

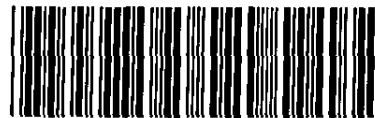
PARENT COMPANY ACCOUNTS
FOR BRITISH AIRWAYS 777
LEASING LIMITED, COMPANY
NUMBER: 04954270 (Pg.83)

British Airways Plc

Annual Report and Accounts Year ended 31 December 2017

Company registration number: 1777777

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Strategic report

The Directors present their strategic report for the year ended 31 December 2017.

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 premium 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 more than 290 aircraft, carrying customers to over 200 destinations in more than 80 countries. The Group's vision is: to be the airline of choice with personalised service, exceptional reliability, a digital mind-set and unique British style.

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

Continuing operations

- Total revenue: £12,226 million, up 7.3% (2016: £11,398 million)
- Operating profit before exceptional items: £1,774 million, up 18.5% (2016: £1,497 million)
- Passengers: 45.2 million, up 2.0% (2016: 44.3 million)
- Punctuality: 80%, up 3 points (2016: 77%)

The Group delivered pre-exceptional operating profit of £1,774 million (2016: £1,497 million) for the year despite operating in a challenging environment characterised by industrial action, extreme weather events, terror attacks and volatile fuel prices. Competition from low cost carriers continues to grow. 2017 was the first implementation year of the strategic plan, Plan4 announced in November 2016 focusing on activities that are designed to promote customer experience, safe and reliable operations, capital efficiency, cost competitiveness and developing employees. Economic factors such as a weaker pound sterling have a positive effect on the Group's reported revenues. The effect of fuel hedging activity also led to an increase in the reported results.

This was a challenging year for the British Airways brand. After changing the short haul catering proposition to "buy-on-board" in January, the Group faced the power outage in May and crew industrial action. Management focus for 2017 has therefore been on promoting BA's premium brand. Improving customer experience remains the core focus of BA. The airline continues to invest in enhancing experience during booking, pre-flight management, at the airport and on board.

Investing and innovating where customers value it most

In 2017, the Group announced a five-year, £4.5 billion investment programme to improve the experience of customers in all cabins. Over the next five years 70 new aircraft will enter service, which will be embodied with high speed Wi-Fi, in-seat power, new entertainment systems, and, from 2019, a new Club World seat on long-haul flights. The improved environmental performance of the new aircraft will contribute to the Group's reduction of carbon emissions. BA's existing aircraft will also undergo a refurbishment programme. By 2022 all long-haul wide-bodied aircraft will either be new or have a refurbished cabin. The programme to install Wi-Fi across BA's fleet will continue in 2018, with 90 per cent of longhaul aircraft fitted with the technology by 2019. The investment programme includes plans to continuously improve lounges across the network, with Rome and Aberdeen planned for 2018.

During 2017 a new First wing was opened at Heathrow Terminal 5 and New York JFK. In addition, new lounges were opened at Gatwick and Boston increasing customer satisfaction by over 20 points in both. In September BA launched a new, restaurant-inspired dining service in Club World on some North Atlantic routes. The roll out across the rest of BA's long-haul network will continue over the next twelve months, including an improved catering offer in World Traveller which commenced on some routes from January 2018. The Group has partnered with established high quality British brands like The White Company to enhance on-board comfort on the long-haul network. Following the introduction of the buy-on-board catering proposition, in partnership with Marks and Spencer ('M&S') on short-haul flights, the Group has continued to refine the delivery process in response to feedback from customers and cabin crew. Revenue is ahead of expectations as customers respond increasingly positively to the high quality and familiar M&S brand. The Group is refining this service to increase first choice availability and speed of delivery.

The Group is working on improving the way customer data is used, to enhance service and segmentation to increase sales. Frontline staff will be empowered through digital innovation. Over the next five years as connectivity on the aircraft is rolled out, cabin crew will be connected with individual tablets to enable crew to have detailed information on customers to facilitate service recovery, deliver a personalised service and sell ancillaries.

