

British Airways Plc

**Annual Report and Accounts
Year ended 31 December 2018**

Company registration number: 1777777



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Officers and professional advisers

Directors

| | |
|-----------------|--------------------------------------|
| Alex Cruz | (Chairman & Chief Executive Officer) |
| Alison Reed | (Deputy Chairman) |
| Steve Gunning | (Chief Financial Officer) |
| Gavin Patterson | |
| Julia Simpson | |
| Lynne Embleton | |

Secretary

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Strategic report

The Directors present their strategic report for the year ended 31 December 2018.

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

During the year the Group operated on average 294 aircraft, carrying more than 46 million customers to over 200 destinations across the world. British Airways employs an average of 42 thousand people across the world. The Group's vision is: to be the airline of choice with personalised service, exceptional reliability, a digital mind-set and unique British style. British Airways will celebrate its 100th anniversary on 25 August 2019. The airline can trace its origins back to the birth of civil aviation.

The strategic report is presented in the following three sections:

- Management review and outlook;
- Financial review; and
- Principal risks and uncertainties.

Management review and outlook

Overview

- Total revenue: £13,021 million, up 6.1% (2017: £12,271 million¹)
- Operating profit before exceptional items: £1,952 million, up 10.3% (2017: £1,769 million¹)
- Passengers: 46.8 million, up 3.5% (2017: 45.2 million)
- Punctuality: 76%, down 3 points (2017: 79% ²)

The Group delivered strong results, maintaining the growth in revenue per ASK that was achieved last year. Revenue increased 6.1 per cent to £13,021 million. The Group's revenues depend on discretionary spending which is reliant on the strength of the global economy. Other economic factors, such as a weaker pound sterling, have a positive effect on the Group's reported revenues whilst increasing expenses. The effect of fuel hedging activity, focus on cost discipline, closure of legacy pension schemes to future accrual and implementation of a major restructuring programme have contributed to a record pre-exceptional operating profit of £1,952 million (2017: £1,769 million) for the year despite operating in a challenging environment characterised by rising fuel prices, weather disruption, air traffic controller strikes in Europe, ongoing competition from low cost carriers and Rolls-Royce Trent 1000 engine issues.

British Airways continues to invest in improving customer experience, cost competitiveness, safe and reliable operations, capital efficiency and developing employees. 2018 was the second implementation year of the strategic plan announced in November 2016, aimed at further strengthening the Group's solid financial foundations.

Investing and innovating where customers value it most

Passenger numbers increased 3.5 per cent to 46.8 million in 2018. British Airways remains committed to improving customer experience and has extended the investment programme beyond the £4.5 billion announced last year to more than £6.5 billion over the next five years. Capital expenditure in 2018 was £1,218 million (2017: £575 million). During 2018, 13 new aircraft were delivered, taking the total number of Boeing 787s to 30, A320neos to seven and one A321neo. Customers have responded positively to the new Boeing 787s and refreshed interiors of the Boeing 747s and Boeing 777s. The Boeing 787-10 model will be added to the fleet in 2020. A new Club World seat will be launched in the second half of 2019 and will be rolled out across the longhaul fleet over the coming years. The seat will have direct aisle access, gate-to-gate entertainment, increased storage, connectivity and privacy. The new club seat configuration will be available in 2019 on two retrofitted Boeing 777s and the four A350 aircraft that will be delivered in 2019.

Inflight WiFi and connectivity is becoming an increasingly critical factor to passengers and is important in driving passenger loyalty. Rolling out the WiFi embodiment rollout programme across the fleet remains an area of focus for the Group although this has been affected by regulatory processes on the air-to-ground solution and other WiFi solution supplier delays. As of the end of 2018, more than 55 of the wide-body fleet have been embodied with WiFi. By the end of 2019, 80 – 90 per cent of the longhaul fleet will have WiFi. Shorthaul aircraft will use the ground-to-air WiFi technology, which is currently being tested on three aircraft. The Group anticipates that most of the shorthaul fleet installation will be completed by the end of the second quarter of 2019.

In 2018, British Airways welcomed the millionth customer through the First Wing at Terminal 5. It has been more than 18 months since the dedicated First check-in area at Terminal 5 was opened and it has been popular with First customers and Gold Card holders. The airline's Concorde lounge at Heathrow Terminal 5 was also named the best in the world by readers of Business Traveller magazine. The Group opened new lounges in Rome, Aberdeen and New York's JFK Airport.

¹Restated for new accounting standard IFRS 15 'Revenue from Contracts with Customers'

²In 2018 the airline made changes to the way punctuality figures are calculated. The punctuality figure of 80% recorded in 2017 has been recalculated as 79%.

Strategic report continued

In 2018 British Airways was named best shorthaul airline by readers of *The Times*, *The Sunday Times* and *Business Traveller* magazine.

The Group's investment programme at Heathrow is aimed at improving customer experience. The investment in automated booking touchscreens in the flight connections zone enables customers with missed connections to access a new booking or boarding pass, whilst the biometric automated gates enable faster customer flows, thereby reducing customer queues. Additional investment has been made into dedicated connection managers who constantly monitor flights and can now fast-track customers at risk of missing their connection through to their next flight, or re-book them onto another flight and organise a hotel, while they are still in the air.

In November 2017, the Group implemented new distribution capability (NDC). NDC is the International Air Transport Association's (IATA) XML-based data transmission standard that enables digital communications between airlines and travel agents and addresses the industry's current distribution limitations around product differentiation, time to market and access to inventory. The benefits to customers include lower prices (because the indirect selling channel is removed from the selling process), a broader range of prices (because customers have direct access to the airlines' inventory) and the airline being able to offer an almost continuous pricing model. The NDC channel enables more options for buying pre-seating, improving ancillary sales. In addition customers can change information on bookings with relatively more ease without having to go through a call centre. The Group will continue to invest in shifting the legacy distribution channels to this modern distribution set up.

Other technology enhancements include improvements to *ba.com* to streamline the booking process and additional functionality has been added to the BA app, enabling customers to process more changes on their mobile phones. These improvements have resulted in more customers booking directly.

New Club World catering has now been rolled out across our network and Club Europe food on shorthaul sectors has been upgraded in September 2018. Along with cabin improvements, First and World Traveller Plus will receive enhanced catering and amenities in the first half of 2019 with more food choices and new tableware introduced in the First cabin. A third meal choice will be included in the World Traveller Plus service.

Network development: Expanding Customer Choice

With about 30 per cent of the seat share of airlines departing from London, British Airways is the largest operator at Heathrow and London City Airports and the second largest at Gatwick. The Group continues to invest in flexibility to fly to more leisure destinations, operating a dynamic schedule more closely matched to customer demand. In 2018, the airline launched more than a dozen routes, including Nashville, Durban, The Seychelles, Kefalonia, Corsica, Almeria, Marrakech and Sheremetyevo from Heathrow, Toronto, Las Vegas, Cologne, and Lyon from Gatwick and Munich and Rome from London City. From 2019, the airline will serve 34 destinations in North America, and have the largest network of a European carrier. The new generation aircraft, provide range and capacity to open new markets, whilst improving the performance of existing routes.

BA continues to optimise the network operation and fleet to meet customer demand and offer customers more choice and convenience, with increased frequency of flights to popular destinations, such as Nashville and Seattle, and A380 aircraft successfully deployed to cities such as Boston, Washington and Chicago to carry more passengers. The Group continues to explore opportunities with joint business partners, such as American Airlines to service common routes that have sufficient demand.

In November 2018, BA announced capacity growth targets over the next five years of 3-4 per cent in North America, 5-6 per cent in Latin America and the Caribbean, 1-2 per cent in Europe and 5-6 per cent in Asia-Pacific. New routes for 2019 to Osaka, Pittsburgh, Charleston, Preveza, Newquay, Montpellier and Ljubljana from Heathrow, Kos from Gatwick and Zurich from London City have been announced. British Airways will resume flights to Islamabad from June 2019.

The acquisition of slots at Gatwick, previously held by Monarch, was completed at the beginning of 2018 and has facilitated both capacity and financial growth. The use of the slots started in February 2018 operating on longer shorthaul routes. An 18 per cent growth in ASKs has generated a 20 per cent increase in revenue. Further optimisation of the Gatwick schedule will continue in 2019.

CityFlyer has consistently increased capacity at London City Airport, growing ASKs by 65 per cent since 2013. Four additional aircraft will be added in 2019, to meet the growth in demand for both business and leisure travel from that airport.

Operational performance: Safe, reliable and responsible

In 2018 British Airways operated more flights than at any time in the last decade, offering customers more choice. 76 per cent of flights departed punctually, a year-on-year decrease of three per cent.* There are a number of reasons for this decrease, including the knock-on effects of Rolls-Royce Trent 1000 engine issues, an increased number of aircraft taken out of service due to damage and technical issues, operational disruption caused by weather, more crowded airspace in Europe and air traffic controller strikes. The Group continues to focus on investing in technology that enhances operational efficiency. Mototok tugs were introduced for shorthaul aircraft pushback at Heathrow during 2017. The roll out to the rest of the gates at Terminal 5 was completed in 2018.

*In 2018 the airline made changes to the way punctuality figures are calculated, making the targets more stringent.

Strategic report continued

The use of Mototok tugs enables the airline to reduce pushback delays, thereby improving punctuality. Having seen the benefits brought by the smaller Mototoks to the operation in Terminal 5, BA is working with Mototok on a more powerful version of the automated pushback tug. The new Mototok version can push 195 tonnes, and is suitable for use with the wide-bodied, twin-engine aircraft such as the Boeing 787 and, in future, the A350. Trials are ongoing at the Group's engineering base and the results so far are positive.

British Airways was the first European airline to trial biometric boarding (at Los Angeles International Airport) for international departures. This was rolled out at Orlando, New York's JFK and Miami in 2018. The introduction of automated boarding gates that use biometric technology reduces boarding times, thereby improving punctuality and increasing customer satisfaction. This is essential at locations where larger aircraft like the A380 would take longer to board. British Airways was the first airline to install facial recognition technology at Heathrow, boarding domestic flights in half the usual time. The Group is planning to roll out automated boarding to international gates in 2019 worldwide.

In September, British Airways announced a criminal data theft which caused great concern. No verified cases of fraud have been identified as a result of the incident. We are sorry this incident occurred and we are sorry for the inconvenience to our customers. The Group is working with its global cyber partners to leverage their expertise and help ensure early detection of future threats.

The Group has taken steps to prevent Modern Slavery within the Group and supply chains. As an operating company within IAG, BA is part of the IAG Modern Slavery Working Group, which monitors any potential high-risk areas and implements preventative measures. *Through IAG, BA engages with suppliers on standards of quality, safety, environmental responsibility and human rights. Supplier audit priority is based on annual expenditure, factories located in high-risk geographies and the strategic importance of the supplier.*

The Group continues to explore ways of fostering sustainable operations and corporate responsibility. New aircraft models added to the airline's fleet, have improved fuel efficiency and therefore reduce the environmental impact of the airline's operations. The Group is leveraging the fuel efficiency benefits of new generation aircraft and phasing out the older less fuel efficient aircraft such as longhaul Boeing 747s, Boeing 767s and shorthaul A319s. The last Boeing 767 was retired in November 2018, replaced by newer more fuel efficient aircraft.

British Airways has partnered with renewable fuels company Velocys to develop a system for converting household waste into sustainable jet fuel. The fleet development plan is designed to reduce carbon emissions and aircraft noise levels, through the acquisition of new generation aircraft. The airline is proud to be an industry leader in tackling climate change and has taken a responsible approach to managing growth in aviation carbon emissions for more than 20 years. British Airways was the first airline to participate in carbon trading in 2002 and has consistently campaigned for this policy across the globe. By working collaboratively with governments and industry associations, BA has helped develop the first global carbon pricing system – CORSIA (Carbon Offset and Reduction Scheme for International Aviation). Under this scheme airlines will buy carbon offsets, ensuring collective achievement of carbon neutral growth from 2020.

Our people and communities

Employees are vital to the sustained success of BA. In 2018, British Airways' cabin crew were named the best in the UK by Skytrax. To enable front line employees to respond to customer requirements a First Contact Resolution programme has been launched at Heathrow. Customer-facing staff will receive training and devices to enable them to resolve most customer issues at the first point of contact. Traditionally airport colleagues have helped customers with one aspect of their journey, but going forward they will be given training to enable them to help travellers across a range of different areas – from ticketing, to re-booking during disruption, changing reservations, finding delayed luggage or providing up to date flight information. The training programme will be completed by summer 2019, enabling colleagues to deliver consistent service and individualised attention to customers.

To continue to improve service at the customer touchpoints, all 28,500 front line colleagues will receive additional service training and in 2019 the airline will roll out a new extended induction programme with additional training days. During the centenary year, 2019, a new uniform will be unveiled and 1,700 colleagues have been actively involved in the design process.

Following the introduction of the Apprenticeship Levy Scheme by the Government, British Airways became a registered employer-provider for apprenticeship schemes in 2018, allowing direct delivery of funded apprenticeship programmes to employees. This means the airline will be able to access funding to further enhance learning and development across the business, as well as in central support functions by carefully selecting and delivering nationally recognised apprenticeship programmes. This will increase employee skills and capabilities, develop talent pipelines and identify innovative solutions for operations. The airline has received a high number of applications for the new Cabin Crew Apprenticeship Scheme, which begins in 2019.

The airline is also passionate about community development in global locations across the network. In November 2018, BA celebrated reaching £20 million in fundraising for Flying Start in partnership with Comic Relief, two years ahead of the 2020 target. In 2016 British Airways signed the United for Wildlife Transport Taskforce Buckingham Palace Declaration pledging commitment in the fight against wildlife trafficking. During September 2018, the airline partnered with His Royal Highness the Duke of Cambridge, Tusk Trust and United for Wildlife on a mission to Southern Africa supporting the campaign to fight wildlife crime.

Strategic report continued

Pensions

As noted in last year's strategic report, the Group recognises the need to address the cost challenges of its defined benefit pension schemes. British Airways closed its New Airways Pension Scheme (NAPS) to future accrual and defined contribution (DC) scheme, British Airways Retirement Plan (BARP) to future contributions from 31 March 2018.

The schemes have been replaced by a flexible benefits scheme, incorporating a new DC pension scheme, called the British Airways Pension Plan (BAPP). It offers a choice of contribution rates and the ability to opt for cash instead of a pension. The new arrangements include a market-competitive DC scheme and will stop the build-up of further liabilities and risk in NAPS. This will help to improve the security of the existing earned benefits.

The annual costs for BAPP are lower than the equivalent NAPS and BARP costs as noted in the financial review section of this strategic report. The next full NAPS actuarial valuation is as at 31 March 2018. It will reflect the closure to future accrual, as well as the normal detailed review of the circumstances at the valuation date, including financial and demographic assumptions.

Government affairs

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

UK's Referendum vote to leave the EU

Following the UK referendum decision in 2016, the UK is expected to leave on 29 March 2019. IAG has continued to engage extensively with the relevant authorities to ensure IAG's views on post-Brexit aviation arrangements are understood and taken into account. This has included frequent dialogue with the UK, Spanish and Irish governments, as well as the European Commission and Members of the European Parliament. The completion of a Withdrawal Agreement between the negotiators confirmed that there would be no change to aviation arrangements until the end of the transition period on 31 December 2020 and that the future relationship between the parties would include a comprehensive air transport agreement.

As the Withdrawal Agreement is subject to ratification by the UK and EU parliaments, both the European Commission and the UK Government published separate plans to allow air services to continue in the event that the Withdrawal Agreement (or an amended version of it) cannot be ratified. These include mechanisms to permit flights between the UK and the EU and recognition of each other's safety certification, approvals and security regimes. As part of this, the EU is in the process of adopting a Regulation on basic connectivity between the EU and UK that may result in some restrictions on code share flexibility. In addition, in November the UK signed new air services agreements with the USA and Canada to replace existing EU-wide agreements once the UK leaves the EU, securing market access and regulatory arrangements for the future.

British Airways is a subsidiary of IAG. IAG has had detailed and constructive engagement with national regulators and governments about ownership and control. These discussions will continue, including with the European Commission, and IAG remains confident that its operating companies will comply with relevant ownership rules post Brexit. IAG is a Spanish company, its airlines have long established AOCs and substantive businesses in Ireland, France, Spain and the UK and IAG has had other structures and protections in its by-laws since it was set up in 2011.

The Group's assessment remains that, even in the event of no-deal, Brexit will have no significant long-term impact on its business.

Non-financial information statement

Pursuant to Companies Act 2006 s.414CA (7), BA is not required to include a non-financial information statement as a consolidated management report containing non-financial information has been included in IAG's Annual Report and Accounts for the year ended 31 December 2018.

Strategic report continued

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2018. The results for 2017 have been restated for the adoption of the new International Financial Reporting Standards, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'.

Summary financial performance

| £ million | 2018 | 2017 Restated ¹ | Better/(worse) |
|--|----------|-------------------------------|----------------|
| CONTINUING OPERATIONS | | | |
| Total revenue | 13,021 | 12,271 | 6.1% |
| Total expenditure on operations before exceptional items | (11,069) | (10,502) | (5.4%) |
| Operating profit before exceptional items | 1,952 | 1,769 | 10.3% |
| Exceptional items | 394 | (94) | nm |
| Operating profit after exceptional items | 2,346 | 1,675 | 40.1% |
| Non-operating items | 110 | 52 | nm |
| Profit before tax | 2,456 | 1,727 | 42.2% |
| Tax | (365) | (300) | (21.7%) |
| Profit after tax | 2,091 | 1,427 | 46.5% |

| | 2018 | 2017 Restated | Better/(worse) |
|---|---------|------------------|----------------|
| CONTINUING OPERATIONS | | | |
| Available seat kilometres (ASK) (m) | 184,547 | 179,077 | 3.1% |
| Revenue passenger kilometres (RPK) (m) | 152,177 | 146,561 | 3.8% |
| Passenger load factor (%) | 82.5 | 81.8 | 0.7% |
| Passenger revenue per ASK (p) ¹ | 6.30 | 6.14 | 2.6% |
| Passenger revenue per RPK (p) ¹ | 7.64 | 7.51 | 1.7% |
| Non-fuel costs per ASK at constant currency* (p) ¹ | 4.43 | 4.41 | 0.5% |

¹2017 amounts have been restated for the adoption of the new accounting standards IFRS 15 and IFRS 9.

*Stated before exceptional items

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

Revenue

| £ million | 2018 | 2017 Restated ¹ | Better/(worse) |
|------------------------------|--------|-------------------------------|----------------|
| CONTINUING OPERATIONS | | | |
| Passenger revenue | 11,620 | 11,000 | 5.6% |
| Cargo revenue | 769 | 738 | 4.2% |
| Total traffic revenue | 12,389 | 11,738 | 5.5% |
| Other revenue | 632 | 533 | 18.6% |
| Total revenue | 13,021 | 12,271 | 6.1% |

¹2017 amounts have been restated for the adoption of the new accounting standards IFRS 15 and IFRS 9.

Revenue for the year was £13,021 million, up £750 million or 6.1 per cent compared to the previous year. This included an increase in passenger revenue of £620 million, or 5.6 per cent. Available capacity (ASKs) increased by 3.1 per cent, a result of the addition of new aircraft, wet leases and the seat densification programme. In addition the number of passengers carried increased 3.5 per cent to 46.8 million. The increase in revenue was driven by rising premium yields which saw passenger revenue per RPK increase by 1.7 per cent aided by all major currencies strengthening against sterling and strong business sector performance across the North Atlantic and some shorthaul routes in Europe.

Strategic report continued

Cargo revenue for the year increased by 4.2 per cent, to £769 million following an increase in cargo yield (cargo revenue / cargo tonne kilometre). Demand in Asia Pacific was strong, and the product mix continued to improve due to Constant Climate and Critical Product sales.

The increase in other revenue by 18.6 per cent included higher BA Holidays revenue following enhancements to ba.com and increased rental revenue at New York JFK.

Operating costs*

| £ million | 2018 | 2017 Restated ¹ | Better/(worse) |
|---|---------------|-------------------------------|----------------|
| CONTINUING OPERATIONS | | | |
| Employee costs | 2,535 | 2,559 | 0.9% |
| Depreciation, amortisation and impairment | 786 | 751 | (4.7%) |
| Aircraft operating lease costs | 233 | 223 | (4.5%) |
| Fuel, oil costs and emission charges | 2,927 | 2,537 | (15.4%) |
| Engineering and other aircraft costs | 719 | 763 | 5.8% |
| Landing fees and en route charges | 927 | 930 | 0.3% |
| Handling, catering and other operating costs | 1,790 | 1,699 | (5.4%) |
| Selling costs | 509 | 480 | (6.0%) |
| Currency differences | 44 | (6) | nm |
| Property, IT and other costs | 599 | 566 | (5.8%) |
| Total Group expenditure on operations | 11,069 | 10,502 | (5.4%) |
| Total Group expenditure excluding fuel | 8,142 | 7,965 | (2.2%) |

¹Please refer to note 38 for further details on transition adjustments relating to IFRS 15 and IFRS 9

*All stated before exceptional items

Fuel costs increased by £390 million, or 15.4 per cent, to £2,927 million compared to £2,537 million in the prior year. The increase was mainly due to a higher average fuel price, which increased from an average of \$519 per metric ton in 2017 to \$687 per metric ton in 2018, partially offset by fuel price hedging and the weaker US Dollar. Network growth also contributed to the increase in fuel costs. British Airways continues to benefit from the performance of next generation aircraft which are more fuel efficient.

Group expenditure excluding fuel increased to £8,142 million (2017: £7,965 million) principally driven by higher depreciation, handling and catering costs, professional and outsourcing service costs, property and IT costs, aircraft operating lease costs, selling costs and adverse exchange offset partially by lower engineering and other aircraft costs.

The Group's focus on cost discipline, the replacement of the NAPS and BARP plans with a market-competitive flexible defined contribution scheme and the implementation of a major restructuring programme resulted in a £24 million reduction in employee costs despite pay increases primarily linked to RPI. The average number of employees has decreased by 1.7 per cent as shown in note 8.

Depreciation, amortisation and impairment increased by 4.7 per cent mainly from depreciation from new aircraft deliveries and higher depreciation charges for the Boeing 747 fleet following a change to expected residual values. Aircraft lease costs increased by 4.5 per cent due to incremental wet lease costs incurred to operate the Monarch slots at Gatwick and additional wet leased aircraft costs to compensate for A321 Neo delays exacerbated by the Trent 1000 engine issues affecting the 787 fleet.

Engineering and other aircraft costs decreased 5.8 per cent. Compensation for Rolls-Royce Trent 1000 engine issues has offset increases related to contractual price rises, volume and wet leasing costs to compensate for the associated reduced capacity. Selling costs increased in line with the increase in revenue and reflect the full year effect of the introduction of the new distribution model.

Handling, catering and other operating costs rose 5.4 per cent. The year-on-year comparison is affected by a £56 million charge for compensation, accommodation and baggage claims related to operational disruption following the power outage in May 2017. Otherwise the Group's handling, catering and other operating costs increased 8.9 per cent from increased catering and operating costs related to the growth in passenger numbers, 2.1 per cent higher volumes from BA Holidays and 1.7 per cent additional investment in customer experience in catering and service delivery in-flight and at lounges. There was a 1.8 per cent increase in passenger compensation and disruption costs related to delays and cancellations. The Group's operations were affected by snow events in the UK during February/March 2018, Heathrow runway maintenance in Q4-2018, air traffic control strikes in France throughout most of the summer peak season and the Rolls-Royce Trent 1000 engine issues affecting aircraft availability. These headwinds were partially offset by favourable exchange rates in the first half of the year.

Strategic report continued

Exceptional items

The exceptional gain of £394 million (2017: £94 million loss) included the one-off reduction of the NAPS IAS 19 defined benefit liability of £770 million (2017: £nil) following the closure of NAPS to future accrual in March 2018. This was offset by other cash costs of £172 million linked to the closure of the NAPS and BARP schemes.

