelona, San Sebastian, and Thessaloniki. Services from Belfast to Exeter, Glasgow, Leeds, Newquay, and Birmingham were terminated at the end of Winter 21/22 season. We continued to operate weekend scheduled leisure services from Southampton and Edinburgh alongside weekend charter services from UK regional airports.

During 2022, to increase consumer confidence, British Airways continued to offer their "Book with Confidence" policy through to September 2022, providing customers with the flexibility to change their destination and/or date of travel or allowing a voucher to be requested. As at 31 December 2022 the vouchers were valid for redemption before 30 September 2023, however it was communicated to customers in April 2023 that the redemption date had been extended until 30 September 2024. British Airways also extended the status of Executive Club Members through to the end of the year. In addition, a comprehensive review of customer communication during times of disruption was undertaken, aiming to deliver timely messaging when a flight is impacted, providing customers with information on their consumer rights and alternative flights with ourselves or another airline to get them to their destination as quickly as possible. Customers travelling on BA Cityflyer scheduled services were able to benefit from these initiatives.

FLEET

The Company returned two aircraft to lessors at the end of their lease terms during 2022 reducing the total number of Embraer E190 aircraft from 24 to 22, with only 21 in service as at 31 December 2022. Leases were extended on two Embraer E190 aircraft.

KEY PERFORMANCE INDICATORS

The results for the Company show turnover of £249,310,000 (2021: £52,101,000) and the Company generated an operating loss in the year of £5,744,000 (2021: operating loss of £55,058,000).

FUTURE DEVELOPMENTS

The Company will return two Embraer E190 aircraft to lessors during 2023, reducing the fleet from 22 to 20 Embraer E190 aircraft.

SECTION 172 STATEMENT

During 2022, the Board and designated subcommittees 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.

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.

Customers	
Why it is important to engage and what matters to them?	Customers are central to the success of BA Cityflyer and engagement enables the Company to understand and drive the product and service initiatives that will deliver the greatest value to the customer. 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. 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 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. 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.
How management and/or Directors engaged and what was the impact of the engagement.	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. This information is analysed and used to drive product and service initiatives that deliver the greatest value for the customer. The actions taken by the parent Company regarding engagement with customers are detailed in the financial statements of British Airways Plc. As a result of the Covid-19 pandemic, BA offered greater booking flexibility to customers and continued to do so in 2022. Customers travelling on BA Cityflyer scheduled services were able to benefit from these initiatives. BA customers are always and have always been entitled to a refund if their flight is cancelled. However, in addition, BA notified customers who, following receipt of notification of cancellation of their flight in the period of 9 March 2020 to 19 November 2020, specifically requested a voucher, to advise them that they can request a refund of the value (or residual value) of the voucher if not used (or only part used) within 24-months of the date of issue. On receipt of email notification, customers can access a link to an online form to request a refund, which will be processed if the customer is eligible. Customers have until September 2024 to contact BA to request a refund.
Suppliers	
Why is it important to engage and what matters to them?	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. Suppliers value operational stability ensuring predictable demand, transparency and integrity at all times in all business dealings and timely settlement avoiding liquidity challenges.

SECTION 172 STATEMENT (continued)

How management and/or Directors engaged and what was the impact of the engagement.	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. The Board receives regular operational updates including updates on operational performance at London City Airport and key outstation airports. The impact of COVID-19 has required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. The Company has pro-actively worked with suppliers to ensure operations are maintained and the impact to their business is understood, with mitigations implemented where necessary.
Workforce	
Why it is important to engage and what matters to them?	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 be able to compete in a challenging commercial aviation environment, the workforce needs to be adaptive and have a constantly evolving skills base. Engagement 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.
How management and/or Directors engaged and what was the impact of the engagement.	Colleagues are provided with information that is of concern to them, including industry, business, and financial performance updates at regular colleague briefings from the CEO and Leadership Team and through news articles on the Company intranet and via email. Colleagues are encouraged to share their views on all matters with senior management. In October 2022 BA Cityflyer asked colleagues to take part in a confidential, independent survey; Reality Check, to understand what matters to the workforce. The business also participated in an Organisational Health Index (OHI) survey, which takes place across all IAG operating companies. The insight from all surveys will help build on the culture of BA Cityflyer and create a benchmark on which to build future activity. BA Cityflyer continues to introduce and promote a number of resources to support colleagues' mental health and positive wellbeing. This includes extending its partnership with Unmind to offer all colleagues access to a market leading mental health and wellbeing platform, running colleague wellbeing roadshows, encourage knowledge sharing on menopause and launching the Peppy app, which connects colleagues with expert menopause nurses and offers personalised and confidential support through BA's menopause colleague network and recruiting a number of mental health first aiders across the business.
Communities and environment	
Why it is important to engage and what matters to them?	The communities in which the airline operates require BA Cityflyer to operate in a socially responsible manner and protect the environment. 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.