Strategic report continued

The airline's hub, Terminal 5 at London Heathrow is amongst the busiest terminals in Europe. About 20,000 people go through connections at Terminal 5 each day, which was resulting in extensive queues. The Group invested in 18 biometric automated gates resulting in considerably reduced queues, improving customer experience. Further, BA will invest in automated booking touchscreens in the flight connections zone to enable customers with missed connections to access a new booking and boarding pass. This automation improves customer experience in a cost effective manner for the airline.

Digital

Digital innovation underpins Plan4. The use of new technology, will enable BA to provide customers with a seamless, stress-free travel experience. For example, automation at the airport is enabling front line staff to focus more on customer service. The Group launched a new and updated *ba.com*, which delivers a new look and feel and is supported by improved technology, making it easier for customers to make bookings. The new site is simple and intuitive to use, meaning that in just a few clicks, customers can book a flight, check their upcoming journeys and pull up their Executive Club account.

Safe, reliable and responsible

The Group's operational performance has continued to improve in 2017 despite challenges including industrial action by Mixed Fleet cabin crew, a power outage on May Bank Holiday weekend, unexpected snow in December and a particularly challenging US and Caribbean hurricane season.

Based on Civil Aviation Authority data, BA was again a more reliable airline than its key competitors in 2017, with the best on-time departures from London. Punctuality, as measured by the key industry metric 'within 15 minutes departure' in 2017, was the best since 2011 at 80 per cent (2016: 77 per cent). In addition, the Group delivered a 25 per cent reduction in short-landed baggage and increased engineering reliability to 99 per cent. Short-landed baggage is a bag that is left behind, due to a number of reasons when it is meant to be on a flight. The Group is investing in additional bag store capacity at Heathrow, which will result in further improvement in baggage handling performance.

Following the operational disruption in May 2017 that occurred due to a power failure at the Group's primary data centre, BA has commenced a comprehensive programme of work to enhance its power and IT infrastructure and resilience with a number of key actions already implemented.

During 2017, Mototok tugs were introduced into operation, allowing BA to become the first operator worldwide of multiple units on live pushbacks. A Mototok is a high tech electrical aircraft pushback tug that uses radio remote control. This innovative operation has been introduced for short-haul aircraft at Heathrow and has already improved punctuality performance in 2017. Six Mototoks were in use by the end of 2017. By the end of Q1 2018, the Group expects all 25 short-haul gates in Terminal 5A to have a dedicated Mototok machine. Through the use of Mototoks, pushback delays, which are among the most significant causes of delays, are down 75 per cent on those gates that are being served by a Mototok.

BA is also working with Mototok on an exciting development which will see the use of this high-tech equipment in long-haul aircraft push back. The Group anticipates having a prototype on the ground by mid-2018 for long-haul aircraft, primarily B777s and B787s.

British Airways was the first European carrier to trial biometric boarding (at Los Angeles International Airport) for international departures. The introduction of automated boarding gates using biometric technology is cutting boarding times by about a third, contributing to the airline's punctuality track record. The Group is planning to roll out the automated boarding to international gates in 2019.

The Group continues to explore ways of fostering sustainable operations and corporate responsibility. During 2017, British Airways announced a partnership with renewable fuels company Velocys, to develop a system 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 also passionate about community development in global locations across the network. In 2017, the Group celebrated reaching £17 million funds raised for Comic Relief through its Flying Start partnership.

The Group has taken steps to prevent Modern Slavery within the Group and supply chains. As an operating company within IAG, BA has a designated person in the 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 supplier strategic importance.

Strategic report continued

Network development and fleet

In 2017 British Airways continued to grow its network. The airline introduced new routes to long-haul destinations including Santiago in Chile, New Orleans, Oakland and Fort Lauderdale in the US, as well as short-haul routes to Nantes, Limoges and Montpellier in France, Mykonos, Skiathos and Zakynthos in Greece and Brindisi and Florence in Italy. As well as flying from London City Airport, in 2017, BA CityFlyer extended its schedule to include flights to holiday hotspots from Birmingham, Bristol and Manchester, more leisure flights from Stansted, and ski routes to Chambery and Salzburg from Manchester. Routes to Toronto and Las Vegas from Gatwick airport are launching in 2018. The airline's network will grow even further in 2018 following the acquisition of slots at Gatwick previously owned by Monarch. In summer 2018 British Airways will have its largest ever route network with 284 routes.