The remaining exceptional cost related to the transformation programme, £121 million (2017: £94 million) as detailed in note 5 and the cost of equalising for the effects of Guaranteed Minimum Pensions (GMP), £83 million (2017: £nil) as detailed in note 5 and note 32.

Non-operating items

Non-operating items increased by £58 million to a credit of £110 million, mainly due to a net financing credit relating to defined benefit schemes of £24 million in 2018 compared to a charge of £24 million in 2017. The closure of NAPS to future accrual in March 2018 resulted in an IAS 19 accounting surplus and the net financing credit as described in note 32. The share of the Group's post tax profits in associates, accounted for using the equity method, increased by £35 million to £165 million. Finance costs increased by £10 million to £116 million reflecting the increase in borrowings to finance more aircraft deliveries in 2018, and net currency retranslation credits on long-term liabilities, such as aircraft hand back provisions, reduced by £12 million from £13 million in the prior year.

Taxation

The tax charge on continuing operations for 2018 was £365 million (2017: £300 million), which included £28 million (2017: £18 million credit) relating to exceptional items. The Group profit before tax was £2,456 million (2017: £1,727 million) including a £165 million (2017: £130 million restated for IFRS 15 adoption) post-tax share of associate's profits. After adjusting for this item the Group's effective tax rate was 15.9 per cent (2017: 18.8 per cent), compared to the UK corporation tax rate of 19.0 per cent (2017: 19.25 per cent).

During the year, the net deferred tax liability decreased by £37 million to £335 million, driven primarily by the increase in the fair value losses recognised on cash flow hedges offset by the reversal of the opening asset arising from the closure of NAPS.

Capital expenditure

Total capital expenditure in the year amounted to £1,218 million (2017: £575 million). This included £989 million (2017: £441 million) of fleet-related expenditure (aircraft, aircraft progress payments, spares, modifications and refurbishments). During the year the Group took delivery of seven Airbus A320neos, one Airbus A321neo, three Boeing 787-8s and two Boeing 787-9s.

Liquidity

The Group's liquidity position remains strong with £2.5 billion of cash, cash equivalents and other interest-bearing deposits (2017: £2.8 billion). Net debt at the end of the year was £1.9 billion (2017: £1.5 billion). Refer to note 21 of the financial statements for further information on net debt.

In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £0.9 billion (2017: £0.9 billion) and further committed general facilities of £0.8 billion (2017: £0.8 billion).

During the year, British Airways secured a sale and leaseback by way of a \$609 million Enhanced Equipment Trust Certificates (EETC) bond issue to fund aircraft deliveries. The bonds were combined with Japanese Operating Leases with Call Options ("JOLCO") of \$259 million. The total sum raised was \$868 million. The transaction included Class AA and Class A Certificates with an underlying collateral pool consisting of 11 aircraft: two Boeing 787-9, two Boeing 787-8 and seven Airbus A320neo aircraft. The Class AA Certificates (\$410 million) have an annual coupon, payable quarterly, of 3.800 per cent and the Class A Certificates (\$199 million) have an annual coupon, payable quarterly, of 4.125 per cent.

Pensions

The Group operates two significant defined benefit pension schemes, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. British Airways closed NAPS to future accrual from 31 March 2018. The defined contribution scheme British Airways Retirement Plan (BARP) was also closed to future contributions on the same date.

Strategic report continued

Pensions continued

The NAPS and BARP schemes have been replaced by a flexible benefits scheme, incorporating a new defined contribution pension scheme, called the British Airways Pension Plan (BAPP). It offers a choice of contribution rates and the ability to opt for cash instead of a pension. NAPS active members were offered a choice of transition arrangements, including cash transition costs, paid either directly to members or into their pension accounts, of £169 million. Some members chose a non-cash option to increase their NAPS pensions prior to closure which led to an increase in the scheme's liabilities. The net impact of the non-cash options and the reduction in liabilities brought about by closure, due to different pay and pension growth assumptions, was a reduction in IAS19 liabilities of £770 million. The net impact of cash transition payments and the liability reduction and BARP closure costs of £3 million have been reported as an exceptional gain of £598 million.

The reduction of IAS 19 pension liabilities does not change the current recovery plan payments to NAPS, which were agreed in 2016 as part of the full actuarial valuation of the scheme. The NAPS scheme had a technical funding deficit of £2.8 billion as at 31 March 2015. In December 2016, BA agreed to make fixed deficit contributions of £300 million per year until September 2027 and to provide either additional payments or guarantees if dividend payments to IAG exceed 35 per cent of profit after tax. In addition there is a 'cash sweep' under the terms of which BA will pay up to an additional £150 million a year should BA's cash balance each year exceed a certain level. The technical valuation is different to the accounting, IAS 19, valuation reflected on the Company's balance sheet.

The next full NAPS actuarial valuation is due as at 31 March 2018. It will reflect the closure to future accrual, as well as the normal detailed review of the circumstances at the valuation date, including financial and demographic assumptions.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim by Lloyds Banking Group Pension Trustees Limited as claimant to Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to guaranteed minimum pension (GMP) benefits. The judgment affects some of the occupational pension schemes of the Group as set out in note 32. The estimated increase in IAS 19 liabilities as a result of the High Court judgment has been recorded as an exceptional cost of £83 million.

As previously reported, the Trustees of the Airways Pension Scheme (APS) had proposed an additional discretionary increase above CPI for pensions in payment for the year to 31 March 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. In July 2018, BA was successful in its appeal to the Court of Appeal. The Trustee has appealed the decision to the Supreme Court. Please refer to note 33 for further details.

Strategic report continued

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, exposes the Group to a number of risks. The Group remains focused on mitigating these risks where possible within the business, although many remain outside the Group's control such as Government regulation, adverse weather, political and economic environment, fuel prices and foreign exchange rates. The risks and uncertainties described below are the ones that are expected to have the most significant impact on the Group. The list presented is not intended to be exhaustive. The Group carries out detailed risk management reviews under the IAG risk management framework.

Strategic

Brand reputation

BA's brand has significant commercial value. Erosion of the brand, through either a single event or series of events, may adversely impact the Group's leadership position with customers and could ultimately affect future revenue and profitability. If we are unable to meet the expectations of our customers and do not engage effectively to maintain their emotional attachment to the brand, then we may face brand erosion and loss of market share. The Group has undertaken a significant review of the BA brand to understand customer preferences and better position its offerings. The Group Business Plan includes product and service investments which will enhance the customer experience. Success of these investments is measured, including their impact on customer satisfaction through the Net Promoter Score (NPS). BA allocates substantial resources to safety, operational integrity and new aircraft to maintain its brand leadership position.

Competition

BA operates in highly competitive markets with direct competition on all of our routes, as well as from indirect flights, charter services and other modes of transport. If we cannot operate in a cost effective manner or face competitor capacity growth in excess of demand growth, this could materially impact our margins.

The Group's strong global market positioning, leadership in strategic markets, alliances and diverse customer base continues to help mitigate this risk. The Group is continually reviewing its product offerings and responds through initiatives to improve customer experience.

Consolidation and deregulation

Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue. The Group maintains rigorous cost control and targeted product investment to remain competitive. The Group has the flexibility to react to market opportunities arising from competitors, leading to opportunities to capture market share and expand the Group. The Group is reliant on the other members of the oneworld alliance to help safeguard the alliance proposition. The Group maintains a leading presence in oneworld to ensure that the alliance attracts and retains the right members, which is key to ongoing development of the network.

Digital disruption

Competitors, or new entrants to the travel market, may use digital technology more effectively which disrupt our business model or technology disruptors may use tools to position themselves between our brand and our customers. BA's focus on the customer experience together with its exploitation of technology, reduces the impact digital disruptors can have.

Government intervention

Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact on our operational and financial performance. The ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. The Group continues to monitor and discuss the negative impacts of government policy such as the imposition of Air Passenger Duty (APD).

Infrastructure constraints

BA is dependent on and may be affected by infrastructure decisions or changes in policy by Governments, regulators or other entities which impact our operations but are outside of the Group's control. London Heathrow has no spare runway capacity. In October 2016, the UK government confirmed a third runway expansion proposal at Heathrow and IAG continues to promote an efficient, cost effective, ready to use and fit for purpose third runway solution.

Airport, transit and landing and security charges represent a significant operating cost to BA. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not. BA is therefore particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports. Regulation provides some assurance that such costs will not increase in an uncontrolled manner.

Joint businesses

The Group has agreements with other airlines to partner in the provision of flights and share revenues over specified routes for example Europe to North America. Joint business arrangements include delivery risks such as realising planned synergies and agreeing the deployment of additional capacity and performance of one partner relative to the other within the joint business. Strong governance and financial controls exist for each joint business.

Strategic report continued

Business and operational

Critical suppliers

BA is dependent on the performance of critical suppliers particularly as industry supply chains are becoming more complex and outsourcing is increasing. Failure of a critical supplier to deliver to contract may have a significant impact on operational performance, customer delivery and brand perception. BA has robust contingency plans and maintains regular oversight of suppliers to manage the risk of supplier failure.

BA is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience. BA mitigates engine and fleet performance risks to the extent possible by working closely with the engine and fleet manufacturers. The BA Group has been affected by ongoing issues with Rolls-Royce Trent engines in the year.

BA is dependent on resilience within the operations of Air Traffic Control (ATC) services to ensure that our flight operations schedules are delivered as scheduled. IAG continues to lobby and raise awareness of the negative impacts of air traffic control strikes and ATC performance issues on the aviation sector and economies across Europe.

Cyberattack and data protection

The Group could face financial loss, disruption or damage to brand reputation arising from an attack on our systems by criminals, terrorists or foreign governments. If we do not adequately protect our customer and employee data, we could breach regulation and face penalties and loss of customer trust. BA follows the IAG initiatives to enhance defences and response plans. The Group ensures that it is up to date with industry standards and addresses identified weaknesses.

There is oversight of critical systems and suppliers to ensure that data is secure, and the Group adheres to regulations and understands the data that is held. A General Data Protection Regulation (GDPR) programme was implemented across the Group in 2018 as part of its ongoing privacy programmes.

During 2018, the Network and Information Systems (NIS) Directive was implemented. British Airways is within scope of the requirements, which are being addressed as part of a broader programme of activity to continuously improve cyber defences. In September, British Airways reported the theft of data from its customers as a result of a criminal attack on its website. The fast-moving nature of this risk means that the Group will always retain a level of vulnerability.

Event causing significant network disruption

An event causing significant network disruption may result in lost revenue and/or additional costs if our customers or employees are unable to travel. Example scenarios include persistent failure of the ATC services, industrial action, war, civil unrest or terrorism, closure of airports or airspace, major failure of the public transport system, the complete or partial loss of the use of terminals, adverse weather conditions or pandemic. Management has business continuity plans to mitigate this risk to the extent feasible. The significant level of ATC strikes in Europe over the summer period impacted the airline's operational performance. Response plans to manage and reduce the impact on BA's customers and operations have been put in place.

IT systems and IT infrastructure

BA is dependent on IT systems for many of its key business processes. The failure of a critical system may cause significant disruption to operations and result in lost revenue. With the increased integration within our supply chain, we are dependent on the performance of our own suppliers' IT infrastructure as well as those of other third parties e.g. airport baggage operators. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. The Group continues to work with world class partners and is increasing resilience by implementing agreed plans which include investing in new technology, updates and a robust operating platform.

People and employee relations

The Group has a large unionised workforce represented by a number of different trade unions. Collective bargaining takes place on a regular basis and any breakdowns in the bargaining process may result in subsequent strike action which may disrupt operations and adversely affect business performance.

Management maintains regular communication to keep colleagues informed about the business, progress on the delivery of the business plan and important events affecting the Group. We have a focus on leveraging employee expertise and ensuring the development of our talent.

Political and economic conditions

The Group's revenue remains sensitive to political and economic conditions in the markets globally. Deterioration in either a domestic market or the global economy may have a material impact on our financial position, while foreign exchange and interest rate movements create volatility. The Group maintains ongoing oversight of all markets and can adapt operational plans and capacity when prudent. There is continued uncertainty going into 2019 and wider macro-economic trends are being monitored along with the changing political landscape. Following the UK referendum decision in 2016, the UK is expected to leave on 29 March 2019. IAG has continued to engage extensively with the relevant authorities to ensure IAG's views on post-Brexit aviation arrangements are understood and taken into account. The completion of a Withdrawal Agreement between the negotiators confirmed there would be no change to aviation

Strategic report continued

Business and operational continued

Political and economic conditions continued

arrangements until the end of the transition period on 31 December 2020 and that the future relationship would include a comprehensive transport agreement.

As the Withdrawal Agreement is subject to ratification by the UK and EU parliaments, both the European Commission and the UK Government published separate plans to allow air services to continue in the event that the Withdrawal Agreement (or an amended version of it) cannot be ratified. These include mechanisms to permit flights between the UK and the EU and recognition of each other's safety certification, approvals and security regimes. As part of this, the EU is in the process of adopting a Regulation on basic connectivity between the EU and UK that may result in some restrictions on code share flexibility. In addition, in November the UK signed new air services agreements with the USA and Canada to replace existing EU-wide agreements once the UK leaves the EU, securing market access and regulatory arrangements for the future.

The Group is confident that it will comply with the EU and the UK ownership and control issues post-Brexit. IAG's assessment remains that, even in the event of no-deal, Brexit will have no significant long-term impact on its business.

Safety and security incidents

The safety and security of customers and employees are fundamental values for BA. If there is a failure to prevent or respond effectively to a major safety or security incident it may also adversely impact the BA brand, operations and financial performance. The Safety Committee satisfies itself that BA has appropriate safety resources and procedures which include compliance with Air Operator Certificate requirements. The Crisis Management Centre responds in a structured way in the event of a safety or security incident.

Financial

Debt funding

The Group carries substantial debt that needs to be repaid or refinanced. The ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing.

Foreign exchange and slow moving cash

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies along with currency devaluation of cash held in currencies other than the airline's functional currency (sterling). This risk is minimised by holding cash in sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of the commercial policy for the country.

Fuel price

Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results. This price risk is partially hedged through the purchase of oil derivatives in forward markets. The objective of the hedging programme is to increase the predictability of cash flows and profitability.

Pensions

Negative movements in pension asset values and financial returns from these assets may increase the size of the pension deficit. Management regularly reviews the status of the pension funds and remains committed to taking appropriate action. The Group is exposed to the risks of operating underfunded defined benefit pension schemes. The deficit in NAPS is highly sensitive to small changes in bond yields. Management regularly reviews the funding status of the pension schemes and is in regular dialogue with the schemes' Trustee on funding and investment decisions. During the year British Airways closed its main defined benefit scheme, NAPS, to future accrual and its existing defined contribution scheme, BARP, to future contributions both effective on 31 March 2018. These schemes were replaced on 1 April 2018 with a new flexible benefits scheme, including a new defined contribution pension scheme. BA is committed to paying the agreed recovery plans for its two UK defined benefit schemes, APS and NAPS, and ensuring that the benefits members have already earned are protected.

The financial risks faced by the Group are covered in more detail in note 27 to the financial statements.

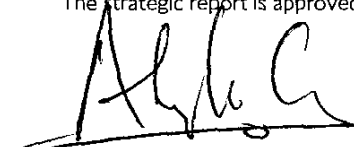
Strategic report continued

Compliance and regulatory

Non-compliance with key regulations including competition, bribery, corruption and sanctions laws

The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in fines or losses to the Group. The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance. There are mandatory training programmes in place to educate employees in these matters. Compliance professionals specialising in Competition Law and Anti-Bribery legislation support and advise our businesses.

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



Alex Cruz
Chairman and Chief Executive Officer
22 March 2019



Steve Gunning
Chief Financial Officer
22 March 2019

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2018.

Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 13 of the strategic report.

Results and dividends

The pre-exceptional operating profit for the year ended 31 December 2018 amounted to £1,952 million (2017: £1,769 million). The operating profit for the year ended 31 December 2018 was £2,346 million (2017: £1,675 million).

The Company paid the following dividends;

First interim dividend of £125 million paid in April 2018

Second interim dividend of £125 million paid in July 2018

Third interim dividend of £250 million paid in September 2018

Fourth interim dividend of £75 million paid in December 2018

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: £nil).

Directors

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

Alex Cruz

Alison Reed

Steve Gunning

Gavin Patterson

Julia Simpson

Lynne Embleton

Company Secretary

Andrew Fleming

Employment policies

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

BA continues to drive genuine and effective engagement with colleagues, putting the customer at the forefront of everything it does and maintaining a high performing organisation. BA's objective is to have involved colleagues, with deep knowledge of their customers' needs, who are empowered to deliver outstanding customer service.

There is a framework in place for consultation with colleagues, through direct engagement as well as collective bargaining, enabling everyone to have an open and honest dialogue with management. Regular briefings (including updates on financial and economic factors affecting the performance of the Group) are held across the airline. Other communication channels include live online forums, a personalised intranet, mobile SMS and video messages and a range of BA-wide and local newsletters.

BA is committed to delivering packages that reward colleagues for their performance and contribution to the business and allow the Group to attract, retain and grow existing and future talent. BA encourages the involvement of colleagues in the Group's performance through the employee bonus scheme and the IAG group share schemes for eligible employees. Colleague recognition forms a key part of the Group's overall employee engagement strategy.

BA aims to promote diversity in employment regardless of gender, ethnicity, sexual orientation, disability, religion or age. The Group's diversity and inclusion policy covers British Airways' employees in all parts of the Group, at all levels and covers all aspects of the employment relationship. The Group ensures everyone is aware of their personal responsibilities through the provision of mandatory training on diversity and inclusion to foster dignity and respect in the workplace, ensuring colleagues feel supported and able to perform at their best. Additional information and support for managers, including an online diversity and inclusion toolkit is also available on the BA intranet.

As a responsible organisation, disability is taken very seriously. BA aims to employ the most talented people and thus has procedures in place to ensure that individuals with disabilities are supported in reaching their full potential by making reasonable adjustments for them in the workplace. BA is accredited at level 2 of the Disability Confident Scheme as recognition both of commitment to encourage job applications from disabled people and to support disabled colleagues within BA.

Directors' report continued

Employment policies continued

Wellbeing and inclusion are an integral part of BA's people strategy. Ensuring employees feel valued for who they are is a passion that drives the Group's work. BA works proactively to support employees' physical, mental and social wellbeing and promotes inclusion through local wellbeing and inclusion advisers who seek to inform and engage colleagues in wellbeing issues. As part of the Group's diversity and inclusion strategy, the Group is committed to increasing the gender balance in engineering and pilot communities through working with schools and colleges to promote opportunities in science, technology, engineering and mathematics (STEM) related careers.

BA has partnered with Modern Muse, a charity that provides a digital platform to showcase a wide variety of career paths to school and college-aged girls through a network of 'muses'. BA has also launched a series of 'Future of Flying' events at which BA pilots, including female pilots, talk about a career as a pilot and inspire local young people to join the aviation industry. Alongside this work, the Group marked Women in Engineering Day with an online photo collage showcasing female engineering colleagues.

As part of the Group's wider commitment to increasing gender balance, this year, ten mentors and ten female mentees from BA participated in the 30 per cent Club cross-company mentoring scheme. To celebrate International Women's Day, BA ran a flight crewed and operated exclusively by female colleagues including baggage handlers, pilots and cabin crew, flight managers, loaders and push back teams, security, check in and airport teams.

BA's workforce consists of 46 per cent (2017: 46 per cent) women, with 31 per cent (2017: 28 per cent) of senior leadership positions held by women. Females make up 50 per cent (2017: 50 per cent) of the BA Board and 25 per cent (2017: 25 per cent) of the BA Management Committee.

In 2018 the Group reported Gender Pay Gap figures for the first time, and the median hourly pay difference between men and women is 10 per cent, compared to the national average of 18.1 per cent. When pilots are excluded from the figures, the pay gap favours women.

Political donations

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

Internal control and risk management

Corporate Governance

As the shares of the Company are not listed, it is not required to comply with the UK Corporate Governance Code. The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the process for the preparation of consolidated financial statements. During the year, no changes in risk management and internal control systems over financial reporting have occurred that have materially affected, or are reasonably likely to materially affect, the Group's financial reporting.

Internal control framework

Certain back office functions are provided by IAG Group companies such as treasury, procurement, IT and finance operations. Effective Corporate Governance remains key to the business. The Group continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. During the reporting period, the effectiveness of the framework was regularly reviewed by the Management Committee.

Business controls are reviewed on an ongoing basis by the IAG internal audit function through a programme based on risk assessment. Professionally qualified personnel manage the department with experience gained from both inside and outside the industry. A risk-based audit plan, which provides assurance over key business processes and commercial and financial risks facing the Group, is approved by the IAG Audit Committee half-yearly.

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

Risk management

The Group has a structure and process to help identify, assess and manage risks supported by risk management professionals in IAG. This comprehensive risk management process and methodology has been in place throughout the reporting period to which these statements apply and up to the date of their approval.

Risk owners are responsible for identifying risks in their area of responsibility. All risks are assessed for likelihood and impact against the Group business plan and strategy and are plotted on a risk heatmap. Key controls and mitigations are documented including appropriate response plans. Every risk has appropriate Management Committee oversight.

The risk heatmap is reviewed every six months by the BA Management Committee and the IAG Head of Enterprise Risk Management to ensure that risks are appropriately evaluated and any further actions identified. This is then reported to the BA Board to assist in the management of risk. The principal risks and uncertainties are detailed further on pages 10 to 13 of the strategic report.

Directors' report continued

Overseas branches

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

Going concern

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 10 to 13) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on pages 6 to 9). Further information is provided in note 27 of the financial statements.

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

Events after the balance sheet date

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

Directors' and Officers' Liability insurance and indemnities

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

The Company has granted rolling indemnities to the Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as Officers of companies within the Group. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs. The indemnities were in force during the whole of the financial year or from the date of appointment in respect of Officers who joined during 2018 and remain in force.

The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the Directors of four companies, British Airways Pension Trustees Limited, British Airways Pension Trustees (No 2) Limited, Airways Pension Scheme Trustee Limited and New Airways Pension Scheme Trustee Limited, that act as trustees of the Company's UK pension schemes. These indemnities were in force throughout the last financial year or from the date of appointment in respect of Officers who joined during 2018 and remain in force.