SECTION 172 STATEMENT (continued)

How management and/or Directors engaged and what was the impact of the engagement.	BA is contributing to IAG's commitment to achieving net zero CO2 emissions by 2050. The Company continues to support charitable giving through its involvement in the BA Flying Start charity. 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. Further information on the BA culture and commitment to corporate responsibility is available in the financial statements of BA.
Investors	
Why it is important to engage and what matters to them?	Continued access to capital is of vital importance to the long-term success of 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. Lenders value meeting repayment commitments on time. 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.
How management and/or Directors engaged and what was the impact of the engagement.	The BA Cityflyer board includes representatives of BA in key areas of network and strategy, commercial, finance, corporate affairs and sustainability. 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. The Leadership Team provides regular operational and financial performance communications such as monthly trading results to BA.

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. The principal decisions taken during the year include:

- Fleet reduction

In 2022, the board approved the return to lessor of two Embraer E190 aircraft at the end of their lease in 2022 and a further two to be returned in 2023, resulting in an ongoing BA Cityflyer fleet size of 20 Embraer E190 aircraft.

- Lease extensions

The lease extension of two Embraer E190 aircraft were approved during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes BA Cityflyer to a number of risks. BA Cityflyer's exposure to the external risk environment and weaknesses in the resilience in the aviation sector's supply chain and inflation impacts has required an assessment of how risks are evolving and responding to mitigating actions.

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 and the economic cycle 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 BA Cityflyer Leadership team 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.

Further information on BA's principal risks and uncertainties can be found in the British Airways Plc Annual Report and Accounts for the year ended 31 December 2022.

The Strategic Report was approved by the Board of Directors on 25 May 2023 and signed on its behalf by:

T Stoddart
Director
25 May 2023

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 of 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 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;
- assess the 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 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 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 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 Company 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.

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

Opinion

We have audited the financial statements BA Cityflyer Limited ("the Company") for the year ended 31 December 2022 which comprise the statement of other comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as of 31 December 2022 and of its profit for the year then ended.
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework.*
- 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 Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for the period to 30 June 2024 ("the going concern period").

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

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;
- we have not identified, and concur with the directors' assessment, as per the disclosure in Note 2.1, that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

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 Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the 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 considering 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 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 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 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 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 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 recognizing the nature of the 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.

Strategic report and directors' report

The directors are responsible for the strategic report and the director's report.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the director's 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, 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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in the Statement of Director's Responsibility set out on page 11, 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 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 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 based on 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 Wrigglesworth (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
25 May 2023

BA Cityflyer Limited

Income Statement

For the year ended 31 December 2022

£000	Note	2022	2021
Turnover	3	**249,310**	52,101
Other income	6	**-**	4,911
Cost of sales		**(236,317)**	(102,148)
Gross Profit / (Loss)		**12,993**	(45,136)
Administrative costs		**(18,737)**	(9,922)
Operating Loss		**(5,744)**	(55,058)
Profit / (Loss) on disposal of fixed assets		**366**	24,165
Loss on ordinary activities before interest and taxation	4	**(5,378)**	(30,893)
Interest receivable and similar income	7	**64**	15
Interest payable and similar charges	7	**(978)**	(1,432)
Gains on derivatives not qualifying for hedge accounting		**10,658**	668
Profit / (Loss) on ordinary activities before taxation		**4,366**	(31,642)
Tax credit on ordinary activities	8	**644**	5,851
Profit / (Loss) on ordinary activities after taxation		**5,010**	(25,791)
Total comprehensive profit / (loss) for the year		**5,010**	(25,791)

The above results are all in respect of continuing operations.
There are no items of other comprehensive income or losses in the current or prior period and accordingly no separate statement of other comprehensive income has been presented.