The Group continued to expand the network through the use of codeshare agreements, with two new agreements introduced in the latter half of the year. The first, with Scottish airline Loganair, enables customers from the Highlands and Islands to book directly onto services on British Airways' global network at London Heathrow, Gatwick and London City airports. The second agreement, with China Southern Airlines offers British Airways customers onward travel to four business hubs in Shenyang, Harbin, Changchun and Dalian, promoting trade between British and Chinese businesses across the country.

British Airways continues to modernise its fleet, introducing more fuel efficient new generation technologically advanced aircraft. In 2017 the airline took delivery of its ninth B787-8, which operates alongside 16 B787-9s. In 2018, 20 new aircraft deliveries are planned including the airline's first Airbus A320 and A321 'NEOs' with their significantly improved environmental performance.

Improve capital efficiency and have competitive costs

The Group continues to deliver record financial results, a result of management focus on cost and capital efficiency. BA has continued the implementation of the transformational cost control restructuring programme which started in July 2016. This is part of the drive towards competitive costs, particularly employee costs and increased productivity. The programme delivered savings of over £90 million in 2017 and will continue into 2018 with targeted annual savings over £250 million by 2020. The programme is a key part of the Group's continuing commitment to achieve a 1 per cent non-fuel unit cost improvement annually over the course of the next five years to 2022. An exceptional expense relating to this programme of more than £90 million has been recorded in the income statement for 2017.

The restructuring programme continues to reduce overhead costs. In the engineering department, layers of management have been removed. In addition, the engineering activities at Glasgow, Cardiff and Gatwick have been overhauled. The paint shop at Heathrow and component overhaul facility in Hayes are being closed, initiatives with targeted annual savings of about £10 million. At the Group's head office a headcount reduction of back office staff of over 10 per cent has been achieved under the restructuring programme.

Sales administration headcount has been reduced by 31 per cent through automation and centralisation. A new sales hub was set up in Dublin and 36 properties were exited delivering further savings. Next year will see the introduction of a new corporate dealing tool to provide innovative support to the sales team.

Successful efficiency initiatives have meant the airline has been able to offer flights from £30 each way on more than 250,000 seats from Gatwick to destinations such as Venice, Barcelona, Rome and to Luxembourg, Palma, Malaga and Bilbao from Heathrow. On these routes customers have continued to choose lowest fares, travelling only with hand luggage, and making use of the buy-on-board catering service.

The airline is continuing to invest in technology to drive cost efficiency whilst improving the customer experience. Automation of operations and the elimination of manual tasks is a vital step in driving down costs and improving productivity. At Heathrow 24 self-service bag drops were opened. This reduces employee costs, improves customer experience by reducing transaction time compared to manned check in desks. More than 20 more self-service bag drops will be added in 2018. Feedback from customers on gates that use the self-service stations is positive. In addition, the airline has implemented automated processes in flight connections, with 18 new automatic gates and automated aircraft pushback through the use of Mototoks, which in turn has resulted in improved punctuality. Towing an aircraft with a Mototok is a one-man operation and removes the need for a wingman.

The Group is leveraging the fuel efficiency benefits of new generation aircraft and phasing out the older less fuel efficient aircraft like the long haul B747s and short haul A319s. The airline plans to phase out B747 aircraft by 2024. In addition some of the changes to cabin configuration will lead to about 7 per cent unit cost benefit. The Group's plans to up-gauge shorthaul aircraft will in turn increase capacity in those flights and free up slots that can be used to expand the longhaul network.

During 2017, the Group has seen a turnaround in the Revenue per Available Seat Kilometre (RASK) after three years of continued RASK decline. Whilst the macro environment contributes significantly to this, management initiatives have contributed to improving the conversion of website visits to actual flight bookings. The technological improvements to ba.com promoting a positive digital experience, cabin reconfiguration programmes and operational improvements have also contributed to increased bookings.