Auditors

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

Directors' statement as to disclosure of information to the auditor

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

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

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

Directors' responsibilities statement in relation to the financial statements

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

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

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

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

Directors' responsibility statement pursuant to DTR 4

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

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

Approved by the Board and signed on its behalf by



Andrew Fleming
Company Secretary
22 March 2019

Company registration number – 1777777

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

Opinion

In our opinion:

- British Airways Plc's Group financial statements and Parent Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of British Airways Plc which comprise:

| Group | Parent Company |
|---|--|
| Consolidated balance sheet as at 31 December 2018 | Balance sheet as at 31 December 2018 |
| Group consolidated income statement for the year then ended | Statement of changes in equity for the year then ended |
| Group consolidated statement of other comprehensive income for the year then ended | Statement of cash flows for the year then ended |
| Consolidated statement of changes in equity for the year then ended | Related notes 1 to 38 to the financial statements including a summary of significant accounting policies |
| Consolidated statement of cash flows for the year then ended | |
| Related notes 1 to 38 to the financial statements, including a summary of significant accounting policies | |

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Overview of our audit approach

| | |
|-------------------|--|
| Key audit matters | <ul style="list-style-type: none"> Valuation of defined benefit pension plan obligations Passenger revenue recognition, specifically in relation to the risk of management override Valuation of aircraft maintenance obligations |
| Audit scope | <ul style="list-style-type: none"> The components where we performed full audit procedures accounted for 95% of pre-exceptional operating profit, 95% of revenue and 98% of total assets |
| Materiality | <ul style="list-style-type: none"> Materiality of £90 million which represents approximately 5% of pre-exceptional operating profit |

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk | Key observations communicated to the Board of Directors |
|---|---|---|
| <p>Valuation of defined benefit pension plan obligations (£22,846 million, FY17: £25,065 million)</p> <p><i>Refer to accounting policies (pages 29 to 36) and note 32 of the consolidated financial statements (pages 78 to 83).</i></p> <p>Pension accounting is governed by IAS 19 Employee Benefits (revised) and requires significant judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, inflation rate and demographic assumptions) can have a material impact on the valuation of the defined benefit obligations.</p> <p>The NAPS scheme was closed to future accrual. There is a risk that the past service credit arising from the closure is incorrectly calculated and recognised in the financial statements.</p> | <p>Our procedures included the following:</p> <ul style="list-style-type: none"> With the support of EY pension specialists, we assessed the appropriateness of the financial and demographic assumptions at 31 December 2018, including the impact of gender equalisation of Guaranteed Minimum Pensions (GMP). We compared the assumptions to current market information and expectations and to the prior year to understand the basis for any changes. We verified the source participant data sent to the actuaries to pension plan membership records on a sample basis and confirmed the appropriateness of the related disclosures. <p>In respect of the NAPS scheme amendments;</p> <ul style="list-style-type: none"> We tested the application of the IAS 19 accounting methodology for the calculation of the past service credit (£770 million) and the cost of the transitional arrangements (£172 million). With the support of EY pension specialists, we assessed the financial and demographic assumptions immediately prior to the closure to calculate the past service cost. We inspected the underlying transition agreements and performed testing of the transition options selected by a sample of employees. We recalculated the impact of the IFRIC 14 asset ceiling on the accounting surplus arising after the closure of NAPS. | <p>The assumptions have been calculated in a consistent manner to the prior year.</p> <p>We concluded that the actuarial assumptions used at 31 December 2018 to determine the defined benefit obligations for NAPS and APS were within an acceptable range of supportable assumptions.</p> <p>We concluded that the Company appropriately accounted for the past service credit arising from the NAPS scheme amendments.</p> <p>We consider that the presentation of the past service credit for the NAPS scheme amendments and the charge for the impact of GMP equalisation as exceptional items is supportable due to the one-off nature of these transactions.</p> |

| Risk | Our response to the risk | Key observations communicated to the Board of Directors |
|---|---|---|
| <p>Passenger revenue recognition, specifically in relation to the risk of management override (£11,620 million, FY17: £11,000 million)</p> <p><i>Refer to accounting policies (pages 29 to 36) and note 4 of the consolidated financial statements (page 38).</i></p> <p>ISA 240 sets out a presumption that there is a risk of fraud related to revenue recognition. We consider passenger revenue to be the most susceptible revenue stream given its value relative to other revenue streams and identified the following risks:</p> <ul style="list-style-type: none"> • Override of IT systems to accelerate revenue recognition • Recording of manual journal entries to revenue either in the underlying ledgers or as a consolidation journal • Manipulation of inputs used to recognise unused tickets | <p>Our procedures included the following:</p> <ul style="list-style-type: none"> • We tested a sample of key controls in the passenger revenue process to validate they were designed and operating effectively. • We tested a sample of IT controls to assess whether the configuration of the revenue accounting system was preventative of unauthorised override and that subsequent changes to the system followed an effectively controlled process. We confirmed that administrative rights and access to these systems were only granted to appropriate personnel. • We used data analytic techniques to analyse the flow of transactions from ticket sales to passenger revenue to identify unusual patterns and events. • We analysed manual revenue postings to passenger revenue which related to expired tickets, the joint business arrangements and transactions with Avios. We tested a sample of these journals confirming that they were valid business transactions and were appropriately accounted for. • We confirmed the appropriate recognition of passenger ticket revenue by testing a sample of coupons and confirmed the tickets were recognised on the flight date and the valuation of the ticket between coupons was appropriately prorated. • We audited the estimation techniques used for the recognition of unused tickets to confirm they were based on the most recent customer behaviour. We validated the inputs into the unused ticket revenue calculations by re-running key reports and checking the completeness of the underlying data with no exceptions identified. The estimation techniques used in the calculation were consistent with the prior year. | <p>Our testing of the key controls in the passenger sales and travel processes and the related IT system controls did not identify any instances of management override in the recognition of passenger revenue.</p> <p>We concluded that the recognition of revenue in the year was appropriate.</p> |
| Risk | Our response to the risk | Key observations communicated to the Board of Directors |
| <p>Valuation of aircraft maintenance obligations (£369 million, FY17: £325 million)</p> <p><i>Refer to accounting policies (pages 29 to 36) and note 26 of the consolidated financial statements (page 63).</i></p> <p>The accounting for maintenance obligations under lease agreements, including the end of lease handback requirements, is subject to management assumptions.</p> <p>These assumptions include estimating</p> | <p>Our procedures included the following:</p> <ul style="list-style-type: none"> • We made enquiries of management to establish if there were any new lease or maintenance contracts entered during the year. • We reviewed a sample of the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations of the handback provision at the year end. • For the handback provisions we assessed the updated flying hour forecasts for each asset at the return date and corroborated the estimate of the | <p>We concluded that the maintenance costs were appropriately valued and the assumptions used by management were within an acceptable range.</p> |

the number of cycles each engine will have flown at the return date and the cost of performing the required maintenance work at that future return date.

There is a risk of maintenance and handback obligations included in lease agreements being accounted for inappropriately.

cost of maintenance work to third party prices lists, lease return condition terms or invoices and quotes.

- For the ongoing maintenance work under flying hour agreements, we confirmed that the expense was recognised at the contractual flying hour rates and checked a sample of the actual flying hours to BA's operating system to confirm that the expense recognised was complete and accurate.
 - The actual flying hours were agreed to BA's operating systems and a sample of supporting invoices. We assessed the forecast flying hours, by comparing to the fleet plan.
-

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

We performed an audit of the financial information of the Parent Company financial statements. The Parent Company accounted for 95% (2017: 95%) of the Group's pre-exceptional operating profit, 95% (2017: 95%) of the Group's revenue and 98% (2017: 95%) of the Group's total assets.

For the remaining components that together represent 5% (2017: 5%) of the Group's pre-exceptional operating profit, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £90 million (2017: £80 million), which is approximately 5% (2017: 5%) of operating profit before exceptional items. We believe that pre-exceptional operating profit is the measure most relevant to the users of the financial statements and the most appropriate basis for setting our planning materiality as the Group uses pre-exceptional operating profit as its key profit measure and performance indicator internally and in reporting results externally.

We determined materiality for the Parent Company to be £90 million (2017: £80 million), which is 5% (2017: 5%) of operating profit before exceptional items.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £68 million (2017: £60 million). We have set performance materiality at this percentage as our understanding of the entity and past experience does not indicate a higher risk of misstatements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Board of Directors that we would report to them all uncorrected audit differences in excess of £5 million (2017: £4 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 17, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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

26 March 2019

Notes:

1. The maintenance and integrity of the Company's ultimate Parent's (International Consolidated Airlines Group SA) web site is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group consolidated income statement

For the year ended 31 December

| £ million | Note | 2018 | Group 2017 Restated ¹ |
|---|------|---------------|--|
| CONTINUING OPERATIONS | | | |
| Passenger revenue | | 11,620 | 11,000 |
| Cargo revenue | | 769 | 738 |
| Traffic revenue | | 12,389 | 11,738 |
| Other revenue | | 632 | 533 |
| Total revenue | 4 | 13,021 | 12,271 |
| Employee costs | 8 | 2,535 | 2,559 |
| Depreciation, amortisation and impairment | 6 | 786 | 751 |
| Aircraft operating lease costs | 6 | 233 | 223 |
| Fuel, oil costs and emission charges | | 2,927 | 2,537 |
| Engineering and other aircraft costs | | 719 | 763 |
| Landing fees and en route charges | | 927 | 930 |
| Handling, catering and other operating costs | | 1,790 | 1,699 |
| Selling costs | | 509 | 480 |
| Currency differences | | 44 | (6) |
| Property, IT and other costs | | 599 | 566 |
| Total expenditure on operations before exceptional items | | 11,069 | 10,502 |
| Operating profit before exceptional items | | 1,952 | 1,769 |
| Exceptional items | 5 | 394 | (94) |
| Operating profit after exceptional items | 6 | 2,346 | 1,675 |
| Finance costs | 9 | (116) | (106) |
| Finance income | 9 | 33 | 35 |
| Loss on sale of property, plant and equipment and investments | | (11) | (6) |
| Gain relating to equity investments | | 5 | 6 |
| Share of post-tax profits in associates accounted for using the equity method | 18 | 165 | 130 |
| Realised gains/(losses) on derivatives not qualifying for hedge accounting | | 10 | (9) |
| Unrealised (losses)/gains on derivatives not qualifying for hedge accounting | | (1) | 13 |
| Net financing credit/(charge) relating to pensions | 32b | 24 | (24) |
| Net currency retranslation credits | | 1 | 13 |
| Profit before tax from continuing operations | | 2,456 | 1,727 |
| Tax | 10 | (365) | (300) |
| Profit after tax from continuing operations | | 2,091 | 1,427 |
| DISCONTINUED OPERATIONS | | | |
| Loss after tax from discontinued operations | 12 | - | (44) |
| Profit after tax | | 2,091 | 1,383 |
| Attributable to: | | | |
| Equity holders of the parent | | 2,080 | 1,365 |
| Non-controlling interest | | 11 | 18 |
| | | 2,091 | 1,383 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

Consolidated statement of other comprehensive income

| For the year ended 31 December | | Group | |
|---|------|----------------|-------------------------------|
| £ million | Note | 2018 | 2017 Restated ¹ |
| Profit after tax for the year | | 2,091 | 1,383 |
| Other comprehensive income: | | | |
| Items that will not be reclassified to net profit | | | |
| Remeasurement of post-employment benefit obligations | 32c | (740) | 792 |
| Fair value movements on cash flow hedges | 31a | 39 | - |
| Equity investments - fair value movements in equity | 31a | (4) | 8 |
| Income taxes | 10 | 125 | (140) |
| | | (580) | 660 |
| Items that may be reclassified to net profit | | | |
| Currency translation differences | 31a | 6 | 8 |
| Fair value movements on cash flow hedges | 31a | (387) | 134 |
| Fair value of cash flow hedges reclassified to net profit | 31a | (315) | 22 |
| Other movements in comprehensive income of associates | 18 | (29) | (4) |
| Income taxes | 10 | 113 | (32) |
| | | (612) | 128 |
| Total other comprehensive (loss)/income | | (1,192) | 788 |
| Total comprehensive income for the year (net of tax) | | 899 | 2,171 |
| Attributable to: | | | |
| Equity holders of the parent | | 888 | 2,153 |
| Non-controlling interest | 31a | 11 | 18 |
| | | 899 | 2,171 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

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

Balance sheets

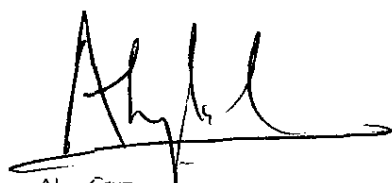
As at 31 December

| As at 31 December | | Group | | | Company | | |
|--|------|---------------|-------------------------------|--|---------------|-------------------------------|--|
| £ million | Note | 2018 | 2017 Restated ¹ | 1 January 2017 Restated ¹ | 2018 | 2017 Restated ¹ | 1 January 2017 Restated ¹ |
| Non-current assets | | | | | | | |
| Property, plant and equipment: | | | | | | | |
| Fleet | 13 | 7,111 | 6,935 | 7,105 | 6,915 | 6,713 | 6,866 |
| Property | 13 | 810 | 785 | 784 | 777 | 751 | 748 |
| Equipment | 13 | 213 | 218 | 235 | 207 | 212 | 229 |
| | | 8,134 | 7,938 | 8,124 | 7,899 | 7,676 | 7,843 |
| Intangibles: | | | | | | | |
| Goodwill | 16 | 40 | 40 | 40 | - | - | - |
| Landing rights | 16 | 693 | 644 | 656 | 693 | 644 | 643 |
| Emissions allowances | 16 | 34 | 16 | 3 | 34 | 16 | 3 |
| Software | 16 | 300 | 291 | 293 | 289 | 281 | 284 |
| | | 1,067 | 991 | 992 | 1,016 | 941 | 930 |
| Investments in subsidiaries | 18 | - | - | - | 1,278 | 1,278 | 1,315 |
| Investments in associates | 18 | 1,701 | 1,577 | 1,557 | 1,563 | 1,563 | 1,563 |
| Equity investments | 19 | 56 | 60 | 53 | 40 | 40 | 40 |
| Employee benefit assets | 32a | 1,016 | 904 | 866 | 1,016 | 904 | 866 |
| Deferred tax assets | 10 | - | - | - | - | - | 32 |
| Derivative financial instruments | 28 | 120 | 73 | 61 | 120 | 74 | 61 |
| Other non-current assets | 20 | 300 | 282 | 447 | 300 | 334 | 526 |
| Total non-current assets | | 12,394 | 11,825 | 12,100 | 13,232 | 12,810 | 13,176 |
| Current assets and receivables | | | | | | | |
| Inventories | | 175 | 131 | 133 | 171 | 128 | 131 |
| Trade receivables | 20 | 901 | 766 | 710 | 886 | 751 | 693 |
| Other current assets | 20 | 644 | 597 | 594 | 647 | 527 | 783 |
| Derivative financial instruments | 28 | 65 | 206 | 139 | 65 | 209 | 139 |
| Other current interest-bearing deposits | 21 | 1,175 | 1,840 | 1,425 | 1,175 | 1,840 | 1,425 |
| Cash and cash equivalents | 21 | 1,327 | 956 | 1,070 | 1,249 | 886 | 1,003 |
| | | 2,502 | 2,796 | 2,495 | 2,424 | 2,726 | 2,428 |
| Assets held for sale | 15 | - | 22 | - | - | - | - |
| Total current assets and receivables | | 4,287 | 4,518 | 4,071 | 4,193 | 4,341 | 4,174 |
| Total assets | | 16,681 | 16,343 | 16,171 | 17,425 | 17,151 | 17,350 |
| Shareholders' equity | | | | | | | |
| Issued share capital | 29 | 290 | 290 | 290 | 290 | 290 | 290 |
| Share premium | 29 | 1,512 | 1,512 | 1,512 | 1,512 | 1,512 | 1,512 |
| Other reserves ² | 31 | 3,865 | 3,621 | 1,927 | 4,486 | 4,394 | 2,875 |
| Total shareholders' equity | | 5,667 | 5,423 | 3,729 | 6,288 | 6,196 | 4,677 |
| Non-controlling interest | 31 | - | 200 | 200 | - | - | - |
| Total equity | | 5,667 | 5,623 | 3,929 | 6,288 | 6,196 | 4,677 |
| Non-current liabilities | | | | | | | |
| Interest-bearing long-term borrowings | 24 | 3,953 | 3,716 | 4,470 | 3,953 | 3,985 | 4,745 |
| Employee benefit obligations | 32a | 258 | 698 | 1,991 | 232 | 668 | 1,960 |
| Deferred tax liabilities | 10 | 335 | 372 | 59 | 243 | 276 | - |
| Provisions for liabilities and charges | 26 | 380 | 337 | 307 | 345 | 281 | 237 |
| Derivative financial instruments | 28 | 210 | 57 | 5 | 213 | 57 | 5 |
| Other non-current liabilities | 23 | 40 | 52 | 61 | 26 | 35 | 38 |
| Total non-current liabilities | | 5,176 | 5,232 | 6,893 | 5,012 | 5,302 | 6,985 |
| Current liabilities | | | | | | | |
| Current portion of long-term borrowings | 24 | 473 | 572 | 680 | 476 | 588 | 689 |
| Trade and other payables | 22 | 1,893 | 1,936 | 1,689 | 2,190 | 2,245 | 2,167 |
| Deferred revenue on ticket sales | 22 | 2,807 | 2,665 | 2,662 | 2,824 | 2,561 | 2,559 |
| Derivative financial instruments | 28 | 341 | 52 | 18 | 347 | 52 | 23 |
| Current tax payable | | 144 | 116 | 64 | 119 | 101 | 46 |
| Provisions for liabilities and charges | 26 | 180 | 125 | 236 | 169 | 106 | 204 |
| Liabilities directly associated with the assets held for sale | 15 | - | 22 | - | - | - | - |
| Total current liabilities | | 5,838 | 5,488 | 5,349 | 6,125 | 5,653 | 5,688 |
| Total equity and liabilities | | 16,681 | 16,343 | 16,171 | 17,425 | 17,151 | 17,350 |

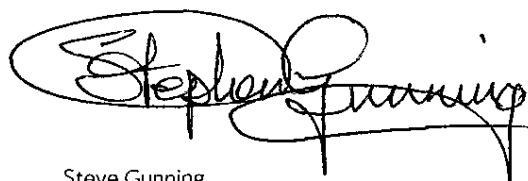
¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

²The profit for the year for the Company is £1,835 million (2017: £1,204 million as restated).

Approved by the Board and signed on its behalf by



Alex Cruz
Chairman and Chief Executive Officer
22 March 2019



Steve Gunning
Chief Financial Officer
22 March 2019

Cash flow statements

For the year ended 31 December

| For the year ended 31 December | | Group | | Company | |
|--|------|--------------|-------------------------------|--------------|-------------------------------|
| £ million | Note | 2018 | 2017 Restated ¹ | 2018 | 2017 Restated ¹ |
| Cash flow from operating activities | | | | | |
| Operating profit from continuing operations after exceptional items | | 2,346 | 1,675 | 2,253 | 1,595 |
| Exceptional items | | (394) | 94 | (394) | 94 |
| Operating profit before exceptional items from continuing operations | | 1,952 | 1,769 | 1,859 | 1,689 |
| Operating loss from discontinued operations | | - | (44) | - | - |
| | | 1,952 | 1,725 | 1,859 | 1,689 |
| Depreciation, amortisation and impairment | | 786 | 766 | 760 | 726 |
| Employer contributions to defined benefit pension schemes | 32d | (631) | (765) | (626) | (763) |
| Defined benefit pension scheme service costs | 32b | 48 | 203 | 47 | 201 |
| Movement in working capital and other non-cash movements | | 1 | 305 | 120 | 417 |
| <i>(Increase)/decrease in trade and other receivables, prepayments, inventories and current assets</i> | | (234) | 13 | (254) | 277 |
| <i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i> | | 235 | 292 | 374 | 140 |
| Payments related to restructuring | 26 | (82) | (110) | (82) | (110) |
| Payments related to NAPS closure | | (161) | - | (161) | - |
| Interest paid | | (87) | (73) | (100) | (92) |
| Interest received | | 26 | 20 | 26 | 20 |
| Taxation | | (137) | (107) | (137) | (107) |
| Net cash generated from operating activities | | 1,715 | 1,964 | 1,706 | 1,981 |
| Cash flow from investing activities | | | | | |
| Purchase of property, plant and equipment and intangible assets | | (1,218) | (575) | (1,208) | (566) |
| Investment in subsidiaries | 18 | - | - | - | (37) |
| Sale of property, plant and equipment and intangible assets | | 149 | 3 | 149 | 3 |
| Dividends received | 18 | 15 | 114 | 1 | 103 |
| Loan repaid by fellow group undertaking | | 89 | 53 | 89 | 53 |
| Loan paid to parent company | | (115) | - | (115) | - |
| Other investing movements | | 5 | 4 | 4 | 4 |
| Decrease/(increase) in other current interest-bearing deposits | | 665 | (415) | 665 | (415) |
| Disposal of Openskies | 12 | (17) | - | - | - |
| Net cash used in investing activities | | (427) | (816) | (415) | (855) |
| Cash flow from financing activities | | | | | |
| Proceeds from long-term borrowings | | 636 | - | 636 | - |
| Repayments of borrowings | | (167) | (121) | (413) | (106) |
| Repayment of finance leases | | (558) | (615) | (585) | (638) |
| Dividends paid | 11 | (575) | (460) | (575) | (460) |
| Distributions made to holders of perpetual securities | | (279) | (18) | - | - |
| Net cash flow used in financing activities | | (943) | (1,214) | (937) | (1,204) |
| Increase/(decrease) in cash and cash equivalents | | 345 | (66) | 354 | (78) |
| Net foreign exchange differences | | 9 | (31) | 9 | (39) |
| Cash and cash equivalents at 1 January | | 973 | 1,070 | 886 | 1,003 |
| Cash and cash equivalents as at 31 December² | | 1,327 | 973 | 1,249 | 886 |
| Interest-bearing deposits maturing after more than three months | | 1,175 | 1,840 | 1,175 | 1,840 |
| Cash, cash equivalents and other interest-bearing deposits at 31 December | | 2,502 | 2,813 | 2,424 | 2,726 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

²The closing cash and cash equivalents balance at 31 December 2017 includes £17 million presented as held for sale, refer to note 15.

Statements of changes in equity

For the year ended 31 December 2018

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

For the year ended 31 December 2017

| | Group | | | | | |
|---|----------------------------|------------------|--------------------------------|----------------------------------|--|-----------------|
| £ million | Issued share capital | Share premium | Other reserves (note 31) | Total shareholders' equity | Non- controlling interest (note 31) | Total equity |
| Balance at 1 January 2017 | 290 | 1,512 | 2,239 | 4,041 | 200 | 4,241 |
| Restatement for adoption of new standards (Note 38) | - | - | (312) | (312) | - | (312) |
| Restated balance at 1 January 2017 | 290 | 1,512 | 1,927 | 3,729 | 200 | 3,929 |
| Profit for the year (restated) | - | - | 1,365 | 1,365 | 18 | 1,383 |
| Other comprehensive income for the year (restated) | - | - | 788 | 788 | - | 788 |
| Total comprehensive income for the year (restated) | - | - | 2,153 | 2,153 | 18 | 2,171 |
| Dividends | - | - | (460) | (460) | - | (460) |
| Credit of share-based payment (net of tax) | - | - | 1 | 1 | - | 1 |
| Distributions made to holders of perpetual securities | - | - | - | - | (18) | (18) |
| As at 31 December 2017 | 290 | 1,512 | 3,621 | 5,423 | 200 | 5,623 |

For the year ended 31 December 2018

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

For the year ended 31 December 2017

| | Company | | | |
|---|----------------------------|------------------|--------------------------------|-----------------|
| £ million | Issued share capital | Share premium | Other reserves (note 31) | Total equity |
| Balance at 1 January 2017 | 290 | 1,512 | 2,886 | 4,688 |
| Restatement for adoption of new standards (Note 38) | - | - | (11) | (11) |
| Restated balance at 1 January 2017 | 290 | 1,512 | 2,875 | 4,677 |
| Profit for the year (restated) | - | - | 1,204 | 1,204 |
| Other comprehensive income for the year (restated) | - | - | 774 | 774 |
| Total comprehensive income for the year (restated) | - | - | 1,978 | 1,978 |
| Dividends | - | - | (460) | (460) |
| Credit of share-based payment (net of tax) | - | - | 1 | 1 |
| As at 31 December 2017 | 290 | 1,512 | 4,394 | 6,196 |

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 22 March 2019 and the balance sheets were signed on the Board's behalf by Alex Cruz and Steve Gunning. British Airways Plc is a public limited company limited by shares incorporated, registered and domiciled in England. The Company's registered office is Waterside, PO Box 365, Harmondsworth, UB7 0GB.

The Group has prepared the consolidated financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union (IFRSs as endorsed by the EU). The principal accounting policies adopted by the Group and by the Company are set out in note 2.

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

2 Significant accounting policies

Basis of preparation

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

These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and equity investments that are measured at fair value.

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

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 10 to 13) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on pages 6 to 9). Further information is provided in note 27 of the financial statements.

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

Presentation of results

The Group has presented results in the income statement to separately identify exceptional items and discontinued operations in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business; see note 5, pages 38 and 39 and note 12, page 47 respectively.