BA Cityflyer Limited
Company registration number 02571224

Balance sheet

As at 31 December 2022

£000	Note	2022	2021
Fixed assets			
Tangible assets	9	**62,701**	71,413
Intangible assets	10	**205**	390
Right-of-use assets	15	**24,407**	30,297
Total fixed assets		**87,313**	102,100
Current assets			
Inventories	11	**1,499**	1,548
Debtors	12		
- due within one year		**65,462**	35,336
- due in more than one year		**3,107**	2,525
Total current assets		**70,068**	39,409
Creditors: amounts falling due within one year	13	**(46,145)**	(46,091)
Net current assets / (liabilities)		**23,923**	(6,682)
Total assets less current liabilities		**111,236**	95,418
Creditors: amounts falling due after more than one year	14	**(16,381)**	(19,457)
Provision for liabilities	16	**(50,478)**	(36,594)
Net assets		**44,377**	39,367
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	**(65,973)**	(70,983)
Total equity		**44,377**	39,367

The financial statements on pages 16-18, and the accompanying notes on pages 19-37 that form an integral part of the financial statements were approved by the Board of Directors on 25 May 2023 and signed on its behalf by:

T Stoddart
Director
25 May 2023

BA Cityflyer Limited

Statement of changes in equity

For the year ended 31 December 2022

£'000	Called up share capital	Share premium account	Other reserves (note 18)	Total shareholders' equity
Balance at 31 December 2021	**109,452**	**283**	**(70,368)**	**39,367**
Profit for the year	**-**	**-**	**5,010**	**5,010**
Total comprehensive profit for the year	**-**	**-**	**5,010**	**5,010**
At 31 December 2022	**109,452**	**283**	**(65,358)**	**44,377**

For the year ended 31 December 2021

£'000	Called up share capital	Share premium account	Other reserves (note 18)	Total shareholders' equity
Balance at 31 December 2020	109,452	283	(44,577)	65,158
Loss for the year	-	-	(25,791)	(25,791)
Total comprehensive loss for the year	-	-	(25,791)	(25,791)
At 31 December 2021	109,452	283	(70,368)	39,367

1. Authorisation of financial statements

The financial statements of BA Cityflyer Limited (the "Company") for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 25 May 2023 and the balance sheet was signed on the Board's behalf by T. Stoddart. BA Cityflyer Limited is incorporated in the United Kingdom and registered 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), 16, 38A–38D, 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 IAS36 "*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"*.

Going Concern
At 31 December 2022, the Company had net current assets of £23.9 million (31 December 2021: net current liabilities of £6.7 million). The Company's facilities do not contain financial covenants.

In its assessment of going concern, the Company has modelled two scenarios referred to below as the Base Case and the Downside Case over the period to 30 June 2024 (the 'going concern period'). The tenor of the going concern period encapsulates the seasonality of the Company's operations. The Company's three-year business plan, used in the creation of the Base Case, was prepared for and approved by the Board in November 2022. The Company's forecast for 2023 was refreshed and approved by the Board in May 2023. The business plan takes into account the Board's and management's views on the anticipated continued recovery from the COVID-19 pandemic and the wider economic and geopolitical environments on the Company's business across the going concern period. The key inputs and assumptions underlying the Base Case include:

- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing to 82% in 2023 (compared to the equivalent period in 2019);
- Passenger unit revenue per ASK is forecast to continue to remain above the levels obtained in 2019 throughout the going concern period, which is based on, amongst other assumptions, higher ticket prices to reflect both higher fuel prices and cost inflation;

The Downside Case applies stress to the Base Case to model adverse commercial and operational impacts as the Company's capacity recovers over the going concern period, represented by: reduced levels of capacity operated including reductions of at least 25 per cent for three months during 2023 to reflect the risk of more severe operational disruption; reduced passenger unit revenue per ASK reflective of general pricing pressure due to the current economic backdrop; increased operational costs reflective of inflationary pressures; and increased jet fuel and carbon prices. In the Downside Case, over the going concern period capacity would be 4% per cent down when compared to the Base Case. The Directors consider the Downside Case to be a severe but plausible scenario.

While not incorporated in the Downside Case, the Company have modelled the impact of further deteriorations in capacity operated and yield, but also considered further mitigating actions, such as reducing operating and capital expenditure. The 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.