Strategic report continued

The Group implemented the new distribution capability (NDC) from 1 November 2017. NDC is the International Air Transport Association's (IATA) programme that improves communications between airlines and travel agents by addressing the industry's current distribution limitations around product differentiation, time to market, access to full content and the transparency of the shopping experience. This means there are more channels than ever for customers to buy through and more products for them to choose from. For the airline, NDC affords the ability to differentiate the product on offer and improves ancillary revenues. The full year effect of the new distribution channel will be reflected in 2018.

Pensions

As noted in last year's strategic report, the Group recognises the need to address the cost challenges of the defined benefit (DB) pension schemes. The New Airways Pension Scheme (NAPS) is the Group's largest DB scheme and had a £2.8 billion funding deficit as of March 2015. During 2017 BA paid more than £600 million in to the NAPS pension scheme. In September 2017, BA launched a pension scheme consultation with all affected employees. On 8 December 2017, the Group announced following consultation with trade unions and employees, a flexible benefits scheme incorporating a new defined contribution (DC) pension scheme will be launched in 2018. These changes are aimed at addressing the rising cost of future pension provision and the volatility in the NAPS scheme.

The new DC scheme will open on 1 April 2018 replacing the main UK DB scheme, NAPS and the main UK DC scheme, the British Airways Retirement Plan (BARP). The changes are subject to the NAPS Trustee agreeing to amend the scheme's rules to enable closure to future accrual.

The new scheme will offer market-competitive arrangements with a choice of contribution rates and the ability to opt for cash instead of a pension. Active NAPS members will also be offered a choice of transition arrangements including a cash lump sum, additional company pension contributions or additional pension benefits in NAPS prior to closure.

The overall financial impact on British Airways will depend, in part, on the transition arrangements members select.

People – unleash our true potential

The employees at British Airways are vital to the success of BA and the delivery of Plan4. The Group has a number of people-orientated initiatives that will develop leaders at all levels of the organisation and develop an agile organisation with a dynamic culture. Fundamental to this has been communication and engagement with colleagues. Over 3,500 managers and 2,500 cabin crew have attended Plan4 briefings, and updates to the plan will be communicated throughout 2018. Further details on staff engagement are provided in the Directors' report on page 13. In 2018 BA will invest in training for thousands of customer-facing technical and head office staff across the business.

To leverage the UK government apprentice scheme, the Group is investing in attaining approval as a registered employer-provider, allowing direct delivery of funded apprenticeship programmes to staff. This will enable BA to access funding to further enhance learning and development across the airline, airport and aircraft operations, as well as in central support functions by carefully selecting nationally recognised apprenticeship programmes. This will increase employee skills and capabilities, develop talent pipelines and identify innovative solutions for operations.

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. Progress on the UK visa policy seems to have become more likely, given the increased emphasis by government on trade with non-EU countries post-Brexit. The Group believes that the introduction of a ten-year visa will improve the UK's attractiveness to visitors from key markets such as China and India.

UK's Referendum vote to leave the EU

BA continues to believe that the UK's exit from the EU will not have a significant impact on its business. In 2017 IAG engaged extensively with the relevant authorities to ensure the IAG views on post-Brexit aviation arrangements are understood and taken into account. This included dialogue with the UK, Spanish and Irish governments, as well as the European Commission. The Group remains optimistic about future UK-EU aviation relations. During the year there has also been good progress on post-Brexit arrangements between the UK and third country markets currently governed by EU agreements, such as the US, where current open, liberal regimes are expected to continue seamlessly after the UK leaves the EU.

Non-financial information statement

Pursuant to Companies Act 2006 ss.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 2017.

Strategic report continued

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2017.

Summary financial performance

£ million	2017	2016	Better/(worse)
CONTINUING OPERATIONS			
Total revenue	12,226	11,398	7.3%
Total expenditure on operations before exceptional items	(10,452)	(9,901)	(5.6%)
Operating profit before exceptional items	1,774	1,497	18.5%
Exceptional items	(94)	(84)	nm
Operating profit after exceptional items	1,680	1,413	18.9%
Non-operating items	64	107	nm
Gain on deconsolidation of Avios Group (AGL) Limited	-	70	nm
Profit before tax	1,744	1,590	9.7%
Tax	(297)	(221)	nm
Profit after tax	1,447	1,369	5.7%