In December 2017, the Group reached an agreement to sell Openskies SASU, a wholly owned subsidiary of the Group with effect from 1 January 2018 to another company within the IAG Group. As a result of this transaction, this business was presented as a discontinued operation for the year ended 31 December 2017. A single amount was presented in the income statement for discontinued operations, comprising the post-tax results of this business and the post-tax loss recognised on re-measurement to fair value less costs to sell.

Basis of consolidation

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

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

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

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

2 Significant accounting policies continued

Interests in associates

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

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

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

Revenue from contracts with customers

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

The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligation is satisfied over time using an appropriate methodology which reflects the activity that has been undertaken to satisfy the related obligation.

Revenue recognition – customer loyalty programmes

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

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

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the Management Committee. The Management Committee is made up of the Executive Directors and other key management personnel and is responsible for the day-to-day running of the Group and discharging managerial responsibility.

Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised, but tested annually for impairment.

a Goodwill

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

b Landing rights

Landing rights acquired from other airlines are capitalised at cost on acquisition (or fair value when acquired through a business combination). Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

c Software

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

d Emissions allowances

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

2 Significant accounting policies continued

Property, plant and equipment

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

a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance leases, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 6 and 29 years. For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to its residual value over the average remaining life of the related fleet.

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

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

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

c Property and equipment

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

d Leased assets

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

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

In determining the appropriate classification, the substance of the transaction rather than the legal form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Detail of the Group's operating commitments are disclosed in note 25.

Impairment of non-financial assets

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

a Property, plant and equipment

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

2 Significant accounting policies continued

b Intangible assets

Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be achieved within twelve months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Assets are not depreciated or amortised once classified as held for sale.

Inventories

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

Cash and cash equivalents

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

Employee benefits

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

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rate corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset to the Group, recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The cost of administering the Group's defined benefit pension plans is provided for when the services are received, whilst the cost of managing the plan investments is treated as part of the return on plan assets.

The fair value of scheme assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

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

b Severance obligations

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

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

Share-based payments

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

2 Significant accounting policies continued

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the functional currency, sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All other profits or losses arising on translation are dealt with through the income statement in the period in which they arise, except where hedge accounting is applied (see below under cash flow hedges) and on the translation of foreign operations. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the balance sheet are recognised within 'net currency retranslation charges' in the income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

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

Financial instruments

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

a Loans and receivables

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

b Equity investments

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

The fair value of quoted investments is determined by reference to published bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

2 Significant accounting policies continued

Financial instruments continued

c Derivatives

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

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

d 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.

e Other interest-bearing deposits

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

Cash flow hedges

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

Certain loan repayment instalments denominated in US dollars, euro, Chinese yuan and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IFRS 9 requirements and subsequently recorded in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

Impairment of financial assets

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

Derecognition of financial assets and liabilities

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

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

Exceptional items

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

2 Significant accounting policies continued

Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These judgements, estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from judgements and estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. *Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected.*

Estimates

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

a Impairment of non-financial assets

At 31 December 2018 the Group recognised £767 million in respect of intangible assets with an indefinite life, including goodwill (2017: £700 million). Further information on these assets is included in notes 16 and 17.

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

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

b Pensions and other post-retirement benefits and restructuring

At 31 December 2018 the Group recognised £1,016 million in respect of employee benefit assets (2017: £904 million) and £258 million in respect of employee benefit obligations (2017: £698 million). Further information on employee benefit obligations is disclosed in note 32.

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. These assumptions are based on each scheme's specific factors and are reviewed by management at the end of each year. Any difference between these assumptions and the actual outcome will impact future net assets and net income. The assumptions as of 31 December 2018 and the sensitivity of these assumptions are set out in note 32. The Group determines the assumptions to be adopted, in discussion with qualified actuaries. In respect of future pension increases in the Airways Pension Scheme, on 5 July 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Further information on these proceedings is disclosed in note 33.

On 26 October 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment affects some of the occupational pension schemes of the Group as set out in note 32. Whilst the Lloyds judgment has brought some clarity to the issue, there remains some uncertainty over how the calculation of the obligation for GMP equalisation should be performed. The UK Government may also produce guidance on the application of GMP equalisation. In determining the obligation for these consolidated financial statements, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgment as the 'minimum interference' method which could be implemented without sponsor agreement. The final cost of GMP equalisation will be determined when further guidance is available and may be higher or lower than the current estimate.

A number of simplifying steps have been taken in determining this estimate given the required timescales for providing an estimate for accounting purposes. The remaining uncertainties not resolved through the recent judgment and the decisions that the Trustees of the schemes take on how they will implement the judgment, could have a material effect on the ultimate cost of the judgment to the schemes. The ultimate cost of GMP equalisation may be higher or lower than this estimate.

c Passenger revenue recognition

At 31 December 2018 the Group recognised £2,807 million in respect of deferred revenue on ticket sales (2017: £2,665 million) of which £61 million (2017: £77 million) related to customer loyalty programmes, as disclosed in note 22.

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

2 Significant accounting policies continued

Critical accounting judgements, estimates and assumptions continued

d Income taxes

At 31 December 2018 the Group recognised £335 million in respect of deferred tax liabilities (2017: £372 million). Further information on current and deferred tax liabilities is disclosed in note 10.

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit assessments based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The assumptions as of 31 December 2018 are set out in note 10.

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

e Residual values and useful lives of assets

At 31 December 2018 the Group recognised £8,134 million in respect of property, plant and equipment (2017: £7,938 million). Further information on these assets is included in note 13.

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

Judgements

a Investment in associates

At 31 December 2018 the Group recognised £1,701 million in respect of investments in associates (2017: £1,577 million). Further information on these assets is included in note 18.

The Group owns 13.55 per cent of the equity of IB Opco Holding S.L. ('Iberia') and 86.26 per cent of the equity of Avios Group (AGL) Limited ('AGL'). The Group uses the equity method of accounting for its investments in these entities because under IFRS it is considered to have significant influence but not control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. The Group has significant influence over Iberia, even though it holds less than 20 per cent of the voting power of Iberia, due to its representation on the IAG Management Committee, the management committee of Iberia's ultimate parent company. The Group has significant influence over AGL due to representation on the AGL board as provided for by the governance agreement, but not control as it no longer has the power to direct the activities of AGL even though it holds more than 50 per cent of the voting power of AGL.

b Engineering and other aircraft costs

At 31 December 2018, the Group recognised £369 million in respect of maintenance, restoration and handback provisions (2017: £325 million). Movements on provisions for the contractual maintenance and return conditions for aircraft held under operating leases are disclosed in note 26.

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

3 Changes in accounting policy and disclosures

a New and amended standards adopted by the Group

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018 and IFRS 9 'Financial Instruments' from 1 January 2018. Further details on the impact of these standards on the Group accounting policies and financial position and performance are provided in note 38.

The Group has not adopted any other standards, amendments or interpretations in the year ended 31 December 2018 that have had a significant change to its financial performance or position, or to disclosures in the Group financial statements.

b New standards, amendments and interpretations not yet effective

The Group adopted IFRS 16 'Leases' from 1 January 2019, and has opted to use the modified retrospective approach. This replaces the previous leasing standard IAS 17 'Leases'. Consequently, comparatives for the year ended 31 December 2018 will not be restated and will continue to be reported under IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. Further information on the requirements of the standard is provided in note 38.

In addition the IASB's Interpretations Committee has issued IFRIC Interpretation 23 'Uncertainty over tax treatments'; effective for periods beginning on or after 1 January 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The Group has assessed the impact of the interpretation and it is not expected to have a material effect on the reported income or net assets of the Group.

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

The Group has not early adopted any standard, amendment or interpretation that has been issued but is not yet effective.

4 Segment information

a Business segments

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

b Geographical analysis - by area of original sale

| £ million | Group | |
|-------------------|---------------|--------------------------------------|
| | 2018 | 2017 ¹ <i>Restated</i> |
| UK | 6,325 | 5,887 |
| USA | 2,627 | 2,324 |
| Rest of the world | 4,069 | 4,060 |
| Revenue | 13,021 | 12,271 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

The total of non-current assets excluding equity investments, employee benefit assets, other non-current assets and derivative financial instruments located in the UK is £10,649 million (2017: £10,296 million), USA is £30 million (2017: £9 million) and the total of these non-current assets located in other countries is £223 million (2017: £201 million).

5 Exceptional items

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

| £ million | Group | |
|--|------------|-------------|
| | 2018 | 2017 |
| Restructuring costs | (121) | (94) |
| Net gains relating to closure of pension schemes | 598 | - |
| Guaranteed minimum pension past service cost | (83) | - |
| Exceptional items | 394 | (94) |

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

| £ million | Group | |
|--|------------|-------------|
| | 2018 | 2017 |
| Employee costs | 406 | (58) |
| Handling, catering and other operating costs | - | (12) |
| Engineering and other aircraft costs | - | (18) |
| Property, IT and other costs ¹ | (12) | (6) |
| Exceptional items | 394 | (94) |

¹The prior year restructuring costs have been disaggregated to reflect costs relating to property, IT and other costs to conform to current year presentation.

During 2018 the Group completed the transformation programme to develop a more efficient and cost effective structure. The overall costs of the programme principally comprised employee severance costs and included other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year ended 31 December 2018 in respect of this programme amounted to £121 million (2017: £94 million), with a related tax credit of £23 million (2017: £18 million). The transformation programme started in July 2016.

5 Exceptional items continued

British Airways has closed the New Airways Pension Scheme (NAPS) to future accrual and the British Airways Retirement Plan (BARP) to future contributions from 31 March 2018. NAPS active members were offered a choice of transition arrangements. Cash transition costs, paid either directly to members or into their pension accounts, amounted to £169 million. The closure of NAPS to future accrual and awarding of non-cash options to increase future NAPS pensions amounted to a past service gain of £770 million. BARP closure costs amounted to £3 million.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim by Lloyds Banking Group Pension Trustees Limited as claimant to Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to guaranteed minimum pension (GMP) benefits. The judgment affects some of the occupational pension schemes of the Group as set out in note 32. The estimated increase in IAS 19 liabilities as a result of the High Court judgment has been recorded as an exceptional charge of £83 million.

The tax charge related to closure of the pension schemes (including the GMP) is £51 million.

6 Expenses by nature

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

Depreciation, amortisation and impairment of non-current assets:

| £ million | Group | |
|--|------------|------------|
| | 2018 | 2017 |
| Owned assets | 516 | 459 |
| Finance leased aircraft | 184 | 207 |
| Other leasehold interests | 28 | 30 |
| Amortisation of intangible assets | 58 | 55 |
| Depreciation, amortisation and impairment | 786 | 751 |

Operating lease costs:

| £ million | Group | |
|---|------------|------------|
| | 2018 | 2017 |
| Minimum lease rentals - aircraft | 233 | 223 |
| - property and equipment | 130 | 130 |
| Property and equipment sub-lease rentals received | (4) | (2) |
| Operating lease costs | 359 | 351 |

Cost of inventories:

| £ million | Group | |
|--|--------------|--------------|
| | 2018 | 2017 |
| Cost of inventories recognised as an expense, mainly fuel | 1,850 | 1,655 |

7 Auditor's remuneration

| £ '000 | Group | |
|--|--------------|--------------|
| | 2018 | 2017 |
| Fees payable to the Group's auditor for the audit of the Group's accounts | 1,434 | 1,505 |
| Fees payable to the Group's auditor and its associates for other services: | | |
| Audit of the Group's subsidiaries pursuant to legislation - UK | 169 | 169 |
| Audit of the Group's subsidiaries pursuant to legislation - Worldwide | 29 | 120 |
| Other services pursuant to legislation | 150 | 148 |
| Other assurance services | 318 | 319 |
| Services relating to corporate finance transactions | 80 | - |
| | 2,180 | 2,261 |

Fees payable to the Group's auditor for the audit of the Group's pension schemes total £39,000 (2017: £40,000).

7 Auditor's remuneration continued

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

8 Employee costs and numbers

a Employee costs

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

| Number | Group | | Company | |
|----------|--------|--------|---------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| UK | 38,539 | 38,960 | 36,240 | 36,830 |
| Overseas | 3,845 | 4,165 | 2,634 | 2,932 |
| | 42,384 | 43,125 | 38,874 | 39,762 |

| £ million | 2018 | 2017 | 2018 | 2017 |
|---|--------------|--------------|--------------|--------------|
| Wages and salaries | 1,667 | 1,648 | 1,566 | 1,558 |
| Social security costs | 200 | 189 | 189 | 179 |
| Costs related to pension scheme benefits (note 32b) | 184 | 273 | 176 | 264 |
| Other employee costs | 484 | 449 | 463 | 430 |
| Total employee costs | 2,535 | 2,559 | 2,394 | 2,431 |

Included in 'other employee costs' is a total expense for share-based payments of £6 million (2017: £7 million) that arises from transactions accounted for as equity-settled share-based payment transactions (see note 30). Other employee costs include allowances and accommodation for crew.

Note 5 shows an exceptional items credit of £394 million (2017: £94 million charge) which includes restructuring costs of £121 million (2017: £94 million) comprising of employee severance costs of £112 million (2017: £57 million), past service gains of £770 million (2017: £nil) offset by cash based transition costs of £169 million (2017: £nil) following the closure of NAPS to future accrual and GMP estimated past service costs of £83 million (2017: £nil). Including these exceptional items results in total employee costs of £2,129 million (2017: £2,616 million).

b Directors' emoluments

| £ million | Group | |
|-------------------------|-------|------|
| | 2018 | 2017 |
| Directors' remuneration | 2 | 3 |

During the year, four Directors (2017: four) of the Company were employed and remunerated by IAG and two were recharged to the Company accordingly.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £1,287,000 (2017: £1,359,000) and contributions to the Company's defined benefit scheme amounted to £nil (2017: £nil). The value of the accrued benefits in respect of his pension scheme at 31 December 2018 amounted to £nil (2017: £nil). The highest paid director participated in IAG's Long Term Incentive Schemes, the awards for which were exercised during the year (awards were exercised in the prior year).

During the year no Directors (2017: none) accrued benefits under a defined benefit pension scheme and no Directors (2017: none) accrued benefits under a defined contribution pension scheme. There were no pension contributions made during the year (2017: £nil).

Four Directors (2017: four) participated in IAG's Long Term Incentive Schemes and four exercised awards during the year (2017: four). The aggregate compensation paid to past directors in respect of loss of office during the year amounted to £nil (2017: £nil).

8 Employee costs and numbers continued

c Remuneration of key management personnel

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

| £ million | Group and Company | |
|------------------------------|-------------------|----------|
| | 2018 | 2017 |
| Short-term employee benefits | 6 | 5 |
| Share-based payments | 2 | 2 |
| Other benefits ¹ | - | 1 |
| At 31 December | 8 | 8 |

¹Other benefits relate to post-employment benefits of £88,000 (2017: £229,000) and termination benefits of £nil (2017: £276,000).

9 Finance costs and income

a Finance costs

| £ million | Group | |
|--|--------------|-------------------------------|
| | 2018 | 2017 Restated ² |
| Interest expenses on: | | |
| Bank borrowings | (10) | (13) |
| Finance leases | (108) | (94) |
| Provisions unwinding of discount | (1) | (1) |
| Other borrowings | (9) | (4) |
| Capitalised interest on progress payments ¹ | 12 | 6 |
| Finance costs | (116) | (106) |

¹ Interest costs on progress payments are capitalised at a rate based on the London Interbank Offered Rate (LIBOR) plus the rate specific to the borrowings.

² Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

b Finance income

| £ million | Group | |
|---|-----------|-----------|
| | 2018 | 2017 |
| Interest on other investments and interest-bearing deposits (financial assets not at fair value through income statement) | 26 | 20 |
| Other finance income | 7 | 15 |
| Finance income | 33 | 35 |

10 Tax

a Tax on ordinary activities

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

For the year ended 31 December 2018

| | Group | | | |
|-------------------------------------|------------------|----------------------------|--------------------------------|--------------|
| £ million | Income statement | Other comprehensive income | Statement of changes in equity | Total |
| Current income tax | | | | |
| Movement in respect of prior years | 7 | - | - | 7 |
| Movement in respect of current year | (291) | 120 | - | (171) |
| Total current income tax | (284) | 120 | - | (164) |
| Deferred tax | | | | |
| Movement in respect of prior years | 7 | - | - | 7 |
| Movement in respect of current year | (91) | 130 | - | 39 |
| Rate change | 3 | (12) | - | (9) |
| Total deferred tax | (81) | 118 | - | 37 |
| Total tax | (365) | 238 | - | (127) |

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

For the year ended 31 December 2017

| | Group Restated ¹ | | | |
|-------------------------------------|-----------------------------|----------------------------|--------------------------------|--------------|
| £ million | Income statement | Other comprehensive income | Statement of changes in equity | Total |
| Current income tax | | | | |
| Movement in respect of prior years | 2 | - | - | 2 |
| Movement in respect of current year | (258) | 98 | - | (160) |
| Total current income tax | (256) | 98 | - | (158) |
| Deferred tax | | | | |
| Movement in respect of prior years | (3) | - | - | (3) |
| Movement in respect of current year | (39) | (280) | 1 | (318) |
| Rate change | (2) | 10 | - | 8 |
| Total deferred tax | (44) | (270) | 1 | (313) |
| Total tax | (300) | (172) | 1 | (471) |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

The tax charge on continuing operations for 2017 includes an £18 million tax credit in relation to exceptional items (see note 5). Current tax in other comprehensive income related to employee benefit plans.

10 Tax continued

b Deferred tax

Detailed deferred tax

For the year ended 31 December 2018

| | Group | | | | |
|--|-----------------|-------------------------------|---|---|-----------------|
| £ million | Opening balance | Movement via income statement | Movement via other comprehensive income | Movement via statement of changes in equity | Closing balance |
| Property, plant and equipment | (581) | 13 | - | - | (568) |
| Employee severance and other employee related provisions | 12 | 9 | - | - | 21 |
| Tax losses carried forward | 8 | (8) | - | - | - |
| Fair value losses recognised on cash flow hedges | 58 | 1 | 119 | - | 178 |
| Foreign currency translations | 1 | (2) | - | - | (1) |
| Employee benefit plans | 114 | (81) | (1) | - | 32 |
| Share-based payment schemes | 4 | (1) | - | - | 3 |
| Other provisions | 6 | (8) | - | - | (2) |
| Hedge ineffectiveness on open fuel contracts | 6 | (4) | - | - | 2 |
| As at 31 December | (372) | (81) | 118 | - | (335) |

Within tax in other comprehensive income is a tax credit of £125 million (2017: £31 million charge as restated for new accounting standards) in relation to fair value losses recognised on cash flow hedges that may be reclassified subsequently to the income statement and a tax charge of £5 million (2017: £249 million charge) in relation to employee benefit plans that may not.

Within tax in other comprehensive income arising from tax rate changes is a tax charge of £5 million (2017: £nil) in relation to fair value losses recognised on cash flow hedges that may be reclassified subsequently to the income statement and a tax charge of £7 million (2017: £10 million) in relation to employee benefit plans that may not.

For the year ended 31 December 2017 (Restated¹)

| | Group | | | | |
|--|-----------------|-------------------------------|---|---|-----------------|
| £ million | Opening balance | Movement via income statement | Movement via other comprehensive income | Movement via statement of changes in equity | Closing balance |
| Property, plant and equipment | (581) | - | - | - | (581) |
| Employee severance and other employee related provisions | 17 | (5) | - | - | 12 |
| Tax losses carried forward | 35 | (27) | - | - | 8 |
| Fair value losses recognised on cash flow hedges | 91 | (1) | (32) | - | 58 |
| Foreign currency translations | 6 | (5) | - | - | 1 |
| Employee benefit plans | 359 | (7) | (238) | - | 114 |
| Share-based payment schemes | 4 | (1) | - | 1 | 4 |
| Other provisions | 4 | 2 | - | - | 6 |
| Hedge ineffectiveness on open fuel contracts | 6 | - | - | - | 6 |
| As at 31 December | (59) | (44) | (270) | 1 | (372) |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

10 Tax continued

b Deferred tax continued

Detailed deferred tax continued

For the year ended 31 December 2018

| | Company | | | | |
|--|-----------------|-------------------------------|---|---|-----------------|
| £ million | Opening balance | Movement via income statement | Movement via other comprehensive income | Movement via statement of changes in equity | Closing balance |
| Property, plant and equipment | (472) | 3 | - | - | (469) |
| Employee severance and other employee related provisions | 12 | 9 | - | - | 21 |
| Tax losses carried forward | 8 | (8) | - | - | - |
| Fair value losses recognised on cash flow hedges | 59 | - | 119 | - | 178 |
| Foreign currency translations | (4) | - | - | - | (4) |
| Employee benefit plans | 108 | (78) | (1) | - | 29 |
| Share-based payment schemes | 4 | (1) | - | - | 3 |
| Other provisions | 4 | (6) | - | - | (2) |
| Hedge ineffectiveness on open fuel contracts | 5 | (4) | - | - | 1 |
| As at 31 December | (276) | (85) | 118 | - | (243) |

For the year ended 31 December 2017 (Restated)

| | Company | | | | |
|--|-----------------|-------------------------------|---|---|-----------------|
| £ million | Opening balance | Movement via income statement | Movement via other comprehensive income | Movement via statement of changes in equity | Closing balance |
| Property, plant and equipment | (475) | 3 | - | - | (472) |
| Employee severance and other employee related provisions | 17 | (5) | - | - | 12 |
| Tax losses carried forward | 35 | (27) | - | - | 8 |
| Fair value losses recognised on cash flow hedges | 92 | (1) | (32) | - | 59 |
| Foreign currency translations | 2 | (6) | - | - | (4) |
| Employee benefit plans | 349 | (3) | (238) | - | 108 |
| Share-based payment schemes | 3 | - | - | 1 | 4 |
| Other provisions | 3 | 1 | - | - | 4 |
| Hedge ineffectiveness on open fuel contracts | 6 | (1) | - | - | 5 |
| As at 31 December | 32 | (39) | (270) | 1 | (276) |

10 Tax continued

c Reconciliation of the total tax charge in the income statement

In accordance with bilateral tax treaties the Group's profits are mainly taxed in the UK. Therefore, the tax charge is calculated at the standard rate of UK corporation tax. The tax charge on the profit for the year ended 31 December 2018 (and 2017) is lower than the expected tax charge at the UK rate. The Group's effective tax rate is 14.9% (2017 restated: 17.4%) and the differences to the UK rate are explained below:

| £ million | 2018 | Group 2017 ¹ Restated |
|---|------------|--|
| Accounting profit before tax | 2,456 | 1,727 |
| Tax calculated at the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) | 467 | 332 |
| Effects of: | | |
| Adjustments in respect of prior years | (14) | 1 |
| Non-deductible expenses - recurring items | 2 | 2 |
| Non-taxable income | (1) | (1) |
| Employee benefit plans accounted for net of withholding tax - recurring | (2) | (3) |
| Employee benefit plans accounted for net of withholding tax - non-recurring | (46) | - |
| Euro preferred securities accounted for as non-controlling interests | (2) | (4) |
| Non-taxable dividends | (1) | (1) |
| Tax on associates' profits | (31) | (24) |
| Tax incentives | (4) | (4) |
| Tax rate changes | (3) | 2 |
| Tax charge in the income statement | 365 | 300 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

d Other taxes

The Group was also subject to other taxes and charges paid during 2018 which are as follows:

| £ million | 2018 | Group 2017 |
|--------------------------------|--------------|---------------|
| Payroll related taxes | 200 | 189 |
| UK Air Passenger Duty | 720 | 682 |
| Other ticket taxes and charges | 438 | 439 |
| | 1,358 | 1,310 |

e Factors that may affect future tax charges

| Unrecognised temporary differences - losses | 2018 | Group 2017 |
|--|------|---------------|
| £ million | | |
| - UK capital losses arising before the change in ownership of the UK Group in 2011 | 32 | 32 |
| - UK capital losses arising after the change in ownership of the UK Group in 2011 | 7 | 7 |
| - UK capital losses arising on properties that were eligible for Industrial Buildings Allowances | 245 | 250 |