British Airways Plc has indicated its intention to continue to provide the financial support should it be required as needed by the Company for a period of at least 12 months from the date of approval of these financial statements. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Having reviewed the Base Case, the Downside Case and additional sensitivities, the Directors have a reasonable expectation that the Company has sufficient liquidity to continue in operational existence and to continue to meet commitments as they fall due over the going concern period and hence continue to adopt the going concern basis in preparing the Company financial statements for year ended 31 December 2022. In adopting the going concern basis of accounting, the Company financial statements have been prepared without the inclusion of a material uncertainty. The removal of the material uncertainty arises from the reduction in uncertainty over the going concern period due to both the continued recovery subsequent to the COVID-19 pandemic and the strength of the Company's Balance Sheet at 31 December 2022.

New standards, amendments and interpretations effective in the year

The following amendments and interpretations apply for the first time in the year ended 31 December 2022, but do not have an impact on the financial statements of the Company:

- property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after January 1, 2022;
- onerous contracts – cost of fulfilling a contract – amendments to IAS 37 effective for periods beginning on or after January 1, 2022; and
- annual improvements to IFRS standards 2018–2020 – effective for periods beginning on or after January 1, 2022.

2.2. Summary of significant accounting policies

Foreign currency translation

a. Functional and presentational currency

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in sterling, which is the functional currency of the Company, and the presentational currency for the 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 retranslation and settlement of such transactions as at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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.

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. 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 ("ROU") 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 of typically 16 years, or lease term) on a straight-line basis.

Right of use assets are depreciated over the shorter of the lease term and the aforementioned useful life. Where the lease includes a purchase option, at the discretion of the Group, where it is expected that the purchase option will be exercised, the associated right of use asset is depreciated using the aforementioned depreciation rates to reflect the reasonably certain life of the aircraft, irrespective of the lease term.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the remaining economic life of the aircraft, whether owned or leased.

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

2.2 Summary of significant accounting policies (continued)

Fixed assets continued
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. 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 four years.

d. Leases
The Company leases various aircraft and properties. 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, 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.

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; 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 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. 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 Company'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.

2.2 Summary of significant accounting policies (continued)

Fixed assets continued
The Company 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 Company 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.

e. 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.

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.

Financial instruments
Financial assets and financial liabilities are classified, upon initial recognition, as measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss. Financial assets and financial liabilities are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets and financial liabilities.

The classification of financial assets and financial liabilities at initial recognition depends on the financial assets' and financial liabilities' contractual cash flow characteristics and the Company's business model for managing them. In order for a financial asset and financial liability to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. A financial asset or financial liability that is not SPPI is classified and measured at fair value through profit or loss. This assessment is performed on an instrument by instrument basis.

The Group's business model for managing financial assets and financial liabilities establishes how it manages its financial assets and financial liabilities in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets and financial liabilities classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets and financial liabilities classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

a. Long-term borrowings
Long-term borrowings are recorded at amortised cost, including lease liabilities which contain interest rate swaps that are closely related to the underlying financing and as such, are not accounted for separately as an embedded derivative.

2.2 Summary of significant accounting policies (continued)

Financial instruments continued

b. 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.

c. 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 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 Company considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Company'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.

Employee Benefits

a. Pensions obligations

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.

b. Severance obligations

Severance obligations are recognised when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

Government Assistance

Given the significant reduction in operations that occurred during 2021, the Company availed itself of the various employee support mechanisms which were available in the jurisdictions in which it operates. This has led to savings in 2022 of £nil (2021: £4,911,000). Those amounts received in the form of government assistance have been presented as Other income as required for financial statements prepared under FRS 101. Further information is given in note 6.

Taxation

Current income 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.

2.2 Summary of significant accounting policies (continued)

Taxation continued
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.

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

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 Company does not recognise a provision, but discloses the matter as a contingent liability. The Company assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the effect of unwinding the discount rate is recognised as a finance cost in the Income statement.

a. Restoration and handback
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. 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.

b. Emissions allowances
As the Company emits CO2 equivalent and builds up an obligation to the relevant authorities, a provision is recognised. For those obligations arising for which the Company has not yet purchased emission allowances to offset the emissions, the provision is recognised at the market price of the allowances required at the reporting date. As the provision is recognised, a corresponding amount is recorded in the Income statement within Fuel, oil costs and emission charges. The Company's emissions obligation, recognised as a separate liability, is extinguished when the associated emission certificates are surrendered, which is typically within 12 months of the reporting date.

2.2 Summary of significant accounting policies (continued)

Turnover

a. Passenger revenue

The Company's revenue derives from transportation services for passengers. Revenue is recognised when the transportation service has been provided.