	2017	2016	Better/(worse)
CONTINUING OPERATIONS			
Available seat kilometres (ASK) (m)	179,077	177,756	0.7%
Revenue passenger kilometres (RPK) (m)	146,561	144,399	1.5%
Passenger load factor (%)	81.8	81.2	0.7%
Passenger revenue per ASK (p)	6.15	5.79	6.2%
Passenger revenue per RPK (p)	7.51	7.13	5.3%
Non-fuel costs per ASK at constant currency* (p)	4.37	4.19	(4.3%)

* Stated before exceptional items

nm = not meaningful

m = millions

p = pence

Revenue

£ million	2017	2016	Better/(worse)
CONTINUING OPERATIONS			
Passenger revenue	11,011	10,296	6.9%
Cargo revenue	683	589	16.0%
Total traffic revenue	11,694	10,885	7.4%
Other revenue	532	513	3.7%
Total revenue	12,226	11,398	7.3%

Revenue for the year was £12,226 million, up 7.3 per cent over the previous year. This included an increase in passenger revenue of £715 million, or 6.9 per cent. The increase in revenue is driven by rising premium yields which saw passenger revenue per RPK increase by 5.3 per cent aided by all major currencies strengthening against sterling and strong business sector performance across some longhaul routes.

Available capacity (ASKs) increased by 0.7 per cent as a result of the addition of one new aircraft and the seat densification programme which resulted in an increase in passengers carried.

Strategic report continued

There was a 16.0 per cent rise in cargo revenue following increased Asia Pacific exports to Latin America and North America mainly aided by all major currencies strengthening against sterling.

Other revenue has increased by 3.7 per cent. This is primarily growth within BA Holidays and the sterling weakening against major currencies.

Operating costs

£ million	2017	2016	Better/(worse)
CONTINUING OPERATIONS			
Employee costs	2,559	2,427	(5.4%)
Restructuring	-	4	nm
Depreciation, amortisation and impairment	751	756	0.7%
Aircraft operating lease costs	223	155	(43.9%)
Fuel, oil costs and emission charges	2,537	2,457	(3.3%)
Engineering and other aircraft costs	763	700	(9.0%)
Landing fees and en route charges	930	869	(7.0%)
Handling, catering and other operating costs	1,649	1,512	(9.1%)
Selling costs	480	414	(15.9%)
Currency differences	(6)	88	106.8%
Property, IT and other costs	566	519	(9.1%)
Total Group expenditure on operations	10,452	9,901	(5.6%)
Total Group expenditure excluding fuel	7,915	7,444	(6.3%)

*Stated before exceptional items

Fuel costs increased by £80 million, or 3.3 per cent, to £2,537 million compared to £2,457 million in the prior year. The increase is mainly attributed to adverse foreign exchange caused by the weakening of sterling against the US dollar due to continued uncertainty following the UK vote to leave the European Union (EU) and a higher average fuel price, which has increased from an average of \$414 per metric ton in 2016 to \$519 per metric ton in the current year. British Airways continues to benefit from the performance of next generation aircraft which are more fuel efficient.

Group expenditure excluding fuel increased to £7,915 million (2016: £7,444 million) principally driven by higher employee costs, aircraft operating lease costs, engineering, other aircraft, handling, catering and selling costs.

Employee costs have increased in line with annual pay increases, performance related remuneration and higher pension service costs. Depreciation, amortisation and impairment has decreased by 0.7 per cent. Engineering and other aircraft costs increased 9.0 per cent, driven by higher flying hours, with planned maintenance cycles and contractual price escalation on pay as you go engine maintenance contracts and weaker sterling exchange rates. Handling, catering and other operating costs increased 9.1 per cent. A significant proportion of the increase is due to £56 million of additional compensation fees and baggage claims related to operational disruption following the power outage in May 2017. Handling, catering and other operating costs also increased due to increased activity in cargo and BA Holidays, weakening sterling, which were partially offset by operational cost saving initiatives.

Aircraft lease costs have increased by 43.9 per cent representing the full year effect of the nine 787-9s and twelve Airbus A319 aircraft that were financed under operating lease agreements in 2016 and adverse sterling exchange movements. Selling costs have increased in line with the increase in revenue and also following the introduction of the new distribution model.