10 Tax continued

e Factors that may affect future tax charges continued

Unrecognised temporary differences- investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of £855 million (2017: £780 million as restated for new accounting standards) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

Tax rate changes

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax on temporary differences as at 31 December 2018 has been calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

f Contingent tax liabilities

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

11 Dividends

| £ million | Company | |
|---|------------|------------|
| | 2018 | 2017 |
| First interim dividend: | | |
| A1 Ordinary shares: £109.27 per share (2017: £87.41) | 98 | 78 |
| A2 Ordinary shares: £109.27 per share (2017: £87.41) | 11 | 9 |
| C Ordinary shares: £109.27 per share (2017: £87.41) | 16 | 13 |
| Second interim dividend: | | |
| A1 Ordinary shares: £109.27 per share (2017: £87.41) | 98 | 78 |
| A2 Ordinary shares: £109.27 per share (2017: £87.41) | 11 | 9 |
| C Ordinary shares: £109.27 per share (2017: £87.41) | 16 | 13 |
| Third interim dividend: | | |
| A1 Ordinary shares: £218.54 per share (2017: £174.83) | 196 | 157 |
| A2 Ordinary shares: £218.54 per share (2017: £174.83) | 22 | 17 |
| C Ordinary shares: £218.54 per share (2017: £174.83) | 32 | 26 |
| Fourth interim dividend: | | |
| A1 Ordinary shares: £65.56 per share (2017: £52.45) | 59 | 47 |
| A2 Ordinary shares: £65.56 per share (2017: £52.45) | 6 | 5 |
| C Ordinary shares: £65.56 per share (2017: £52.45) | 10 | 8 |
| | 575 | 460 |

12 Discontinued operations

On 19 December 2017, BA entered into an agreement to sell its 100 per cent shareholding in Openskies SASU ('Openskies') to FLY LEVEL S.L. effective on 1 January 2018 for a consideration of €1. FLY LEVEL S.L. is another company within the IAG Group. As a result of this transaction, the assets and liabilities of Openskies constituted a disposal group under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' at 31 December 2017 because it represented a separate major operation with a distinct brand and was treated as a separate cash generating unit ('CGU') for the purpose of impairment testing. The Openskies operation was unique from the rest of the Group in that it is the only part of the Group operating flights entirely outside of the UK. The disposal of Openskies resulted in 100 per cent of BA Group's airline operations consisting of flights departing or arriving in the UK. In the year ending 31 December 2017 the assets and liabilities of Openskies were therefore presented separately on the face of the balance sheet and the associated operations treated as discontinued. The carrying amount of the net assets of Openskies as at 31 December 2017 was more than the fair value less costs to sell (determined to be the consideration receivable of €1), therefore the carrying amount was written down to €1, resulting in an impairment charge of £14 million with a provision for loss on disposal of £10 million. Openskies was disposed of on 1 January 2018. Refer to note 15 for assets and liabilities presented as assets held for sale as a result of this discontinued operation.

a Results from discontinued operations

| £ million | 2018 | 2017 |
|--|------|-------------|
| Passenger revenue | - | 42 |
| Other revenue | - | 2 |
| Total revenue | - | 44 |
| Employee costs | - | 14 |
| Depreciation, amortisation and impairment | - | 1 |
| Aircraft operating lease costs | - | 4 |
| Fuel, oil and emission charges | - | 16 |
| Engineering and other aircraft costs | - | 11 |
| Landing fees and en route charges | - | 6 |
| Handling, catering and other operating costs | - | 11 |
| Selling costs | - | 1 |
| Impairment of assets held for sale at fair value | - | 14 |
| Loss on remeasurement of assets to fair value | - | 10 |
| Total operating costs | - | 88 |
| Operating loss and loss before tax from discontinued operations | - | (44) |
| Tax | - | - |
| Loss after tax from discontinued operations | - | (44) |

b Cash flows relating to discontinued operations

The discontinued operations in 2017 had a net cash outflow of £19 million from operating activities as reported in the cash flow statement. There were no cash flows relating to investing or financing activities in the discontinued operations in 2017. There was a net cash outflow from investing activities in 2018 of £17 million, representing the cash held by the subsidiary and transferred on disposal. There were no other cash flows in relation to discontinued operations in 2018.

| £ million | 2018 | 2017 |
|--|-------------|-------------|
| Net cash outflow from operating activities | - | (19) |
| Net cash outflow from investing activities | (17) | - |
| Net decrease in cash and cash equivalents | (17) | (19) |

13 Property, plant and equipment

a Group

| £ million | Group | | | |
|--|---------------|--------------|------------|---------------|
| | Fleet | Property | Equipment | Total |
| Cost | | | | |
| Balance at 1 January 2017 | 14,555 | 1,615 | 917 | 17,087 |
| Additions | 465 | 44 | 21 | 530 |
| Disposals | (188) | (22) | (14) | (224) |
| Reclassification to held for sale ¹ | (3) | - | (1) | (4) |
| Balance as at 31 December 2017 | 14,829 | 1,637 | 923 | 17,389 |
| Additions | 990 | 64 | 31 | 1,085 |
| Disposals | (653) | - | (37) | (690) |
| As at 31 December 2018 | 15,166 | 1,701 | 917 | 17,784 |
| Depreciation and impairment | | | | |
| Balance at 1 January 2017 | 7,450 | 831 | 682 | 8,963 |
| Charge for the year | 621 | 38 | 37 | 696 |
| Disposals | (175) | (17) | (13) | (205) |
| Reclassification to held for sale ¹ | (2) | - | (1) | (3) |
| Balance as at 31 December 2017 | 7,894 | 852 | 705 | 9,451 |
| Charge for the year | 654 | 39 | 35 | 728 |
| Disposals | (493) | - | (36) | (529) |
| As at 31 December 2018 | 8,055 | 891 | 704 | 9,650 |
| Net book amounts | | | | |
| 31 December 2018 | 7,111 | 810 | 213 | 8,134 |
| 31 December 2017 | 6,935 | 785 | 218 | 7,938 |
| Analysis as at 31 December 2018 | | | | |
| Owned | 2,936 | 704 | 169 | 3,809 |
| Finance leased | 3,731 | - | 8 | 3,739 |
| Progress payments | 444 | 106 | 36 | 586 |
| | 7,111 | 810 | 213 | 8,134 |
| Analysis as at 31 December 2017 | | | | |
| Owned | 3,038 | 722 | 176 | 3,936 |
| Finance leased | 3,473 | - | 3 | 3,476 |
| Progress payments | 424 | 63 | 39 | 526 |
| | 6,935 | 785 | 218 | 7,938 |

| £ million | Group | |
|---|------------|------------|
| | 2018 | 2017 |
| The net book amount of property comprises: | | |
| Freehold | 223 | 230 |
| Long-leasehold improvements | 297 | 279 |
| Short-leasehold improvements ² | 290 | 276 |
| As at 31 December | 810 | 785 |

¹ Refer to note 15.

² Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2018, bank and other loans of the Group are secured on fleet assets with a net book amount of £311 million (2017: £519 million).

13 Property, plant and equipment continued

b Company

| £ million | Company | | | |
|--|---------------|--------------|------------|---------------|
| | Fleet | Property | Equipment | Total |
| Cost | | | | |
| Balance at 1 January 2017 | 13,949 | 1,530 | 894 | 16,373 |
| Additions | 460 | 44 | 20 | 524 |
| Disposals | (111) | (21) | (14) | (146) |
| Balance as at 31 December 2017 | 14,298 | 1,553 | 900 | 16,751 |
| Additions | 986 | 64 | 29 | 1,079 |
| Disposals | (572) | - | (37) | (609) |
| As at 31 December 2018 | 14,712 | 1,617 | 892 | 17,221 |
| Depreciation and impairment | | | | |
| Balance at 1 January 2017 | 7,083 | 782 | 665 | 8,530 |
| Charge for the year | 603 | 37 | 36 | 676 |
| Disposals | (101) | (17) | (13) | (131) |
| Balance as at 31 December 2017 | 7,585 | 802 | 688 | 9,075 |
| Charge for the year | 634 | 38 | 34 | 706 |
| Disposals | (422) | - | (37) | (459) |
| As at 31 December 2018 | 7,797 | 840 | 685 | 9,322 |
| Net book amounts | | | | |
| 31 December 2018 | 6,915 | 777 | 207 | 7,899 |
| 31 December 2017 | 6,713 | 751 | 212 | 7,676 |
| Analysis as at 31 December 2018 | | | | |
| Owned | 2,740 | 671 | 163 | 3,574 |
| Finance leased | 3,731 | - | 8 | 3,739 |
| Progress payments | 444 | 106 | 36 | 586 |
| | 6,915 | 777 | 207 | 7,899 |
| Analysis as at 31 December 2017 | | | | |
| Owned | 2,826 | 688 | 170 | 3,684 |
| Finance leased | 3,463 | - | 3 | 3,466 |
| Progress payments | 424 | 63 | 39 | 526 |
| | 6,713 | 751 | 212 | 7,676 |

| £ million | Company | |
|---|------------|------------|
| | 2018 | 2017 |
| The net book amount of property comprises: | | |
| Freehold | 190 | 196 |
| Long-leasehold improvements | 297 | 279 |
| Short-leasehold improvements ¹ | 290 | 276 |
| As at 31 December | 777 | 751 |

¹ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2018, bank and other loans of the Group are secured on fleet assets with a net book amount of £288 million (2017: £386 million).

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,889 million for the Group (2017: £5,377 million) and £4,881 million for the Company (2017: £5,374 million). The majority of capital expenditure commitments are denominated in US dollars and as such the commitments are subject to exchange movements.

The outstanding commitments include £4,788 million for the acquisition of 27 Airbus A320s and A321s (from 2019 to 2022), 18 Airbus A350s (from 2019 to 2022) and 12 Boeing B787s (from 2018 to 2023).

15 Assets and liabilities held for sale

There were no assets held for sale at 31 December 2018. Assets held for sale at 31 December 2017 represented the assets and liabilities of Openskies SASU, a 100 per cent subsidiary of BA. The carrying amount of the net assets of Openskies as at 31 December 2017 was more than the fair value less costs to sell (determined to be the consideration receivable of €1), therefore the carrying amount was written down to €1.

| £ million | 2018 | 2017 |
|--|----------|-----------|
| Property, plant and equipment | - | 1 |
| Intangible assets | - | 13 |
| Trade receivables | - | 3 |
| Other current assets | - | 2 |
| Cash and cash equivalents | - | 17 |
| Impairment of net assets held for sale | - | (14) |
| Assets held for sale | - | 22 |
| Trade and other payables | - | 10 |
| Provision for loss on disposal | - | 10 |
| Current provisions | - | 2 |
| Liabilities directly associated with the assets held for sale | - | 22 |
| Net assets classified as held for sale | - | - |

16 Intangible assets

a Group

| E million | | | | | Group |
|--|-----------|----------------|----------------------|------------|--------------|
| | Goodwill | Landing rights | Emissions allowances | Software | Total |
| Cost | | | | | |
| Balance at 1 January 2017 | 40 | 729 | 3 | 532 | 1,304 |
| Additions | - | 1 | 19 | 51 | 71 |
| Disposals | - | - | (6) | - | (6) |
| Reclassification to held for sale ¹ | - | (39) | - | - | (39) |
| Exchange differences | - | 2 | - | - | 2 |
| Balance as at 31 December 2017 | 40 | 693 | 16 | 583 | 1,332 |
| Additions | - | 49 | 28 | 68 | 145 |
| Disposals | - | - | (10) | (4) | (14) |
| As at 31 December 2018 | 40 | 742 | 34 | 647 | 1,463 |
| Amortisation | | | | | |
| Balance at 1 January 2017 | - | 73 | - | 239 | 312 |
| Charge for the year | - | 1 | - | 54 | 55 |
| Reclassification to held for sale ¹ | - | (26) | - | - | (26) |
| Exchange differences | - | 1 | - | (1) | - |
| Balance as at 31 December 2017 | - | 49 | - | 292 | 341 |
| Charge for the year | - | - | - | 58 | 58 |
| Disposals | - | - | - | (3) | (3) |
| As at 31 December 2018 | - | 49 | - | 347 | 396 |
| Net book amounts | | | | | |
| 31 December 2018 | 40 | 693 | 34 | 300 | 1,067 |
| 31 December 2017 | 40 | 644 | 16 | 291 | 991 |

¹Refer to note 15

16 Intangible assets continued

b Company

| £ million | Company | | | |
|--------------------------------|----------------|----------------------|------------|--------------|
| | Landing rights | Emissions allowances | Software | Total |
| Cost | | | | |
| Balance at 1 January 2017 | 692 | 3 | 512 | 1,207 |
| Additions | 1 | 19 | 47 | 67 |
| Disposals | - | (6) | - | (6) |
| Balance as at 31 December 2017 | 693 | 16 | 559 | 1,268 |
| Additions | 49 | 28 | 63 | 140 |
| Disposals | - | (10) | (4) | (14) |
| As at 31 December 2018 | 742 | 34 | 618 | 1,394 |
| Amortisation | | | | |
| Balance at 1 January 2017 | 49 | - | 228 | 277 |
| Charge for the year | - | - | 51 | 51 |
| Exchange Adjustments | - | - | (1) | (1) |
| Balance as at 31 December 2017 | 49 | - | 278 | 327 |
| Charge for the year | - | - | 55 | 55 |
| Disposals | - | - | (4) | (4) |
| As at 31 December 2018 | 49 | - | 329 | 378 |
| Net book amounts | | | | |
| 31 December 2018 | 693 | 34 | 289 | 1,016 |
| 31 December 2017 | 644 | 16 | 281 | 941 |

17 Impairment of property, plant, equipment and intangible assets

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Goodwill and landing rights based within the EU are considered to have an indefinite economic life. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on one (2017: one) CGU. An impairment review was performed on the network airline operations CGU, including passenger and cargo operations out of all operated airports, as well as all related ancillary operations as it contains both goodwill and landing rights within the EU.

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

a Network airline operations

| £ million | 2018 | | | | 2017 | | | |
|----------------------------|----------------------|----------------|----------|-------|----------------------|----------------|----------|-------|
| | Emissions allowances | Landing rights | Goodwill | Total | Emissions allowances | Landing rights | Goodwill | Total |
| Network airline operations | 34 | 693 | 40 | 767 | 16 | 644 | 40 | 700 |

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

No impairment charge has arisen as a result of the review performed on the network airline operations. No reasonable possible change in the key assumptions for the network airline operation would cause the carrying amount of goodwill and intangible assets with indefinite economic life to exceed the recoverable amount.

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

a Network airline operations continued

Key assumptions

| | 2018 | 2017 |
|---|------|------|
| Pre-tax discount rate (derived from the long-term weighted average cost of capital) | 8.3% | 8.5% |
| Long-term growth rate | 2.3% | 2.3% |

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

b Openskies

On 19 December 2017, BA entered into an agreement to sell its 100 per cent shareholding in Openskies SASU ('Openskies') to FLY LEVEL S.L. effective on 1 January 2018 for a consideration of €1. As a result of this transaction, the assets and liabilities of Openskies constituted a disposal group under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and were therefore presented separately on the face of the balance sheet with the associated operations treated as discontinued. The carrying amount of the net assets of Openskies as at 31 December 2017 was more than the fair value less costs to sell (determined to be the consideration receivable of €1), therefore the carrying amount was written down to €1, resulting in an impairment charge of £14 million which was included in the loss from discontinued operations (see note 12). Openskies was disposed of on 1 January 2018.

c Impairment of fleet

During the years ended 31 December 2018 and 2017 no impairment charge was recognised.

18 Investments

a Group

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

| £ million | Group | |
|--|--------------|-------------------------------|
| | 2018 | 2017 Restated ² |
| Balance at 1 January | 1,577 | 1,557 |
| Exchange differences | 3 | 8 |
| Share of attributable results | 165 | 130 |
| Share of movements in comprehensive income of associates | (29) | (4) |
| Dividends received ¹ | (15) | (114) |
| As at 31 December | 1,701 | 1,577 |

¹The Group received dividends, net of withholding tax, of £15 million (2017: £12 million) from Iberia and Enil (2017: £102 million) from AGL.

²Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

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

¹Held by a subsidiary company

18 Investments continued

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

| £ million | 2018 | | Group 2017 Restated ¹ | |
|--|--------------|--------------|--|--------------|
| | Iberia | AGL | Iberia | AGL |
| Non-current assets | 3,614 | 36 | 3,144 | 117 |
| Current assets | 2,532 | 1,813 | 2,195 | 1,308 |
| Current liabilities | (2,401) | (1,962) | (1,847) | (1,672) |
| Non-current liabilities | (2,330) | (2) | (2,159) | (1) |
| Net equity | 1,415 | (115) | 1,333 | (248) |
| Group's share of net equity | 192 | (99) | 182 | (213) |
| Goodwill attributable to investments in associates | 8 | 1,598 | 8 | 1,598 |
| Total investment in associates | 200 | 1,499 | 190 | 1,385 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.
The Group's carrying amount of investments in other associates was £2 million (2017: £2 million).

| | | | | |
|---|------------|------------|------------|------------|
| Revenues | 4,676 | 760 | 4,285 | 701 |
| Operating costs | (4,291) | (604) | (4,103) | (557) |
| Other income and costs (including tax) | (19) | (27) | 30 | (29) |
| Net profit after tax | 366 | 129 | 212 | 115 |
| Other comprehensive (expense)/income | (200) | (2) | (32) | - |
| Total comprehensive income for the year (net of tax) | 166 | 127 | 180 | 115 |

The Group's share of total comprehensive income of other associates was less than £1 million (2017: less than £1 million)

While the Group holds less than 20 per cent of the issued share capital of Iberia, it accounts for the investment in Iberia as an associate as it has the ability to exercise significant influence over the investment due to its voting power (both through its equity holding and its representation on key decision-making committees) and the nature of its commercial relationships with Iberia.

The BA Group and the Company hold more than 50 per cent of the issued share capital of AGL. Whilst retaining the corresponding economic benefits of ownership through dividend distributions, BA does not have the power to direct and control the returns of AGL as AGL now falls within the governance structure of IAG. As such the Group accounts for the investment in AGL as an associate.

18 Investments continued

b Company

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

| € million | Cost | Provisions | Company | |
|--------------------------|--------------|--------------|--------------|--------------|
| | | | 2018 | 2017 |
| Balance at 1 January | 1,652 | (374) | 1,278 | 1,315 |
| Additions | - | - | - | 37 |
| Provision | - | - | - | (74) |
| As at 31 December | 1,652 | (374) | 1,278 | 1,278 |

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 90 and 91.

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

| € million | Company | |
|--------------------------|--------------|--------------|
| | Total | Total |
| | 2018 | 2017 |
| As at 31 December | 1,563 | 1,563 |

19 Equity Investments

| € million | Group | | Company | |
|---|-----------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Listed securities | | | | |
| Comair Limited | 16 | 20 | - | - |
| Unlisted securities (see note 28b) | 40 | 40 | 40 | 40 |
| Equity Investments | 56 | 60 | 40 | 40 |

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

20 Trade receivables and other assets

Other non-current assets are set out below:

| £ million | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Prepayments and accrued income | 92 | 95 | 92 | 78 |
| Other receivables | 10 | 10 | 10 | 10 |
| Loans owed by parent | 108 | - | 108 | - |
| Loans owed by fellow group undertakings | 90 | 177 | 90 | 177 |
| Amounts owed by subsidiaries | - | - | - | 69 |
| Other non-current assets | 300 | 282 | 300 | 334 |

Trade receivables and other current assets are set out below:

| £ million | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Trade receivables | 922 | 784 | 907 | 769 |
| Provision for expected credit losses | (21) | (18) | (21) | (18) |
| Net trade receivables | 901 | 766 | 886 | 751 |
| Prepayments and accrued income | 419 | 415 | 402 | 284 |
| Other receivables | 125 | 94 | 124 | 93 |
| Loans owed by parent | 9 | - | 9 | - |
| Loans owed by fellow group undertakings | 91 | 88 | 91 | 88 |
| Amounts owed by subsidiaries | - | - | 21 | 62 |
| Trade receivables and other current assets | 1,545 | 1,363 | 1,533 | 1,278 |

The credit risk exposure on the Group and Company's trade receivables is set out below. Trade receivables are generally non-interest bearing and on 30 day terms (2017: 30 day).

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

| 2017 | Group | | | | |
|---------------------------|---------|----------|------------|----------|-------|
| | Current | <30 days | 30-60 days | >60 days | Total |
| Trade receivables | 698 | 16 | 22 | 48 | 784 |
| Expected credit loss rate | 0.01% | 2.82% | 0.54% | 37.16% | 2.35% |
| Net trade receivables | 698 | 16 | 22 | 30 | 766 |

20 Trade receivables and other assets continued

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

| 2017 | Company | | | | |
|---------------------------|---------|----------|------------|----------|-------|
| | Current | <30 days | 30-60 days | >60 days | Total |
| Trade receivables | 683 | 16 | 22 | 48 | 769 |
| Expected credit loss rate | 0.01% | 2.86% | 0.54% | 37.38% | 2.39% |
| Net trade receivables | 683 | 16 | 22 | 30 | 751 |

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

a Cash and cash equivalents

| £ million | Group | | Company | |
|---|-------|-------|---------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Cash at bank and in hand | 1,192 | 901 | 1,114 | 831 |
| Short-term deposits falling due within three months | 135 | 55 | 135 | 55 |
| Cash and cash equivalents | 1,327 | 956 | 1,249 | 886 |
| Other current interest-bearing deposits maturing after three months | 1,175 | 1,840 | 1,175 | 1,840 |

Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the money market rates at the time the deposits are made. The fair value of cash and cash equivalents is £1,327 million for the Group (2017: £956 million) and £1,249 million for the Company (2017: £886 million).

At 31 December 2018, the Group and Company had no outstanding bank overdrafts (2017: £nil).

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

b Reconciliation of net cash flow to movement in net debt

| | Group | | | | | |
|---|---------------------------|------------|--|--------------------|----------------|-----------------------------|
| | Balance at 1 January 2018 | Cash flows | Disposal of subsidiary, net of cash disposed | Exchange movements | Other non-cash | Balance at 31 December 2018 |
| Bank and other borrowings | (476) | 167 | - | (9) | - | (318) |
| Finance leases | (3,812) | (78) | - | (179) | (39) | (4,108) |
| Interest-bearing borrowings | (4,288) | 89 | - | (188) | (39) | (4,426) |
| Cash and cash equivalents | 956 | 345 | 17 | 9 | - | 1,327 |
| Other current-interest bearing deposits | 1,840 | (665) | - | - | - | 1,175 |
| Net debt | (1,492) | (231) | 17 | (179) | (39) | (1,924) |

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

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

| | Group | | | | | |
|---|------------------------------|------------|--|-----------------------|----------------|--------------------------------|
| | Balance at 1 January 2017 | Cash flows | Disposal of subsidiary, net of cash disposed | Exchange movements | Other non-cash | Balance at 31 December 2017 |
| Bank and other borrowings | (552) | 121 | - | (1) | (44) | (476) |
| Finance leases | (4,599) | 615 | - | 98 | 74 | (3,812) |
| Interest-bearing borrowings | (5,151) | 736 | - | 97 | 30 | (4,288) |
| Cash and cash equivalents | 1,070 | (66) | (17) | (31) | - | 956 |
| Other current-interest bearing deposits | 1,425 | 415 | - | - | - | 1,840 |
| Net debt | (2,656) | 1,085 | (17) | 66 | 30 | (1,492) |

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

| | Company | | | | | |
|---|------------------------------|------------|--|-----------------------|----------------|--------------------------------|
| | Balance at 1 January 2017 | Cash flows | Disposal of subsidiary, net of cash disposed | Exchange movements | Other non-cash | Balance at 31 December 2017 |
| Bank and other borrowings | (777) | 106 | - | (12) | (43) | (726) |
| Finance leases | (4,657) | 638 | - | 97 | 75 | (3,847) |
| Interest-bearing borrowings | (5,434) | 744 | - | 85 | 32 | (4,573) |
| Cash and cash equivalents | 1,003 | (78) | - | (39) | - | 886 |
| Other current-interest bearing deposits | 1,425 | 415 | - | - | - | 1,840 |
| Net debt | (3,006) | 1,081 | - | 46 | 32 | (1,847) |

Net debt is calculated as total cash and cash equivalents and current interest bearing deposits less total interest bearing borrowings. Proceeds from long-term borrowings and repayment of finance leases are shown net under cash flows from finance leases.