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 flexible 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.

b. Customer loyalty programmes

The Company 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.

In accordance with IFRS 15 'Revenue from contracts with customers', the standalone selling price attributed to the awarded loyalty points 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.

2.3. 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 prospectively.

Key sources of estimation uncertainty

a. Engineering and other aircraft costs

At 31 December 2022, the Company recognised a provision of £40,010,000 (2021: £35,581,000) in respect of maintenance, restoration and handback. Movements in the provisions are disclosed in Note 16.

The Company 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 Company 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. In 2021, the Company considered 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 have. In 2022, with the status of the macro-economic environment, the Company considers that a reasonable possible change in the inflation rate and discount rate assumptions of a 100 basis points increase would give rise to an increase of £467k and a decrease of £819k respectively when applied in isolation to one-another.

Critical accounting judgement

The Directors have concluded that there are no critical accounting judgements applicable to the Company.

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	**2022**	2021
UK	**185,475**	43,683
Europe	**53,779**	7,522
Americas	**6,620**	595
Asia	**3,436**	301
Turnover from continuing operations	**249,310**	52,101

4. (Loss) / profit on ordinary activities before interest and taxation

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

£000	**2022**	2021
Depreciation of owned assets	**13,217**	12,573
Depreciation of right of use assets	**11,612**	14,038
Impairment of fixed assets	**-**	-
Amortisation of intangible assets	**184**	253
Inventories recognised as an expense	**1,653**	1,543
Foreign exchange (gains) / losses recognised in the income statement	**(1,150)**	(356)

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	**2022**	2021
Fees payable to the auditor for audit of the statutory accounts	**101**	55

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	2022	2021
Wages and salaries	**29,776**	26,247
Social security costs	**3,338**	2,861
Pension costs	**2,008**	1,682
Other employee costs	**4,231**	1,447
	39,353	32,237

Other employee costs includes accommodation for crew and employee training.

The average number of employees during the period was as follows

	2022	2021
Flight and Cabin Crew	**399**	382
Engineering	**67**	67
Ground Support and Administrative	**80**	74
	546	523

6. Employee costs and numbers (continued)

b. Directors' emoluments

£'000	**2022**	2021
Emoluments	**333**	387
Company pension contributions	**29**	36
	362	423

Two Executive Directors (2021: two) received remuneration from the Company during the year ended 31 December 2022.

The highest paid director's emoluments were as follows:

£'000	**2022**	2021
Emoluments	**207**	242
Company pension contributions	**19**	24
	226	266

The amounts disclosed relate to qualifying services to the Company. Where Directors have other responsibilities within the BA Group that are not incidental to their role, an apportionment is applied for qualifying services rendered to the Company.

The following statement relates to all of the Directors who served during the year ended 31 December 2022.

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 2022 (2021: £nil).

During the year, one Director qualified for a defined contribution scheme provided by the Company (2021: one) and five Directors (2021: three) 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 2022, 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 (2021: five Directors) participated in IAG's Long Term Incentive Schemes and awards were exercised in the form of IAG shares by five Directors (2021: four 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.

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.

6. Employee costs and numbers (continued)

c. Government grants and assistance

In 2021 the Company availed itself of government grants and assistance as follows:

The Coronavirus Job Retention Scheme ('CJRS')

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 of eligibility reduced to 70 per cent of wage costs 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 Company in arrears, but the Company was obliged to continue to pay the associated social security costs and employer pension contributions.

The Company received £nil (2021: £4,911,000) from the CJRS in the year ended 31 December 2022. This amount is presented as Other income as required for financial statements prepared under FRS 101.

7. Finance costs and income

a. *Finance costs*

£000	**2022**	2021
Interest on lease liabilities	**978**	1,432
	978	1,432

b. Finance income

£000	**2022**	2021
Interest receivable on loans to group companies	**64**	15
	64	15

8. Tax

a. Tax on profit on ordinary activities

Tax credit in the statement of comprehensive income

£'000	**2022 Income Statement**	2021 Income Statement
Current tax		
- Movement in respect of current year	**1,887**	(1,647)
- Movement in respect of prior years	**(4,788)**	-
Total current income tax credit	**(2,901)**	(1,647)
Deferred tax		
- Movement in respect of current year	**(2,005)**	(4,364)
- Movement in respect of prior years	**4,598**	13
- Rate change	**(336)**	147
Total deferred tax credit	**2,257**	(4,204)
Total tax	**(644)**	(5,851)

b. Current tax liability / (receivable)