Operating profit

During the year the Group achieved a pre-exceptional operating profit of £1,774 million (2016: £1,497 million), exceeding the previous record that was set in 2016. Post-exceptional operating profit increased by 18.9 per cent to £1,680 million (2016: £1,413 million). The Group will continue to focus on profitability to finance the investment in new aircraft and ensure the Group is financially robust for the future.

Exceptional items

As described on page 4, BA is implementing a series of transformation proposals to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs and include other directly associated costs, such as onerous lease provisions and asset write down costs. Costs incurred in 2017 in respect of this programme amounted to £94 million (2016: £124 million), with a related tax credit of £18 million (2016: £25 million). Management expects to improve employee productivity as a result of this restructuring programme.

Strategic report continued

Non-operating items

Non-operating items have decreased by £113 million to £64 million. The prior year non-operating items included a £53 million gain on disposal of aircraft in sale and operating leaseback transactions and a gain on loss of control of a subsidiary of £70 million following a business transfer agreement with Avios Group (AGL) Limited ('AGL') which transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in AGL. The non-operating items decrease also comprises of £43 million of fair value losses on derivatives not qualifying for hedge accounting and £34 million of financing costs relating to defined benefit schemes offset by a £39 million reduction in finance costs following the repayment of related debt, a £18 million increase in share of post-tax profits in associates and £21 million currency retranslation gains.

Taxation

The tax charge on continuing operations for 2017 was £297 million (2016: £221 million), which included £18 million (2016: £17 million) relating to exceptional items. The Group profit before tax was £1,774 million (2016: £1,590 million including the £70 million additional gain on the loss of control of AGL, which was not taxable) including a £165 million (2016: £147 million) post-tax share of associate's profits. After adjusting for these items and the impact of tax rate changes, the Group's effective tax rate was 18.7 per cent (2016: 18.9 per cent), compared to the UK corporation tax rate of 19.25 per cent (2016: 20 per cent).

During the year, the net deferred tax liability increased by £314 million to £376 million, driven primarily by decreased net defined benefit pension liabilities given significant actuarial gains recognised in the year. The effects of rate changes have partially offset this increase.

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. a wholly owned subsidiary of IAG, effective on 1 January 2018 for a consideration of €1. As a result of this transaction, the operating performance of Openskies for the year has been treated as a discontinued operation. The assets and liabilities of Openskies constitute a disposal group under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' (see note 12) and have therefore been presented separately on the face of the balance sheet (see note 15). 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 received of €1), therefore the carrying amount has been written down to €1, resulting in an impairment charge of £14 million with a provision for loss on disposal of £10 million. The total loss from discontinued operations in 2017 is £44 million (2016: £24 million).

Capital expenditure

Total capital expenditure in the year amounted to £575 million (2016: £1,755 million). This comprised: £441 million (2016: £1,640 million) in fleet-related expenditure (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £134 million (2016: £115 million) on property, equipment and software.

During the year the Group took delivery of one Boeing 787-8 aircraft and one Embraer E190 aircraft.

Liquidity

The Group's liquidity position remains strong with £2.8 billion of cash, cash equivalents and other interest-bearing deposits (2016: £2.5 billion). Net debt at the end of the year was £1.5 billion (2016: £2.7 billion). This decrease reflects the debt repayments made in 2017 and no new aircraft financing in 2017 as well as the net cash generated in the year. 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 (2016: £0.9 billion) and further committed general facilities of £0.8 billion (2016: £0.8 billion).

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.

On 8 December 2017, British Airways announced a decision, following consultation with trade unions and employees, to launch a flexible benefits scheme incorporating a new defined contribution pension scheme from 1 April 2018. This would replace the main UK defined benefit (NAPS), and the main UK defined contribution scheme, the British Airways Retirement Plan (BARP). The changes are subject to the NAPS Trustee agreeing to amend the scheme's rules to enable closure to future accrual.