22 Trade and other payables and deferred revenue on ticket sales

a Trade and other payables

| £ million | Group | | Company | |
|--------------------------------------|--------------|----------------------------|--------------|----------------------------|
| | 2018 | 2017 Restated ¹ | 2018 | 2017 Restated ¹ |
| Trade creditors | 1,180 | 1,312 | 1,118 | 1,264 |
| Amounts owed to subsidiary companies | - | - | 375 | 372 |
| Other creditors | 538 | 487 | 539 | 479 |
| Other taxation and social security | 35 | 32 | 35 | 32 |
| Accruals and deferred income | 140 | 105 | 123 | 98 |
| As at 31 December | 1,893 | 1,936 | 2,190 | 2,245 |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

b Deferred revenue on ticket sales

| £ million | Group | | |
|---|------------------|------------------------------|--------------|
| | Customer loyalty | Sales in advance of carriage | Total |
| As at 1 January | 77 | 2,588 | 2,665 |
| Changes in estimates | - | - | - |
| Revenue recognised in income statement ¹ | (39) | (12,789) | (12,828) |
| Business combinations | - | - | - |
| Loyalty points issued to customers | 23 | - | 23 |
| Cash received from customers | - | 12,947 | 12,947 |
| As at 31 December | 61 | 2,746 | 2,807 |

| £ million | Group | | |
|---|------------------|------------------------------|--------------|
| | Customer loyalty | Sales in advance of carriage | Total |
| As at 31 December | 75 | 2,564 | 2,639 |
| Restatement under IFRS 15 | - | 23 | 23 |
| As at 1 January | 75 | 2,587 | 2,662 |
| Changes in estimates | - | - | - |
| Revenue recognised in income statement ¹ | (10) | (11,406) | (11,416) |
| Business combinations | - | - | - |
| Loyalty points issued to customers | 12 | - | 12 |
| Cash received from customers | - | 11,407 | 11,407 |
| As at 31 December | 77 | 2,588 | 2,665 |

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

23 Other non-current liabilities

| £ million | Group | | Company | |
|--------------------------|-----------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Accruals | 6 | 12 | 6 | 9 |
| Deferred income | 34 | 40 | 20 | 26 |
| As at 31 December | 40 | 52 | 26 | 35 |

24 Long-term borrowings

| £ million | Group | | Company | |
|-----------------------------------|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| a Current | | | | |
| Bank and other loans ¹ | 48 | 83 | 44 | 42 |
| Finance leases ² | 425 | 489 | 432 | 516 |
| Loans from subsidiaries | - | - | - | 30 |
| As at 31 December | 473 | 572 | 476 | 588 |
| b Non-current | | | | |
| Bank and other loans ¹ | 270 | 393 | 270 | 307 |
| Finance leases ² | 3,683 | 3,323 | 3,683 | 3,331 |
| Loans from subsidiaries | - | - | - | 347 |
| As at 31 December | 3,953 | 3,716 | 3,953 | 3,985 |

¹Bank and other loans are repayable up to 2027. Bank and other loans of the Group amounting to £279 million (2017: £433 million) and bank and other loans of the Company amounting to £275 million (2017: £306 million) are secured on aircraft. Finance leases are all secured on aircraft or other property, plant and equipment.

²Included in finance leases for the Company is £7 million (2017: £34 million) of finance leases with subsidiaries of the Group, of which £7 million (2017: £27 million) is classified as current.

c Bank and other loans

Bank and other loans comprise the following:

| £ million | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Floating rate pound sterling mortgage loan secured on aircraft (i) | 4 | 24 | - | - |
| Floating rate euro mortgage loans secured on aircraft (ii) | 227 | 246 | 227 | 246 |
| Fixed rate Chinese yuan mortgage loans secured on aircraft (iii) | 48 | 60 | 48 | 60 |
| Fixed rate US dollar mortgage loan secured on aircraft (iv) | - | 103 | - | - |
| Fixed rate unsecured US dollar loans (v) | 39 | 43 | 39 | 43 |
| | 318 | 476 | 314 | 349 |
| Less: current instalments due on bank and other loans | 48 | 83 | 44 | 42 |
| Non-current bank and other loans as at 31 December | 270 | 393 | 270 | 307 |

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

(ii) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.18 per cent and 1.19 per cent. The loans are repayable between 2024 and 2027.

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

(iv) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 and 4.76 per cent. The loans were repaid in 2018.

(v) Fixed rate unsecured US dollar loans bearing interest between 1.98 and 2.37 per cent. The loans are repayable in 2023.

24 Long-term borrowings continued

d Total loans and finance leases

| £ million | Group | | Company | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Loans: | | | | |
| Bank: | | | | |
| US dollar | \$49 | \$196 | \$49 | \$58 |
| Euro | €252 | €278 | €252 | €278 |
| Chinese yuan | ¥422 | ¥525 | ¥422 | ¥525 |
| Pound sterling | £4 | £24 | - | - |
| | 318 | 476 | 314 | 349 |
| Loans from subsidiary undertakings: | | | | |
| US dollar | - | - | - | \$151 |
| Euro ¹ | - | - | - | €300 |
| | - | - | - | 377 |
| Finance leases: | | | | |
| US dollar | \$2,744 | \$2,303 | \$2,744 | \$2,302 |
| Euro | €1,472 | €1,645 | €1,472 | €1,645 |
| Japanese yen | ¥74,305 | ¥63,978 | ¥74,305 | ¥63,978 |
| Pound sterling | £135 | £260 | £142 | £294 |
| | 4,108 | 3,812 | 4,115 | 3,847 |
| As at 31 December | 4,426 | 4,288 | 4,429 | 4,573 |

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

During the year, British Airways secured a sale and leaseback by way of a successfully launched a \$609 million EETC bond issue to fund aircraft deliveries. The bonds were combined with Japanese Operating Leases with Call Options ("JOLCO") of \$259 million. The total sum raised was \$868 million. The transaction included Class AA and Class A Certificates with an underlying collateral pool consisting of 11 aircraft: two Boeing 787-9, two Boeing 787-8 and seven Airbus A320neo aircraft. The Class AA Certificates (\$410 million) have an annual coupon, payable quarterly, of 3.800 per cent and the Class A Certificates (\$199 million) have an annual coupon, payable quarterly, of 4.125 per cent.

e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. The majority of these leases have purchase options exercisable at the option of the Group. Future minimum lease payments under finance lease contracts are as follows:

| £ million | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Future minimum payments due: | | | | |
| Within one year | 543 | 585 | 550 | 612 |
| After more than one year but within five years | 2,261 | 1,860 | 2,261 | 1,868 |
| In five years or more | 1,899 | 1,843 | 1,899 | 1,843 |
| | 4,703 | 4,288 | 4,710 | 4,323 |
| Less: finance charges | 595 | 476 | 595 | 476 |
| Present value of minimum lease payments | 4,108 | 3,812 | 4,115 | 3,847 |
| The present value of minimum lease payments is analysed as follows: | | | | |
| Within one year | 425 | 489 | 432 | 516 |
| After more than one year but within five years | 1,911 | 1,569 | 1,911 | 1,577 |
| In five years or more | 1,772 | 1,754 | 1,772 | 1,754 |
| As at 31 December | 4,108 | 3,812 | 4,115 | 3,847 |

25 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have remaining durations of up to 12 years for aircraft and 127 years for ground leases. Certain leases contain options for renewal.

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

a Fleet

| £ million | Group | | Company | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Within one year | 241 | 217 | 228 | 206 |
| Between one and five years | 665 | 687 | 651 | 673 |
| Over five years | 400 | 416 | 400 | 416 |
| As at 31 December | 1,306 | 1,320 | 1,279 | 1,295 |

b Property, plant and equipment

| £ million | Group | | Company | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Within one year | 106 | 104 | 100 | 99 |
| Between one and five years | 237 | 258 | 227 | 245 |
| Over five years | 1,690 | 1,716 | 1,689 | 1,709 |
| As at 31 December | 2,033 | 2,078 | 2,016 | 2,053 |

c Sub-leasing

Sub-leases entered into by the Group relate to surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of one to five years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are £10 million (2017: £4 million) with £2 million (2017: £3 million) falling due within one year and £8 million (2017: £1 million) between one and five years.

26 Provisions for liabilities

| Group | | | | | |
|-------------------------------------|--------------------------|---------------|--------------|-----------|------------|
| £ million | Restoration and handback | Restructuring | Legal claims | Other | Total |
| Balance at 1 January 2018 | 325 | 74 | 35 | 28 | 462 |
| Provisions recorded during the year | 61 | 129 | 18 | 258 | 466 |
| Utilised during the year | (12) | (82) | (18) | (240) | (352) |
| Release of unused amounts | (15) | (7) | (1) | (3) | (26) |
| Exchange differences | 10 | - | - | - | 10 |
| As at 31 December 2018 | 369 | 114 | 34 | 43 | 560 |
| Analysis: | | | | | |
| Current | 32 | 95 | 29 | 24 | 180 |
| Non-current | 337 | 19 | 5 | 19 | 380 |
| | 369 | 114 | 34 | 43 | 560 |

| Company | | | | | |
|-------------------------------------|--------------------------|---------------|--------------|-----------|------------|
| £ million | Restoration and handback | Restructuring | Legal claims | Other | Total |
| Balance at 1 January 2018 | 253 | 74 | 34 | 26 | 387 |
| Provisions recorded during the year | 59 | 129 | 18 | 252 | 458 |
| Utilised during the year | (2) | (82) | (18) | (236) | (338) |
| Release of unused amounts | - | (7) | (1) | (2) | (10) |
| Transfer from subsidiary companies | 7 | - | - | - | 7 |
| Exchange differences | 10 | - | - | - | 10 |
| As at 31 December 2018 | 327 | 114 | 33 | 40 | 514 |
| Analysis: | | | | | |
| Current | 23 | 95 | 29 | 22 | 169 |
| Non-current | 304 | 19 | 4 | 18 | 345 |
| | 327 | 114 | 33 | 40 | 514 |

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under operating leases. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provisions relate to leases up to 2030.

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans (see note 5). The costs associated with this programme have been incurred from 2016 to 2018 and the payments will be made over a maximum of five years.

Legal claims provisions include amounts for multi-party claims from groups or employees on a number of matters related to the Group's operations, including claims for additional holiday pay.

Other provisions include: compensation due to customers whose flights were significantly delayed and are entitled to receive compensation; a provision for the EU Emissions Trading Scheme that represents the excess of BA's CO₂ emitted on a flight within the EU in excess of the EU Emission Allowances granted. The provision also consists of staff leaving indemnities that were set up based on Collective Labour Agreements or local jurisdiction regulations. The payments associated with these provisions are made when the employee leaves the Group. The movement in other provisions during the year includes the cash based transition arrangements that were offered to members following the closure of NAPS (refer to note 5).

27 Financial risk management objectives and policies

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

IAG Treasury carries out financial risk management under governance approved by the IAG Board, the IAG Management Committee and the BA Chief Financial Officer. BA quantifies the financial risks and IAG Treasury evaluates, manages and hedges those risks. The IAG Board provides written principles for overall risk management, as well as written policies, provided by IAG Treasury, covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price. The current IAG Group strategy, is to hedge a proportion of fuel consumption for the next twelve quarters, within certain defined limits.

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

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

| | | | Group and Company | | |
|--|--|-------------------------------|--|--|-------------------------------|
| 2018 | | | 2017 | | |
| Increase/(decrease) in fuel price per cent | Effect on profit before tax £ million | Effect on equity £ million | Increase/(decrease) in fuel price per cent | Effect on profit before tax £ million | Effect on equity £ million |
| | Increase/(decrease) | Increase/(decrease) | | Increase/(decrease) | Increase/(decrease) |
| 30 | - | 992 | 30 | 16 | 629 |
| (30) | (3) | (1,065) | (30) | (23) | (559) |

b Foreign currency risk

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

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

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

27 Financial risk management objectives and policies continued

b Foreign currency risk continued

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

| Group and Company | Strengthening/ (weakening) in US dollar rate per cent | Effect on profit before tax £ million | Effect on equity £ million | Strengthening/ (weakening) in euro rate per cent | Effect on profit before tax £ million | Effect on equity £ million |
|-------------------|--|--|----------------------------------|---|--|-------------------------------|
| | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) |
| 2018 | 10 (10) | 7 (7) | 191 (161) | 10 (10) | 35 (35) | (194) 195 |
| 2017 | 10 (10) | 2 (2) | 53 (73) | 10 (10) | 30 (30) | (200) 200 |

| Group and Company | Strengthening/ (weakening) in yen rate per cent | Effect on profit before tax £ million | Effect on equity £ million | Strengthening/ (weakening) in yuan rate per cent | Effect on profit before tax £ million | Effect on equity £ million |
|-------------------|--|--|----------------------------------|---|--|-------------------------------|
| | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) | Increase /(decrease) |
| 2018 | 10 (10) | (3) 3 | (49) 49 | 10 (10) | - - | (5) 5 |
| 2017 | 10 (10) | (2) 2 | (40) 40 | 10 (10) | - - | (6) 6 |

c Interest rate risk

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

During 2018, the Group has begun hedging the interest rate risk by entering into floating to fixed interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

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

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

In 2017, had there been a 50 basis point increase in interest rates there would have been less than £1 million adverse impact on the Group and Company's shareholders' equity and income statement. A 50 basis point decrease in interest rates would have resulted in less than £1 million favourable impact on shareholders' equity and the income statement for both the Group and the Company.

27 Financial risk management objectives and policies continued

d Counterparty risk

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

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

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 33.

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. The Group maintains flexibility in funding by holding committed credit lines.

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

At 31 December 2018 the Group and Company had unused overdraft facilities of £10 million (2017: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 December 2018 (2017: £25 million).

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

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

| million | 31 December 2017 | |
|---|------------------|--------------|
| | Currency | £ equivalent |
| US dollar facility expiring December 2021 | \$1,164 | 871 |
| US dollar facility expiring June 2022 | \$1,053 | 788 |

27 Financial risk management objectives and policies continued

e Liquidity risk continued

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

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

| | | | | | | Group |
|--|-------------------|-------------------------------|---------------------------|----------------------------|----------------------|----------------------------------|
| £ million | Within six months | Between six and twelve months | Between one and two years | Between two and five years | More than five years | Total 2017 Restated ¹ |
| Interest-bearing loans and borrowings: | | | | | | |
| Finance lease obligations | (274) | (311) | (497) | (1,363) | (1,843) | (4,288) |
| Fixed rate borrowings | (24) | (24) | (47) | (116) | (19) | (230) |
| Floating rate borrowings | (25) | (22) | (30) | (83) | (133) | (293) |
| Trade and other payables | (1,901) | - | (12) | - | - | (1,913) |
| Derivative financial instruments (assets): | | | | | | |
| Forward currency contracts (asset) | 17 | 4 | 3 | - | - | 24 |
| Fuel derivatives (asset) | 113 | 72 | 58 | 12 | - | 255 |
| Interest rate swap (asset) | - | - | - | - | - | - |
| Derivative financial instruments (liabilities): | | | | | | |
| Forward currency contracts (liability) | (27) | (25) | (37) | (20) | - | (109) |
| Interest rate swap (liability) | - | - | - | - | - | - |
| As at 31 December | (2,121) | (306) | (562) | (1,570) | (1,995) | (6,554) |

¹Please refer to note 38 for further details on the effect of the transition to IFRS 15 and IFRS 9.

27 Financial risk management objectives and policies continued

e Liquidity risk continued

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

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

| £ million | Company | | | | | Total 2017 |
|---|-------------------|-------------------------------|---------------------------|----------------------------|----------------------|----------------|
| | Within six months | Between six and twelve months | Between one and two years | Between two and five years | More than five years | |
| Interest-bearing loans and borrowings: | | | | | | |
| Finance lease obligations | (287) | (325) | (505) | (1,363) | (1,843) | (4,323) |
| Fixed rate borrowings | (38) | (37) | (65) | (170) | (580) | (890) |
| Floating rate borrowings | (11) | (15) | (26) | (83) | (133) | (268) |
| Trade and other payables | (2,210) | - | (9) | - | - | (2,219) |
| Derivative financial instruments: | | | | | | |
| Forward currency contracts (asset) | 19 | 5 | 4 | - | - | 28 |
| Fuel derivatives (asset) | 113 | 72 | 58 | 12 | - | 255 |
| Interest rate swap (asset) | - | - | - | - | - | - |
| Derivative financial instruments (liabilities): | | | | | | |
| Forward currency contracts (liability) | (27) | (25) | (37) | (20) | - | (109) |
| Interest rate swap (liability) | - | - | - | - | - | - |
| As at 31 December | (2,441) | (325) | (580) | (1,624) | (2,556) | (7,526) |

27 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities

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

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

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

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

| | Group and Company | | | | |
|---|--------------------------------------|--|---|---|------------|
| £ million | Gross value of financial instruments | Financial instruments that are offset under netting agreements | Net amounts of financial instruments in the balance sheet | Related financial instruments that are not offset | Net amount |
| 31 December 2017 | | | | | |
| Financial assets | | | | | |
| Derivative financial assets | 280 | (1) | 279 | (1) | 278 |
| Financial liabilities | | | | | |
| Derivative financial liabilities | (110) | 1 | (109) | 1 | (108) |
| Within the Company the gross value of derivative financial assets is £284 million and the net value is £283 million. The gross value of derivative financial liabilities is £110 million and the net value is £109 million. The value of related financial instruments that are not offset is £1 million. | | | | | |

g Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the net debt/total capital ratio which was 25.2 per cent (2017: 21.0 per cent as restated for new accounting standards). Net debt is defined as the total borrowings, finance lease liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts and total capital is defined as the total of share capital and share premium (see note 29), reserves (see note 31a), non-controlling interest (see note 31a) and net debt (see note 21b).

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

28 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2018 and 31 December 2017 by nature and classification for measurement purposes is as follows:

At 31 December 2018

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

¹ Within the Company, total other non-current assets are £300 million, of which loans and receivables (amortised cost) are £198 million and non-financial assets are £102 million. Total other current assets in the Company are £647 million, of which loans and receivables (amortised cost) are £307 million and non-financial assets are £340 million.

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

¹ Within the Company, total other long-term liabilities are £26 million, of which loans and payables (amortised cost) are £6 million and non-financial liabilities are £20 million. Total trade and other payables in the Company are £2,190 million, of which loans and payables (amortised cost) are £2,152 million and non-financial liabilities are £38 million.

28 Financial instruments continued

a Financial assets and liabilities by category continued

| At 31 December 2017 | Financial assets | | | Group | |
|---|------------------|------------------------|-------------------------------------|----------------------|-----------------------|
| | Amortised cost | Fair value through OCI | Fair value through income statement | Non-financial assets | Total carrying amount |
| £ million | | | | | |
| Non-current financial assets | | | | | |
| Equity investments | - | 60 | - | - | 60 |
| Derivative financial instruments | - | - | 73 | - | 73 |
| Other non-current assets ¹ | 177 | - | - | 105 | 282 |
| Current financial assets | | | | | |
| Trade receivables | 766 | - | - | - | 766 |
| Derivative financial instruments | - | - | 206 | - | 206 |
| Other current assets ¹ | 229 | - | - | 368 | 597 |
| Other current interest-bearing deposits | 1,840 | - | - | - | 1,840 |
| Cash and cash equivalents | 956 | - | - | - | 956 |

¹ Within the Company, total other non-current assets are £334 million, of which loans and receivables (amortised cost) are £246 million and non-financial assets are £88 million. Total other current assets in the Company are £527 million, of which loans and receivables (amortised cost) are £290 million and non-financial assets are £237 million.

| | Financial liabilities | | | Group | |
|--|-----------------------|------------------------|-------------------------------------|---------------------------|-----------------------|
| | Amortised cost | Fair value through OCI | Fair value through income statement | Non-financial liabilities | Total carrying amount |
| £ million | | | | | |
| Non-current financial liabilities | | | | | |
| Interest-bearing long-term borrowings | 3,716 | - | - | - | 3,716 |
| Derivative financial instruments | - | - | 57 | - | 57 |
| Other long-term liabilities ¹ | 12 | - | - | 40 | 52 |
| Current financial liabilities | | | | | |
| Current portion of long-term borrowings | 572 | - | - | - | 572 |
| Trade and other payables ¹ | 1,901 | - | - | 35 | 1,936 |
| Derivative financial instruments | - | - | 52 | - | 52 |

¹ Within the Company, total other long-term liabilities are £35 million, of which loans and payables (amortised cost) are £9 million and non-financial liabilities are £26 million. Total trade and other payables in the Company are £2,245 million, of which loans and payables (amortised cost) are £2,210 million and non-financial liabilities are £35 million.

28 Financial instruments continued

b Fair values of financial assets and financial liabilities

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis;

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

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

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

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

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

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2017 are set out below:

| £ million | Fair value | | | | Group |
|--|------------|---------|---------|-------|-------------------------|
| | Level 1 | Level 2 | Level 3 | Total | Carrying value Total |
| Financial assets: | | | | | |
| Equity investment ¹ | 20 | - | 40 | 60 | 60 |
| Amounts owed by associated group undertakings | - | 269 | - | 269 | 265 |
| Forward currency contracts | - | 24 | - | 24 | 24 |
| Fuel derivatives | - | 255 | - | 255 | 255 |
| Financial liabilities: | | | | | |
| Interest-bearing loans and borrowings: ¹ | | | | | |
| Finance leases | - | 3,930 | - | 3,930 | 3,812 |
| Fixed rate borrowings | - | 218 | - | 218 | 206 |
| Floating rate borrowings | - | 270 | - | 270 | 270 |
| Forward currency contracts | - | 109 | - | 109 | 109 |

¹Within the Company, equity investments of £40 million are fair valued at £40 million (Level 3), finance lease obligations of £3,847 million are fair valued at £3,963 million (Level 2), fixed rate borrowings of £216 million are fair valued at £227 million (Level 2) and floating rate borrowings of £245 million are fair valued at £245 million (Level 2).

28 Financial instruments continued

b Fair values of financial assets and financial liabilities continued

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

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

Equity investments

The fair value of quoted investments is determined by reference to published bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. For unquoted investments, fair value has been determined based on the most recent arm's length transaction for an identical instrument. The Group monitors transactions of these instruments on a regular basis to ensure the fair value is based on the most recent arm's length price.

Amounts owed by parent and associated group undertakings

The fair value of the amounts owed by related parties are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2018.

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

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

Bank and other loans and finance leases

The fair value of the Group's interest-bearing borrowings and loans including leases, are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2018 (Level 2).