£'000	2022	**2021**
Balance at 1 January	(1,647)	-
Income statement	(2,901)	(1,647)
Cash	-	-
Balance at 31 December	**(4,548)**	(1,647)

c. Deferred tax liability

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

£'000	Fixed assets	Other temporary differences	Tax losses carried forward	**Total**
Balance at 1 January 2022	(9,337)	183	8,820	(334)
Income statement	8,285	(1,722)	(8,820)	(2,257)
Balance at 31 December 2022	**(1,052)**	**(1,539)**	-	**(2,591)**
Balance at 1 January 2021	(4,805)	267	-	(4,538)
Income statement	(4,532)	(84)	8,820	4,204
Balance at 31 December 2021	**(9,337)**	**183**	**8,820**	**(334)**

8. Tax (Continued)

d. Reconciliation of the total tax charge in the statement of comprehensive income

The total tax credit (2021: credit) is calculated at the standard rate of UK corporation tax. The tax credit (2021: credit) on the profit (2021: loss) for the year ended 31 December 2022 is higher (2021: lower) than the expected tax charge (2021: credit) at the UK rate. The Company's effective tax rate is 23.45% (2021: 18.49%) and the differences to the UK rate are explained below:

£000	**2022**	2021
Accounting (loss) / profit before tax	**4,366**	(31,642)
Tax calculated at the standard rate of corporation tax in the UK of 19 % (2021: 19%)	**830**	(6,012)
Effects of:		
Non-deductible expenses	**2**	1
Adjustments in respect of prior years	**(190)**	13
Transfer of chargeable gains to group companies	**(950)**	-
Effect of tax rate changes	**(336)**	147
Tax charge in the income statement	**(644)**	(5,851)

e. Factors that may affect future tax charges

On March 3, 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 May 24, 2021 the Finance bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Company's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in the company, a credit of £336,000 is recorded in the Income statement.

9. Tangible assets

£000	**Property**	**Fleet**	**Equipment**	**Total**
Cost:				
Balance 1 January 2022	277	292,472	1,144	293,893
Additions	-	4,605	126	4,731
ROU Modifications	-	5,722	-	5,722
Disposals	(104)	(15,857)	(257)	(16,218)
At 31 December 2022	**173**	**286,942**	**1,013**	**288,128**
Accumulated depreciation and Impairment:				
Balance 1 January 2022	(182)	(191,133)	(868)	(192,183)
Depreciation charge for the period	(35)	(24,670)	(125)	(24,830)
Disposals	104	15,635	254	15,993
At 31 December 2022	**(113)**	**(200,168)**	**(739)**	**(201,020)**
Net book value:				
At 31 December 2022	**60**	**86,774**	**274**	**87,108**
At 31 December 2021	95	101,339	276	101,710
Analysis at 31 December 2022				
Owned	-	62,427	274	62,701
Right of use assets	60	24,347	-	24,407
	60	**86,774**	**274**	**87,108**

10. Intangible assets

£000	Software
Cost:	
Balance 1 January 2022	1,244
At 31 December 2022	**1,244**
Amortisation:	
Balance 1 January 2022	(854)
Amortisation charge for the period	(185)
At 31 December 2022	**(1,039)**
Net book value:	
At 31 December 2022	**205**
At 31 December 2021	390

11. Inventories

£000	2022	2021
Expendables and consumables	**1,499**	1,548
At 31 December	**1,499**	1,548

12. Debtors

£000	2022	2021
Amount owed by parent Company	**52,871**	20,811
Other Receivables	**2,473**	13,089
Corporation tax debtor due from Group undertakings	**4,548**	1,647
Prepayments, accrued income and other receivables	**2,975**	1,944
Derivative financial instruments	**5,702**	370
At 31 December	**68,569**	37,861

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

£000	2022	2021
Other Receivables	-	2,241
Derivative financial instruments	**3,107**	284
At 31 December	**3,107**	2,525

The credit risk exposure on the Company's other receivables in set out below:

2022	31-60 days	>365 days	Total
Other Receivables	2,473	-	**2,473**
Expected credit loss rate	0.0%	-	**0.0%**
Net other receivables	2,473	-	**2,473**

2021	31-60 days	>365 days	Total
Other Receivables	10,855	2,260	13,115
Expected credit loss rate	0.0%	0.8%	0.1%
Net other receivables	10,848	2,241	13,089

13. Creditors: Amounts falling due within one year

£000	2022	2021
Lease liabilities	**10,937**	11,477
Trade creditors & accrued expenses	**33,025**	30,391
Other creditors	**515**	1,873
Amounts owed to other group companies	**769**	851
Deferred income	**900**	706
Derivative financial instruments	**-**	793
At 31 December	**46,145**	46,091

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

£000	2022	2021
Lease liabilities (note 15)	**16,378**	19,028
Derivative financial instruments maturing after one year	**3**	429
At 31 December	**16,381**	19,457

15. Leases

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

(i) **Amounts recognised in the balance sheet**

£000	Property	Fleet	Total
Cost:			
Balance 1 January 2022	277	107,824	108,101
Modifications	-	5,722	5,722
Disposals	(104)	(13,049)	(13,153)
At 31 December 2022	**173**	**100,497**	**100,670**
Accumulated depreciation:			
Balance 1 January 2022	(182)	(77,622)	(77,804)
Depreciation charge for the period	(35)	(11,577)	(11,612)
Disposals	104	13,049	13,153
At 31 December 2022	**(113)**	**(76,150)**	**(76,263)**
Net book amounts:			
At 31 December 2022	**60**	**24,347**	**24,407**
At 31 December 2021	95	30,202	30,297

15. Leases (continued)

£'000	Total
Lease liabilities 31 December 2021	(30,505)
Modifications of leases	(6,429)
Repayments	13,969
Interest expense	(978)
Exchange movements	(3,372)
Lease liabilities 31 December 2022	**(27,315)**
Current	(10,937)
Non-current	(16,378)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

£000	2022	2021
Short-term leases	**(992)**	**(749)**
Interest on lease liabilities	**(978)**	**(1,432)**
Depreciation	**(11,612)**	**(14,038)**
Exchange movements	**(3,372)**	**(541)**
	(16,954)	**(16,760)**

(iii) Extensions

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 2022, for which no amount has been recognised, for potential extension options of £Nil (2021: £Nil).

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

16. Provision for liabilities

£'000	Restoration and handback provisions	Deferred tax	Other	**Total**
Balance at 1 January 2022	(35,581)	(334)	(679)	(36,594)
Arising during the year	(22,976)	(2,257)	(7,474)	(32,707)
Utilised	17,471	-	276	17,747
Release of unused amounts	748	-	-	748
Foreign exchange loss	(4,004)	-	-	(4,004)
Reclassifications	524	-	-	524
Remeasurements	3, 808	-	-	3,808
As at 31 December 2022	**(40,010)**	**(2,591)**	**(7,877)**	**(50,478)**
Analysis:				
Current	(6,132)	-	(7,877)	(14,009)
Non-Current	(33,878)	(2,591)	-	(36,469)
	(40,010)	**(2,591)**	**(7,877)**	**(50,478)**

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 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. This provision will be utilised by July 2028.

Remeasurements arising from changes in estimates relating to the effects of both discounting and inflation are recorded in the Income statement to the extent they relate to avoidable provisions or recorded as an adjustment to the right of use asset (see note 15) for those unavoidable provisions.

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.

The other provisions include a provision for the UK and EU Emissions Trading Schemes that represents the excess of the Company's CO_2 emitted on flights within the UK and EU over the UK and EU Emission Allowances granted.

17. Share capital

		2022		2021
	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 2022

£'000	Capital redemption reserve	Retained earnings	Total other reserves
Balance at 1 January 2022	615	(70,983)	**(70,368)**
Profit for the year attributable to shareholders	-	5,010	**5,010**
As at 31 December 2022	**615**	**(65,973)**	**(65,358)**

For the year ended 31 December 2021

£'000	Capital redemption reserve	Retained earnings	Total other reserves
Balance at 1 January 2021	615	(45,192)	**(44,577)**
Loss for the year attributable to shareholders	-	(25,791)	**(25,791)**
As at 31 December 2021	**615**	**(70,983)**	**(70,368)**

19. Related party transactions

No loans or credits were outstanding with Directors or Officers of the Company as of 31 December 2022 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.

20. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking as at 31 December 2022 was British Airways Plc, a Company registered in England and Wales. As at 31 December 2022, the ultimate parent undertaking and controlling party 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.

21. Post balance sheet events

Between the reporting date and the date of this report there have been no post balance sheet events.