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

c Level 3 financial assets reconciliation

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

| £ million | Group | | Company | |
|----------------------|-------|------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Balance at 1 January | 40 | 40 | 40 | 40 |
| As at 31 December | 40 | 40 | 40 | 40 |

28 Financial instruments continued

d Cash flow hedges

At 31 December 2018 the Group's principal risk management activities that were hedging future forecast transactions were:

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

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

| £ million | Group and Company | |
|--|-------------------|---------------|
| | Total 2018 | Total 2017 |
| Debt repayments to hedge future revenue | 614 | 518 |
| Foreign exchange contracts to hedge future revenue | 1 | 7 |
| Foreign exchange contracts to hedge future payments | (115) | 75 |
| Hedges of future fuel purchases | 487 | (257) |
| Interest rate hedges | 19 | - |
| Instruments for which hedge accounting no longer applies | 19 | - |
| | 1,025 | 343 |
| Related deferred tax credit | (178) | (57) |
| Total amount included within equity | 847 | 286 |

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

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

| Notional principal amounts £ million | Hedge range | Group and Company | | | | |
|---|-------------|-------------------|-----------|-----------|-------------------|---------------|
| | | Within 1 year | 1-2 years | 2-5 years | More than 5 years | Total 2017 |
| Foreign exchange contracts to hedge future revenue and payments | | | | | | |
| USD | 1.22-1.53 | 1,243 | 970 | 548 | - | 2,761 |
| EUR | 1.08-1.38 | 126 | 125 | 49 | - | 300 |

Derivative contracts are used to hedge fuel purchases over a period of up to three years. Notional quantities associated with these contracts at 31 December 2018 amounted to 8 million tonnes (2017: 5 million tonnes) with a hedge price range of USD 584-785 (2017: USD 456-608).

The Group's loan repayment instalments used to hedge foreign currency risk on future revenue inflows were predominantly in US dollars, euros and Japanese yen. The total notional amounts at 31 December 2018 were \$2,795 million (2017: \$2,512 million), €1,722 million (2017: €1,923 million) and ¥69,291 million (2017: ¥60,805 million).

The notional amount of the Group's interest rate contracts to hedge the floating interest rate on euro-denominated debt at 31 December 2018 was €1,207 million (2017: nil).

28 Financial instruments continued

d Cash flow hedges continued

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

As at 31 December 2018

| £ million | (Gains)/losses recognised in other comprehensive income | (Gains)/losses associated with ineffectiveness recognised in the income statement | Total recognised (gains)/losses | Gains/(losses) reclassified to the income statement | Gains/(losses) reclassified to the balance sheet |
|--|---|---|---------------------------------|---|--|
| Debt repayments to hedge future revenue | 183 | - | 183 | (73) | - |
| Foreign exchange contracts to hedge future revenue | (8) | - | (8) | 2 | - |
| Foreign exchange contracts to hedge future payments | (208) | - | (208) | 17 | 1 |
| Hedges of future fuel purchases | 370 | (7) | 363 | 375 | - |
| Interest rate hedges | 23 | - | 23 | (3) | - |
| Instruments for which hedge accounting no longer applies | 5 | - | 5 | (2) | - |
| | 365 | (7) | 358 | 316 | 1 |

As at 31 December 2017

| £ million | (Gains)/losses recognised in other comprehensive income | (Gains)/losses associated with ineffectiveness recognised in the income statement | Total recognised (gains)/losses | Gains/(losses) reclassified to the income statement | Gains/(losses) reclassified to the balance sheet |
|---|---|---|---------------------------------|---|--|
| Debt repayments to hedge future revenue | (95) | - | (95) | (75) | - |
| Foreign exchange contracts to hedge future revenue | 16 | - | 16 | (16) | - |
| Foreign exchange contracts to hedge future payments | 119 | - | 119 | 53 | - |
| Hedges of future fuel purchases | (196) | - | (196) | 16 | - |
| | (156) | - | (156) | (22) | - |

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

The hedge ineffectiveness can arise from:

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

Company

The Company undertakes hedging activities on behalf of other companies within the Group and performs the treasury activities of the Group centrally. As a result, the disclosures above apply to the Company as for the Group.

29 Share capital and share premium

| | Group and Company | | | |
|---|--------------------------|------------|--------------------------|------------|
| | 2018 | | 2017 | |
| | Number of shares 000s | £ million | Number of shares 000s | £ million |
| Share capital allotted, called up and fully paid | | | | |
| A1 Ordinary shares of £289.70 each | 897 | 260 | 897 | 260 |
| A2 Ordinary shares of £289.70 each | 99 | 29 | 99 | 29 |
| B Ordinary shares of £1 each | 1,000 | 1 | 1,000 | 1 |
| C Ordinary shares of £1 each | 148 | - | 148 | - |
| As at 31 December | 2,144 | 290 | 2,144 | 290 |

| £ million | Group and Company | |
|---------------------------------|-------------------|-------|
| | 2018 | 2017 |
| Share premium as at 31 December | 1,512 | 1,512 |

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

30 Share options

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

| £ million | 2018 | 2017 |
|---|----------|----------|
| IPSP and IADP schemes recharged from IAG (a) | 6 | 7 |
| Total share-based payments charge recorded in employee costs | 6 | 7 |

a IPSP and IADP schemes recharged from IAG

BA participates in two IAG share-based payment schemes, with awards to BA employees being made in plans operated by IAG that represent rights over its ordinary shares. The costs of these awards are recharged from IAG based on their determination of award fair values. The amount outstanding at the year end is included in the amounts owed to IAG and disclosed in note 34 (related party transactions). A brief description of the schemes is set out below:

i) IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan, granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. In 2014, a conditional award of shares was subject to the achievement of a variety of performance conditions, which vest after three years subject to the employee remaining employed by the Group. From 2015, the award was made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made in 2014 will vest based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The award made from 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of return on invested capital targets.

ii) IAG Incentive Award Deferral Plan

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

31 Other reserves and non-controlling interest

a Group

| £ million | Retained earnings | Unrealised gains and losses | Time value of options reserve | Currency translation | Total | Group Non-controlling interests ¹ |
|---|-------------------|-----------------------------|-------------------------------|----------------------|-------|--|
| Balance at 1 January 2017 | 2,570 | (382) | - | 51 | 2,239 | 200 |
| Restatement for adoption of new standards | (333) | - | 21 | - | (312) | - |
| Restated balance at 1 January 2017 | 2,237 | (382) | 21 | 51 | 1,927 | 200 |
| Profit for the year (restated) | 1,365 | - | - | - | 1,365 | 18 |
| Exchange gains | - | - | - | 8 | 8 | - |
| Fair value of cash flow hedges transferred to passenger revenue | - | 92 | - | - | 92 | - |
| Fair value of cash flow hedges transferred to fuel and oil costs | - | (70) | - | - | (70) | - |
| Net change in fair value of cash flow hedges (restated) | - | 157 | (23) | - | 134 | - |
| Share of movement in reserves of associates | (4) | - | - | - | (4) | - |
| Equity investments | - | 8 | - | - | 8 | - |
| Pension remeasurements | 792 | - | - | - | 792 | - |
| Income tax (restated) | (139) | (36) | 4 | - | (171) | - |
| Dividends | (460) | - | - | - | (460) | - |
| Distributions made to holders of perpetual securities | - | - | - | - | - | (18) |
| Total income and expense for the year | 1,554 | 151 | (19) | 8 | 1,694 | - |
| Balance at 1 January 2018 | 3,791 | (231) | 2 | 59 | 3,621 | 200 |
| Profit for the year | 2,080 | - | - | - | 2,080 | 11 |
| Exchange gains/ (losses) | 43 | - | - | (37) | 6 | - |
| Fair value of cash flow hedges transferred to passenger revenue | - | 73 | - | - | 73 | - |
| Fair value of cash flow hedges transferred to fuel and oil costs | - | (393) | 1 | - | (392) | - |
| Fair value of cash flow hedges transferred to finance costs | - | 4 | - | - | 4 | - |
| Net change in fair value of cash flow hedges | - | (365) | 17 | - | (348) | - |
| Share of movement in reserves of associates | (29) | - | - | - | (29) | - |
| Equity investments | - | (4) | - | - | (4) | - |
| Capex hedges reclassified and reported in property, plant and equipment | - | (1) | - | - | (1) | - |
| Pension remeasurements | (740) | - | - | - | (740) | - |
| Income tax | 119 | 122 | (3) | - | 238 | - |
| Dividends | (575) | - | - | - | (575) | - |
| Realised foreign exchange loss on redemption of perpetual securities | (68) | - | - | - | (68) | - |
| Distributions made to holders of perpetual securities | - | - | - | - | - | (11) |
| Redemption of perpetual securities | - | - | - | - | - | (200) |
| Total income and expense for the year | 830 | (563) | 15 | (37) | 244 | (200) |
| As at 31 December 2018 | 4,621 | (794) | 17 | 22 | 3,865 | - |

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

Retained earnings

The retained earnings reserve represents the accumulated retained profits of the Group and includes the undistributable gain on the disposal of the BA Executive Club in 2015 of £1.6 billion.

Unrealised gains and losses

The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Currency translation reserve

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

31 Other reserves and non-controlling interest continued

b Company

| | Company | | | |
|---|-------------------|-----------------------------|-------------------------------|-------|
| £ million | Retained earnings | Unrealised gains and losses | Time value of options reserve | Total |
| Balance at 1 January 2017 | 3,283 | (397) | - | 2,886 |
| Restatement for the adoption of new standards | (32) | - | 21 | (11) |
| Restated balance at 1 January 2017 | 3,251 | (397) | 21 | 2,875 |
| Profit for the year (restated) | 1,204 | - | - | 1,204 |
| Fair value of cash flow hedges transferred to passenger revenue | - | 92 | - | 92 |
| Fair value of cash flow hedges transferred to fuel and oil costs | - | (69) | - | (69) |
| Net change in fair value of cash flow hedges | - | 157 | (23) | 134 |
| Pension remeasurements | 790 | - | - | 790 |
| Income tax | (140) | (36) | 4 | (172) |
| Dividends | (460) | - | - | (460) |
| Total income and expense for the year | 1,394 | 144 | (19) | 1,519 |
| Balance at 1 January 2018 | 4,645 | (253) | 2 | 4,394 |
| Profit for the year | 1,835 | - | - | 1,835 |
| Fair value of cash flow hedges transferred to passenger revenue | - | 73 | - | 73 |
| Fair value of cash flow hedges transferred to fuel and oil costs | - | (393) | 1 | (392) |
| Fair value of cash flow hedges transferred to finance costs | - | 4 | - | 4 |
| Net change in fair value of cash flow hedges | - | (365) | 17 | (348) |
| Capex hedges reclassified and reported in property, plant and equipment | - | (1) | - | (1) |
| Pension remeasurements | (742) | - | - | (742) |
| Income tax | 119 | 122 | (3) | 238 |
| Dividends | (575) | - | - | (575) |
| Total income and expense for the year | 637 | (560) | 15 | 92 |
| As at 31 December 2018 | 5,282 | (813) | 17 | 4,486 |

See note 31a for a description of the reserves.

32 Employee benefits

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

NAPS was closed to future accrual from 31 March 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using CPI), which is generally lower than the previous assumption for pay growth which included pay rises and promotions. NAPS members were offered a choice of transition arrangements, including non-cash options to increase their NAPS pensions prior to closure. The financial effect of the closure and the non-cash transition arrangements was a past service gain of £770 million which has been recognised within exceptional items. Transition costs of £169 million were paid either directly to members or into their pension accounts. British Airways currently makes deficit contributions to NAPS of £300 million per annum until September 2027 plus additional contributions of up to £150 million per year depending on the cash balance at the end of March each year. As part of the closure of NAPS, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No allowance for such payments has been made in the valuation of the defined benefit obligation.

APS has been closed to new members since 1984. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Government's Pension Increase (Review) Orders (PIRO), which are based on the CPI. The Trustee of the Airways Pension Scheme (APS) has proposed an additional discretionary increase above CPI for pensions in payment for the year ended 31 March 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgment in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgment to the Court of Appeal. On 5 July 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the judgment, the Trustee was allowed permission to appeal to the Supreme Court; and has appealed. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known. BA is committed to an existing recovery plan, which sees deficit payments of £55 million per annum until March 2023.

32 Employee benefits continued

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

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed as at 31 March 2012 with respect to APS and 31 March 2015 with respect to NAPS (see note 32i).

The actuarial valuations performed as at 31 March 2012 and 31 March 2015 are different to the valuation performed as at 31 December 2018 under IAS 19: Employee Benefits mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may result in the calculations in this report not being a best estimate of the cost to the Company of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

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

The defined contribution scheme British Airways Retirement Plan (BARP) was closed to future contributions on 31 March 2018. The NAPS and BARP schemes have been replaced by a flexible benefits scheme, incorporating a new defined contribution pension scheme, called the British Airways Pension Plan (BAPP). It offers a choice of contribution rates and the ability to opt for cash instead of a pension.

a Employee benefit schemes recognised on the balance sheet

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

| £ million | As at 31 December 2017 | | | |
|---|------------------------|----------|--------------------|----------|
| | APS | NAPS | Other ¹ | Total |
| Scheme assets at fair value | 8,119 | 17,288 | 376 | 25,783 |
| Present value of scheme liabilities | (6,723) | (17,732) | (610) | (25,065) |
| Net pension asset/(liability) | 1,396 | (444) | (234) | 718 |
| Effect of the asset ceiling ² | (504) | - | - | (504) |
| Other employee benefit obligations | - | - | (8) | (8) |
| | 892 | (444) | (242) | 206 |
| Represented by: | | | | |
| Employee benefit assets | | | | 904 |
| Employee benefit obligations ³ | | | | (698) |
| | | | | 206 |

¹ The present value of scheme liabilities for the US PRMB was £12 million at 31 December 2018 (£13 million as at 31 December 2017).

² APS and NAPS (2017: APS only) are in an IAS 19 accounting surplus, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

During 2015 the IASB published an exposure draft of amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction. The purpose of this proposed amendment is to provide additional clarity on the role of the trustee's rights in an assessment of the recoverability of a surplus on an employee pension fund. BA is considering the impact of this exposure draft on the APS and NAPS surplus recognised but has not recognised any adjustments as the amendment remains in exposure draft form only.

³ Disclosures for post-retirement benefits are presented on a consolidated basis and include a net pension liability of £26 million (2017: £30 million) relating to British Airways Holidays Limited, with the remainder relating to the Company.

32 Employee benefits continued

b Pension costs charged to the consolidated income statement

Pension costs charged to operating profit before exceptional items:

| £ million | 2018 | 2017 |
|---|------------|------------|
| Defined benefit plans current service cost | 48 | 203 |
| Defined contribution plans | 136 | 70 |
| Pension costs recorded as employee costs | 184 | 273 |

Pension costs (charged)/credited as exceptional items:

| £ million | 2018 | 2017 |
|---|------------|----------|
| Net past service gain resulting from closure of NAPS to future accrual ¹ | 601 | - |
| GMP – past service cost ² | (83) | - |
| Net past service gain in exceptional items | 518 | - |

¹Please refer to note 5 for amounts recorded in exceptional items following the closure of NAPS.

²On 26 October 2018 the High Court's judgment in the Lloyd's Bank case confirmed that pension schemes are required to equalise for the effects of unequal GMPs accrued over the period since 17 May 1990. The estimated cost of equalising GMPs is £83 million. In determining the cost of equalising for GMPs, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgment as the "minimum interference" method which could be implemented without sponsor agreement.

Pension costs (charged)/credited as finance costs:

| £ million | 2018 | 2017 |
|---|-----------|-------------|
| Interest income on scheme assets | 645 | 637 |
| Interest expense on scheme liabilities | (609) | (648) |
| Interest expense on asset ceiling | (12) | (13) |
| Net financing credit/(charge) relating to pensions | 24 | (24) |

c Remeasurements recognised in the statement of other comprehensive income

| £ million | 2018 | 2017 |
|--|--------------|------------|
| Return on plan assets excluding interest income (losses)/gains | (1,160) | 1,482 |
| Remeasurement of plan liabilities from changes in financial assumptions gains/(losses) | 881 | (463) |
| Remeasurement of experience gains/(losses) | 262 | (239) |
| Remeasurement of the APS and NAPS asset ceiling (note 32f) | (713) | (2) |
| Exchange differences (losses)/gains | (10) | 14 |
| Pension remeasurements | (740) | 792 |

d Fair value of scheme assets

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

| £ million | 2018 | 2017 |
|---|---------------|---------------|
| As at 1 January | 25,783 | 23,982 |
| Interest income | 645 | 637 |
| Return on plan assets excluding interest income | (1,160) | 1,482 |
| Employer contributions ^{1 2} | 631 | 765 |
| Employee contributions | 113 | 88 |
| Benefits paid | (1,183) | (1,149) |
| Exchange differences | 14 | (22) |
| Fair value of scheme assets | 24,843 | 25,783 |

¹Includes employer contributions to APS of £98 million (2017: £95 million) and to NAPS of £516 million (2017: £653 million), of which deficit funding payments represented £95 million for APS (2017: £91 million) and £450 million for NAPS (2017: £450 million).

²Cash payments to defined benefit pension schemes reflected in the consolidated cash flow statement were the employer contributions of £631 million (2017: £765 million).

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

32 Employee benefits continued

d Fair value of scheme assets continued

Both schemes use derivative instruments for both investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest-rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

Scheme assets as at 31 December comprise:

| £ million | 2018 | 2017 |
|--|--------|--------|
| Return seeking investments - equities | | |
| UK | 1,564 | 2,338 |
| Overseas | 4,142 | 5,902 |
| | 5,706 | 8,240 |
| Return seeking investments - other | | |
| Private equity | 838 | 687 |
| Property | 1,726 | 1,685 |
| Alternative investments | 1,065 | 904 |
| | 3,629 | 3,276 |
| Liability matching investments | | |
| UK Fixed bonds | 4,398 | 4,318 |
| Overseas Fixed bonds | 63 | 84 |
| UK Index-Linked bonds | 4,518 | 6,730 |
| Overseas Index-Linked bonds | 91 | 155 |
| | 9,070 | 11,287 |
| Other | | |
| Cash and cash equivalents | 377 | 592 |
| Derivatives | 51 | 157 |
| Insurance contract | 1,497 | 1,565 |
| Longevity swap | 3,889 | (96) |
| Other | 624 | 762 |
| | 24,843 | 25,783 |

All equities and bonds have quoted prices in active markets

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

| £ million | As at 31 December 2018 | | As at 31 December 2017 | |
|---|------------------------|--------|------------------------|--------|
| | APS | NAPS | APS | NAPS |
| Return seeking investments | 632 | 8,531 | 656 | 10,672 |
| Liability matching investments | 1,384 | 7,613 | 5,682 | 5,516 |
| | 2,016 | 16,144 | 6,338 | 16,188 |
| Insurance contracts and related longevity swaps | 5,362 | - | 1,447 | - |
| Other | 158 | 821 | 334 | 1,100 |
| Fair value of scheme assets | 7,536 | 16,965 | 8,119 | 17,288 |

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At 31 December 2018 the benchmark for APS was 8.2 per cent (2017: 9.5 per cent) in return seeking assets and 91.8 per cent (2017: 90.5 per cent) in liability matching investments; and for NAPS the benchmark was 49.0 per cent (2017: 65 per cent) in return seeking assets and 51.0 per cent (2017: 35 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and their investment managers to work within.

APS has an insurance contract with Rothesay Life which covers 24 per cent (2017: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. With effect from June 2010 the Trustee of APS also secured a longevity swap contract with Rothesay Life, which covers 20 per cent (2017: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the premiums (including fees) payable by the scheme under the contract.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General and at the same time novated the two longevity swaps established in 2017, one with Canada Life and one with Partner Reinsurance which had covered 13 per cent and 8 per cent respectively of the pensioner liabilities. The buy-in contract covers all members in receipt of pension from APS at 31 March 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who are alive on 1 October 2018. Benefits coming into payment for retirements after 31 March 2018 are not covered. The contract covers benefits payable from 1 October 2018 onwards.

32 Employee benefits continued

d Fair value of scheme assets continued

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

e Present value of scheme liabilities

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

| £ million | 2018 | 2017 |
|--|---------------|---------------|
| As at 1 January | 25,065 | 24,609 |
| Current service cost | 48 | 203 |
| Past service credit | (687) | - |
| Interest expense | 609 | 648 |
| Remeasurements – financial assumptions | (881) | 463 |
| Remeasurement of experience (losses)/gains | (262) | 239 |
| Benefits paid | (1,183) | (1,149) |
| Employee contributions | 113 | 88 |
| Exchange differences | 24 | (36) |
| As at 31 December | 22,846 | 25,065 |

The defined benefit obligation comprises £21 million (2017: £23 million) arising from unfunded plans and £22,825 million (2017: £25,042 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

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

| £ million | 2018 | 2017 |
|-----------------------------|--------------|------------|
| As at 1 January | 504 | 489 |
| Interest expense | 12 | 13 |
| Remeasurements ¹ | 713 | 2 |
| As at 31 December | 1,229 | 504 |

¹The increase in remeasurements is mainly due to the closure of NAPS to future accrual in 2018. Following this the scheme is now in an IAS 19 accounting surplus, which would be available to the company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

g Actuarial assumptions

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

| | 2018 | | | 2017 | | |
|--|------|------|---------------|------|------|---------------|
| Per cent per annum | APS | NAPS | Other schemes | APS | NAPS | Other schemes |
| Discount rate ¹ | 2.65 | 2.85 | 2.9 – 4.4 | 2.45 | 2.55 | 2.5 – 3.6 |
| Rate of increase in pensionable pay ² | 3.20 | N/A | 2.5 – 3.7 | 3.15 | 3.15 | 2.5 – 3.6 |
| Rate of increase of pensions in payment ³ | 2.10 | 2.05 | 2.0 – 3.5 | 2.05 | 2.05 | 0.0 – 3.5 |
| RPI rate of inflation | 3.20 | 3.15 | 2.5 – 3.2 | 3.15 | 3.15 | 2.5 – 3.1 |
| CPI rate of inflation | 2.10 | 2.05 | 2.1 – 3.0 | 2.05 | 2.05 | 2.0 – 3.0 |

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

²Rate of increase in pensionable pay is assumed to be in line with long term market inflation expectations. The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds.

³It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS and NAPS. The Trustee of the Airways Pension Scheme (APS) had proposed an additional discretionary increase above CPI for pensions in payment for the year ended 31 March 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgment in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgment to the Court of Appeal. On 5 July 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the July 2018 judgment, the Trustee has appealed to the Supreme Court. The proposed discretionary increase is not included in the assumptions above.

For US PRMB the rate of increase in healthcare costs is based on medical trend rates of 6.25 per cent grading down to 5.0 per cent over five years (2017: 6.50 per cent to 5.0 per cent over seven years).

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

32 Employee benefits continued

g Actuarial assumptions continued

| | UK | |
|----------------------------------|------|------|
| | 2018 | 2017 |
| Mortality assumptions | | |
| Life expectancy at age 60 for a: | | |
| - male currently aged 60 | 28.5 | 28.4 |
| - male currently aged 40 | 29.7 | 29.7 |
| - female currently aged 60 | 30.3 | 30.2 |
| - female currently aged 40 | 32.9 | 32.8 |

As at 31 December 2018, the weighted-average duration of the defined benefit obligation was 11 years for APS (2017: 12 years) and 19 years for NAPS (2017: 20 years). In the US, mortality rates were based on the RP-14 mortality tables.

h Sensitivity analysis

Reasonable possible changes at the reporting date to a significant actuarial assumption, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

| | Increase/(decrease) in pension liabilities | | |
|--|--|------|---------------|
| £ million | APS | NAPS | Other schemes |
| Discount rate (decrease of 10 basis points) | 10 | 290 | 12 |
| Future salary growth (increase of 10 basis points) | - | n/a | 6 |
| Future pension growth (increase of 10 basis points) | 10 | 290 | 1 |
| Future mortality rate – (one year increase in life expectancy) | (20) | 460 | 2 |

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made as at 31 March 2012 and 31 March 2015 respectively, using assumptions and methodologies agreed between the Company and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to £680 million and £2,785 million respectively. In order to address the deficits in the schemes, BA has also committed to the following undiscounted deficit payments:

| £ million | APS | NAPS |
|---|------------|--------------|
| Within twelve months | 55 | 300 |
| Two to five years | 179 | 1,200 |
| Five to ten years | - | 1,125 |
| Total expected deficit payments for APS and NAPS | 234 | 2,625 |

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the scheme, subject to withholding taxes that would be payable by the Trustee. This determination has been made independently for each scheme. As such, no additional liability is required.

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

In total, the Group expects to pay £358 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2019. This is made up of £55 million and £300 million of deficit payments for APS and NAPS respectively as agreed at the latest triennial valuations. In addition, ongoing employer contributions for 2019 are expected to be £3 million for APS. This excludes any additional deficit contribution that are payable depending on the Group's cash balance as at 31 March 2019. The Group expects to pay £250 million in 2019, having provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which as at 31 December 2018 amounted to £250 million (2017: £250 million). This amount is payable because the pension schemes were not fully funded on a conservative basis, with a gilts-based discount rate as at 1 January 2019 as determined by the scheme actuary (see note 33b).

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of profit after tax it will either provide the scheme with a guarantee for 100 per cent of the amount above 35 per cent or 50 per cent of that amount as an additional cash contribution.

33 Contingent liabilities and guarantees

a Contingent Liabilities

The Group has the following claims:

Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways was fined €104 million. Following an appeal, the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Court Judgment), and the fine was refunded in full. British Airways appealed the partial annulment to the Court of Justice, but that appeal was rejected.

In parallel, the European Commission chose not to appeal the General Court Judgment, and instead adopted a new decision in March 2017 (New Decision). The New Decision re-issued fines against all the participating carriers, which match those contained in the Original Decision. British Airways has therefore again been fined €104 million. British Airways has appealed the New Decision to the GC again (as have other carriers).

A large number of claimants brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claim arise from the alleged cartel activity. British Airways joined the other airlines alleged to have participated in cartel activity to those proceedings to contribute. A number of those claims were concluded in 2018.

British Airways is also party to similar litigation in a number of other jurisdictions including Germany, the Netherlands and Canada together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

Pensions

The Trustees of the Airways Pension Scheme (APS) had proposed an additional discretionary increase above CPI for pensions in payment for the year to 31 March 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees had the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group appealed the judgment to the Court of Appeal. On 5 July 2018 the Court of Appeal gave its judgment, upholding British Airways' appeal, concluding the amendment was within the scope of the Trustees' power, but was exercised for an improper purpose. The consequence of this is that the Trustees' amendment to introduce the discretionary increase power was invalid. British Airways will not have to reflect the increase in liabilities of £12 million that would have applied had the proposed increase for the 2013/14 scheme year been paid by the Trustee. The Trustees have appealed to the Supreme Court.

Theft of customer data at British Airways

On 6 September 2018 British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on 25 October 2018 that further personal data had potentially been compromised. As at the date of this report, BA was not aware of any confirmed cases of fraud. British Airways continues to cooperate with the investigations of the UK Information Commissioner's Office and other relevant regulators. British Airways has received letters before action from certain UK law firms threatening claims arising from the data breach. Additionally, a putative class action has been filed in the Eastern District of New York, USA. The outcome of the various investigations and litigation, which British Airways will vigorously defend, is uncertain. British Airways holds certain insurance policies.

b Guarantees

Pensions

As at 31 December 2018, the Group and Company had provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which amounted to £250 million (2017: £250 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis, with a gilts-based discount rate on 1 January 2019 and will be determined by the Scheme Actuary.

As at 31 December 2017, an additional guarantee amounting to £230 million was issued by a third party in favour of APS, triggered in the event of a BA insolvency. This had lapsed as at 31 December 2018.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at 31 December 2018 are not expected to result in material losses for the Group.

Perpetual securities and audit exemptions

The Company has issued guarantees in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 36 in respect of audit exemptions.

On 28 August 2018, British Airways exercised the option to redeem its €300 million 6.75 per cent fixed coupon preferred securities. The preferred securities were redeemed at their principal amount, together with accumulated and unpaid interest to this date. As at 31 December 2017 the company had issued guarantees in respect of these fixed perpetual preferred securities issued by a subsidiary undertaking which amounted to £265 million.

34 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2018 with related parties.

| £ million | Group | | Company | |
|--|-------|------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Parent¹: | | | | |
| Sales to/purchases on behalf of IAG | 162 | 57 | 162 | 57 |
| Purchases from IAG | 43 | 41 | 43 | 41 |
| Amounts owed by IAG | 152 | 42 | 152 | 42 |
| Amounts owed to IAG | 11 | 11 | 11 | 11 |
| Subsidiary undertakings of the parent: | | | | |
| Sales to subsidiary undertakings of the parent | 143 | 127 | 143 | 127 |
| Purchases on behalf of subsidiary undertakings of the parent | 171 | 208 | 171 | 208 |
| Amounts owed by subsidiary undertakings of the parent | 245 | 309 | 245 | 309 |
| Amounts owed to subsidiary undertakings of the parent | 40 | 43 | 40 | 43 |
| Associates²: | | | | |
| Sales to associates | 550 | 508 | 550 | 508 |
| Purchases from associates | 422 | 400 | 420 | 400 |
| Amounts owed by associates | 232 | 92 | 232 | 92 |
| Amounts owed to associates | 977 | 843 | 977 | 843 |
| Subsidiaries³: | | | | |
| Sales to subsidiaries | - | - | 398 | 370 |
| Purchases from subsidiaries | - | - | 165 | 162 |
| Amounts owed by subsidiaries | - | - | 25 | 131 |
| Amounts owed to subsidiaries | - | - | 382 | 783 |

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

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

³ Outstanding trading balances are placed on inter-company accounts with no specified credit period. Long-term loans owed to and from the Company by subsidiary undertakings bear market rates of interest.

In addition, payments made by the Company on behalf of the Group's retirement benefit plans amounted to £8.5 million in relation to the Pension Protection Fund levy (2017: £6 million).

Neither the Group nor the Company have benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2018 the Group has not made any provision for expected credit losses relating to amounts owed by related parties (2017: Enil).

Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or officers of the Company at 31 December 2018 or that arose during the year that need to be disclosed in accordance with the requirements of sections 412 and 413 to the Companies Act 2006.

35 Post balance sheet event

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

36 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2018 by virtue of Section 479A of the Companies Act 2006: British Airways Leasing Limited (04150220), BA and AA Holdings Limited (03840072), British Airways 777 Leasing Limited (04954270), BritAir Holdings Limited (03537574), British Airways (BA) Limited (07990613), British Airways Associated Companies Limited (00590083), BA European Limited (06346489), BA Healthcare Trust Limited (09619950), British Airways Avionic Engineering Limited (02775232), British Airways Interior Engineering Limited (03109109), British Airways Maintenance Cardiff Limited (02204178), Gatwick Ground Services Limited (10390742), Teleflight Limited (03918190) and BA Excepted Group Life Scheme Limited (11283644).

37 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking as at 31 December 2018 was International Consolidated Airlines Group S.A. (IAG), which is incorporated in Spain.

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

38 Impact of new International Financial Reporting Standards

Standards adopted in the year ended 31 December 2018

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. The standard establishes a five-step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services have been satisfied.

The Group has identified the following changes on adoption of the standard:

- Passenger revenue – revenue associated with ancillary services that was previously recognised when paid, such as administration fees, is deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – *interline cargo revenue is presented gross rather than net of related costs as BA is considered to be principal rather than agent in these transactions.*
- Other revenue – Revenue associated with maintenance activities and holiday revenue with performance obligations that are fulfilled over time, is recognised over the performance obligation period.
- Investment in associates – the Group's associate investment Avios Group (AGL) Limited adopted IFRS 15 from 1 January 2017. Revenue associated with performance obligations arising on the sale of loyalty points, including revenue allocated to brand and marketing services and revenue allocated to Avios points, has been determined based on the relative stand-alone selling price of each performance obligation. Revenue associated with brand and marketing services is recognised as the points are issued. Revenue allocated to the Avios points is deferred and recognised when the points are redeemed. The impact of assessing the stand-alone selling prices of the individual performance obligations has resulted in a greater portion of revenue being deferred on issuance, because the stand-alone selling price of the points was higher than the fair value applied under IFRIC 13 'Customer loyalty programmes'. The adoption of IFRS 15 by the Group's associate investment has resulted in a reduction to the carrying value of the Group's investments in associates and a corresponding reduction in the Group's retained earnings.

The Group has applied the standard on a fully retrospective basis and restated prior year comparatives on adoption of IFRS 15, and there has been an adjustment to opening retained earnings at 1 January 2017 of £312 million. Revenue for the year ended 31 December 2017 has increased by £45 million and operating expenditure has increased by £50 million, resulting in a reduction in operating profit of £5 million. Share of post-tax profits in associates accounted for using the equity method has decreased by £35 million, and deferred tax charge has decreased by £1 million, resulting in a reduction in post tax profit of £39 million.

The Group has adopted IFRS 9 'Financial Instruments' from 1 January 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategies and objectives. The Group will continue to recognise most financial assets at amortised cost. Equity investments, previously classified as available-for-sale, are measured at fair value through other comprehensive income, with no recycling of gains and losses to the income statement. *The Group elected to classify irrevocably its equity investments under this category as it intends to hold these investments for the foreseeable future.* In addition, the Group has adopted a new impairment model for trade receivables and other financial assets, with no material adjustment to existing provisions.

The Group continues to undertake hedging activity in line with its financial risk management objectives and policies. Movements in the time value of options are now classified as the time value of options and recognised in other comprehensive income, with prior year comparatives restated. At 1 January 2017 there was a reclassification of £21 million of post-tax gains from retained earnings to the time value of options reserve within other reserves to reflect this reclassification. In addition, a £19 million post-tax charge previously recognised in the income statement for the year ended 31 December 2017 has been recognised in other comprehensive income in the same period.

38 Impact of new International Financial Reporting Standards continued

Extract of the consolidated income statement

For the year ended 31 December 2017

| £ million | Previously reported | IFRS 15 Adjustments | IFRS 9 Adjustments | Restated Amount ¹ |
|---|---------------------|---------------------|--------------------|------------------------------|
| Passenger revenue | 11,011 | (11) | - | 11,000 |
| Cargo revenue | 683 | 55 | - | 738 |
| Other revenue | 532 | 1 | - | 533 |
| Total revenue | 12,226 | 45 | - | 12,271 |
| Handling, catering and other operating costs | 1,649 | 50 | - | 1,699 |
| Other expenditure on operations | 8,803 | - | - | 8,803 |
| Total expenditure on operations | 10,452 | 50 | - | 10,502 |
| Exceptional items | (94) | - | - | (94) |
| Operating profit after exceptional items | 1,680 | (5) | - | 1,675 |
| Unrealised (losses)/gains on derivatives not qualifying for hedge accounting | - | - | 13 | 13 |
| Net currency retranslation charges | 3 | - | 10 | 13 |
| Share of post-tax profits in associates accounted for using the equity method | 165 | (35) | - | 130 |
| Non-operating items | (104) | - | - | (104) |
| Profit before tax | 1,744 | (40) | 23 | 1,727 |
| Tax | (297) | 1 | (4) | (300) |
| Profit after tax for the period | 1,447 | (39) | 19 | 1,427 |

¹The restated amounts do not include the disposal of the Openskies operation, the amounts relating to the Openskies operation are detailed in note 12.

Extract of the consolidated balance sheet

As at 31 December 2017

| £ million | Previously reported | IFRS 15 Adjustments ¹ | Restated Amount |
|---|---------------------|----------------------------------|-----------------|
| Shareholders' equity | | | |
| Issued share capital | 290 | - | 290 |
| Share premium | 1,512 | - | 1,512 |
| Other reserves | 3,972 | (351) | 3,621 |
| Total shareholders' equity | 5,774 | (351) | 5,423 |
| Non-current assets | | | |
| Investments in associates accounted for using the equity method | 1,912 | (335) | 1,577 |
| Non-current liabilities | | | |
| Deferred tax liability | (376) | 4 | (372) |
| Current liabilities | | | |
| Trade and other payables | (1,943) | 7 | (1,936) |
| Contract liabilities with customers | (2,638) | (27) | (2,665) |

¹The adoption of IFRS 15 resulted in the reduction in retained earnings of the Company by £16 million, increased in current liabilities of £20 million, offset by a reduction in non-current liabilities by £4 million.

38 Impact of new International Financial Reporting Standards continued

Extract of the consolidated balance sheet

As at 1 January 2017

| £ million | Previously reported | IFRS 15 Adjustments ¹ | Restated Amount |
|---|---------------------|----------------------------------|-----------------|
| Shareholders' equity | | | |
| Issued share capital | 290 | - | 290 |
| Share premium | 1,512 | - | 1,512 |
| Other reserves | 2,239 | (312) | 1,927 |
| Total shareholders' equity | 4,041 | (312) | 3,729 |
| Non-current assets | | | |
| Investments in associates accounted for using the equity method | 1,857 | (300) | 1,557 |
| Non-current liabilities | | | |
| Deferred tax liability | (62) | 3 | (59) |
| Current liabilities | | | |
| Trade and other payables | (1,697) | 8 | (1,689) |
| Contract liabilities with customers | (2,639) | (23) | (2,662) |

¹The adoption of IFRS 15 resulted in the reduction in retained earnings of the Company by £11 million, increased in current liabilities of £14 million, offset by a reduction in non-current assets by £3 million.

The Group has not adopted any other standards, amendments or interpretations in the year ended 31 December 2018 that have had a significant change to its financial performance or position.

New standards, amendments and interpretations not yet effective

IFRS 16 'Leases' will be adopted by the Group from 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. The Group has a number of operating leases for assets including aircraft, property and other equipment.

The main changes arising on the adoption of IFRS 16 will be as follows:

- Interest-bearing borrowings and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet, along with the related 'right-of-use' (ROU) asset. The Group has opted to use 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 will be recognised in the Income statement on a straight-line basis over the life of the lease.
- There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense.
- The adoption of IFRS 16 will require the Group to make a number of judgements, estimates and assumptions. These include:
 - The approach to be adopted on transition. The Group will use the modified retrospective transition approach. Lease liabilities will be determined based on the appropriate incremental borrowing rates and rates of exchange at the date of transition (1 January 2019). ROU assets in respect of aircraft will be measured at the appropriate incremental borrowing rates at the date of transition and rates of exchange at the commencement of each lease, and will be depreciated from the lease commencement date to the balance sheet date. Other ROU assets will be measured based on the related lease liability. IFRS 16 does not allow comparative information to be restated if the modified retrospective transition approach is used.
 - The estimated lease term. The term of each lease will be based on the original lease term unless management is 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term includes 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 are the Group's incremental borrowing rates. These rates have been calculated by fleet type, reflecting the underlying lease terms and based on observable inputs. The risk-free rate component has been based on LIBOR rates available in the same currency and over the same term as the lease. For future lease obligations, the Group is proposing to 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 following this review.
 - Restoration obligations. The Group has identified 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. These have been recognised as part of the ROU asset on transition. 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, will continue to be recognised as a maintenance expense over the lease term.

38 Impact of new International Financial Reporting Standards continued

New standards, amendments and interpretations not yet effective continued

4. For future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, however the ROU asset will be recognised at the historic exchange rate. This will create volatility in the Income statement. The Group intends to manage this volatility as part of its risk management strategy.
5. At transition, the Group is not required to make any transition adjustments to IFRS 16 for leases in which it acts as lessor, except for where there is a subleasing arrangement. Under IFRS 16, the Group is required to assess the subleasing element with reference to the right-of-use asset and not the underlying asset. The group will recognise the classification of subleasing on transition.

Impact of adoption

On adoption of the standard, the Group expects an adjustment to retained earnings as at 1 January 2019 of between £120 million and £150 million. The indicative effect of IFRS 16 will result in an aggregated increase in non-current assets of between £1,800 million and £2,000 million, with the biggest asset category affected being Fleet. The Group expects an increase to interest-bearing borrowings of between £1,900 million and £2,100 million.

Subsidiary undertakings at 31 December 2018

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

| Name of company | Country of incorporation and principal operations | Principal activities | Registered address |
|--|---|----------------------|---|
| BA and AA Holdings Limited | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BA Call Centre India Private Limited (callBA) ¹ | India | Call centre | F-42, East of Kailash, New Delhi, 110065 |
| BA Cityflyer Limited | England | Airline | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BA European Limited | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BA Healthcare Trust Limited | England | Healthcare | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BA Number One Limited | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BA Number Two Limited ¹ | Jersey | Holding company | IFC 5, St Helier, Jersey, JE1 1ST |
| Bealine plc | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BritAir Holdings Limited | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways (BA) Limited ¹ | England | Airline | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways 777 Leasing Limited | England | Aircraft Leasing | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Associated Companies Limited | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Avionic Engineering Limited | England | Engineering | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Capital Limited | Jersey | Bonds | Queensway House, Hilgrove Street, St Helier, JE1 1ES |
| British Airways Ejets Leasing Limited ¹ | Bermuda | Aircraft Leasing | Canon's Court, 22 Victoria Street, Hamilton, HM 12 |
| British Airways Holdings BV ¹ | Netherlands | Holding company | Strawinskylaan 3105, Atrium 1077ZX Amsterdam |
| British Airways Holdings Limited | Jersey | Holding company | IFC 5, St Helier, Jersey, JE1 1ST |
| British Airways Holidays Limited | England | Tour operator | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Interior Engineering Limited | England | Engineering | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Leasing Limited | England | Aircraft Leasing | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Maintenance Cardiff Limited | England | Engineering | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Pension Trustees (No 2) Limited | England | Trustee company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Airways Plc Employee Share Ownership Trust | Jersey | Trust | Queensway House, Hilgrove Street, St Helier, JE1 1ES |
| British Mediterranean Airways Limited ^{1 2} | England | Former airline | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Midland Airways Limited ¹ | England | Former airline | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| British Midland Limited | England | Holding company | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| Diamond Insurance Company Limited ¹ | Isle of Man | Insurance | 1st Floor, Rose House, 51-59 Circular Road, Douglas |
| Flyline Tele Sales & Services GmbH | Germany | Call centre | Hermann Koehl-Strasse 3, 28199 Bremen |
| Gatwick Ground Services Limited | England | Ground Services | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| Illiad Inc | USA | Holding company | Suite 1300, 1105 North Market Street, PO Box 8985, Wilmington, 19899 Delaware |
| Overseas Air Travel Limited ¹ | England | Transport | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| Speedbird Insurance Company Limited | Bermuda | Insurance | Canon's Court, 22 Victoria Street, Hamilton, HM 12 |
| Teleflight Limited | England | Call centre | Waterside, PO Box 365, Harmondsworth, UB7 0GB |
| BA Excepted Group Life Scheme Limited | England | Life Insurance | Waterside, PO Box 365, Harmondsworth, UB7 0GB |

¹Not directly owned by British Airways Plc

²99.0% holding

Associated undertakings at 31 December 2018

The holdings disclosed concern ordinary shares unless otherwise stated.

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

¹Not directly owned by British Airways Plc

Equity investments at 31 December 2018

The holdings disclosed concern ordinary shares unless otherwise stated.

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

¹Not directly owned by British Airways Plc

Operating and financial statistics

Not forming part of the audited financial statements

| | | Year ended 31 December | | |
|---|------|------------------------|----------------------------|---------|
| Total Group continuing operations | | 2018 | 2017 restated ² | 2016 |
| Traffic and capacity | | | | |
| Revenue passenger km (RPK) | m | 152,177 | 146,561 | 144,399 |
| Available seat km (ASK) | m | 184,547 | 179,077 | 177,756 |
| Passenger load factor | % | 82.5 | 81.8 | 81.2 |
| Cargo tonne km (CTK) ¹ | m | 4,395 | 4,500 | 4,233 |
| Total revenue tonne km (RTK) | m | 19,458 | 19,099 | 18,545 |
| Total available tonne km (ATK) | m | 27,536 | 26,697 | 26,131 |
| Overall load factor ¹ | % | 70.7% | 71.2 | 71.0 |
| Passengers carried | '000 | 46,847 | 45,163 | 44,322 |
| Tonnes of cargo carried ¹ | '000 | 505 | 513 | 470 |
| Operations | | | | |
| Average manpower equivalent (MPE) | | 38,202 | 38,347 | 39,024 |
| ASKs per MPE | | 4,831 | 4,670 | 4,555 |
| Aircraft in service at year end | | 294 | 293 | 293 |
| Aircraft utilisation (average hours per aircraft per day) ¹ | | 10.92 | 10.88 | 11.08 |
| Punctuality - within 15 minutes | % | 76 | 79 | 77 |
| Regularity ¹ | % | 99.0 | 98.6 | 99.0 |
| Financial | | | | |
| Passenger revenue per RPK | p | 7.64 | 7.51 | 7.13 |
| Passenger revenue per ASK | p | 6.30 | 6.14 | 5.79 |
| Cargo revenue per CTK | p | 17.50 | 16.40 | 13.91 |
| Average fuel price (US cents/US gallon) ¹ | | 224.72 | 170.95 | 163.00 |
| Operating margin | % | 18.0% | 13.7% | 12.4% |
| Operating margin before exceptional items | % | 15.0% | 14.4% | 13.1% |
| Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR) | m | 2,971 | 2,743 | 2,408 |
| Net debt/total capital ratio | % | 25.2 | 21.0 | 38.5 |
| Total traffic revenue per ATK | p | 45.0 | 44.0 | 41.7 |
| Total traffic revenue per ASK | p | 6.7 | 6.6 | 6.1 |
| Total expenditure before exceptional items on operations per ASK | p | 6.00 | 5.86 | 5.57 |
| Total expenditure before exceptional items on operations excluding fuel per ASK | p | 4.41 | 4.45 | 4.19 |
| Total expenditure before exceptional items on operations per ATK | p | 40.2 | 39.3 | 37.9 |

¹ Statistics include both continuing and discontinued operations for 2017 and 2016

² Please refer to note 38 for further details on transition adjustments relating to IFRS 15 and IFRS 9

m = millions

p = pence

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

Fleet table

Number in service with Group companies at 31 December 2018

| | On balance sheet fixed assets | Off balance sheet operating leases | Total December 2018 | Total December 2017 | Changes since December 2017 (Note 2) | Future deliveries | Options (Note 3) |
|------------------------------------|----------------------------------|---------------------------------------|---------------------------|---------------------------|--|----------------------|---------------------|
| AIRLINE OPERATIONS (NOTE 1) | | | | | | | |
| Airbus A318 | 1 | | 1 | 1 | | | |
| Airbus A319 | 18 | 24 | 42 | 44 | (2) | | |
| Airbus A320 | 47 | 27 | 74 | 67 | 7 | 18 | 33 |
| Airbus A321 | 13 | 6 | 19 | 18 | 1 | 9 | |
| Airbus A350 | | | | | | 18 | 36 |
| Airbus A380 | 12 | | 12 | 12 | | | |
| Boeing 747-400 | 35 | | 35 | 36 | (1) | | |
| Boeing 757-200 | | | | 3 | (3) | | |
| Boeing 767-300 | | | | 8 | (8) | | |
| Boeing 777-200 | 41 | 5 | 46 | 46 | | | |
| Boeing 777-300 | 9 | 3 | 12 | 12 | | 4 | |
| Boeing 787-8 | 11 | 1 | 12 | 9 | 3 | | |
| Boeing 787-9 | 9 | 9 | 18 | 16 | 2 | | 6 |
| Boeing 787-10 | | | | | | 12 | |
| Embraer E170 | 6 | | 6 | 6 | | | |
| SAAB 2000 | | 1 | 1 | | 1 | | |
| Embraer E190 | 9 | 7 | 16 | 15 | 1 | | |
| TOTAL OPERATIONS | 211 | 83 | 294 | 293 | 1 | 61 | 75 |

Notes:

1. Includes those operated by British Airways Plc and BA Cityflyer Limited.
2. One Boeing 747-400 was stood down and SAAB 2000 is a wet lease by BA CityFlyer Limited.
3. No changes in options to acquire from previous year end.

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