The new scheme will offer market-competitive arrangements with a choice of contribution rates and the ability to opt for cash instead of a pension. Active NAPS members will also be offered a choice of transition arrangements including a cash lump sum, additional company pension contributions or additional pension benefits in NAPS prior to its closure. The NAPS liabilities are expected to fall as a result of the closure, as deferred pensions are assumed to rise in line with the Consumer Price Index (CPI), whereas salary growth for active members is assumed to rise in line with pay rises and promotions, which are assumed to be higher. The impact of the closure on the liabilities will only be known once members have selected their transition arrangements, expected to be in March 2018.

Strategic report continued

Pensions continued

These changes are aimed at addressing the rising cost of future pension provision and the volatility in the NAPS scheme which had a funding deficit of £2.8 billion at the last technical valuation, 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. The technical valuation is different to the accounting (IAS 19) valuation reflected on the Company's balance sheet. The Company's balance sheet reflected a net liability of £338 million in 2015, £1,695 million in 2016 and £444 million in 2017. The improvement in the net liability on the balance sheet between 2016 and 2017 reflects significant cash contributions made by BA during 2017 of £653 million (2016: £618 million) and improved performance of pension scheme investments greater than the discount rate of £1,357 million (2016: £1,762 million) offset by the current service cost of £203 million (2016: £148 million) and the effect of financial assumptions, mainly AA corporate bond discount rates, of £556 million (2016: £3,589 million).

As reported in previous years, the Trustee of APS has proposed an additional discretionary increase above CPI for pensions in payment for the year ended 31 March 2014. British Airways believes that the Trustee does not have the power to grant such increases and has 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 Trustee does have the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors. The Group has appealed the judgment and awaits an appeal hearing, currently expected to be mid-2018. Payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways' appeal. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known.

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. 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 do not meet the needs 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 Business Plan, includes product investments to enhance our on board product, ancillaries, lounges and customer experience. We measure the success of our investment through Net Promoter Score (NPS). BA allocates substantial resources to safety, operational integrity and new aircraft to maintain its 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 address this risk. The Group is continually reviewing its product offerings and responds through initiatives to improve customer experience. As highlighted in the strategic report, the Group has introduced competitive products over the past year, including buy-on-board catering service on shorthaul flights.

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 weakened 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 network. 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 brands and our customers. BA's focus on the customer, together with its exploitation of digital 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 has been actively involved in ensuring that a cost effective, fit for purpose solution is developed.

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 e.g. 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

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 address 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 is in place and actions underway to confirm compliance to the new regulations which are effective May 2018. *The fast-moving nature of this risk means that we 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 air traffic control, industrial action, war, civil unrest or terrorism, 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.

In May, British Airways suffered a power failure to its primary data centre, which led to severe disruption to its customers and flights. Management has identified the root causes of the incident and reviewed business operations and continuity plans to increase resilience.

Failure of critical suppliers

BA is dependent on 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.*

Failure of a critical IT system

BA is dependent on IT systems for many of its principal business processes. The failure of a key 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.

Geopolitical tensions

Ongoing instability arising from geopolitical factors in any of our markets may have a detrimental impact on revenue and operating costs. BA maintains ongoing oversight of all markets and can adapt operational plans and capacity when prudent.

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, which can impact customer behaviour. 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.

There is continued uncertainty as we move into 2018 with upward pressure on fuel price and the changing political landscape. Following the UK's decision to leave the EU, IAG continues to evaluate potential changes to ensure that all airlines within IAG are able to operate effectively during any transition. IAG believes that a comprehensive EU/UK air transport agreement will be agreed. IAG has had extensive engagement with all relevant regulators/governments and is confident that it will comply with the EU and the UK ownership and control rules post-Brexit. *At this stage, BA does not believe that Brexit will have a significant impact on the business in the longer-term.* However, as for many other industries, there will continue to be some uncertainty particularly if an EU/UK transitional deal is not agreed.

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 operations and financial performance. The Safety Committee satisfies itself that BA has appropriate safety resources and procedures. The Crisis Management Centre responds in a structured way in the event of an incident.

Strategic report continued

Financial

Debt funding

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

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 local 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 commercial policy for the route.

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' Trustees on funding and investment decisions. During the year British Airways concluded a review of future pension benefits, including an employee consultation. The result was a proposal to close NAPS to future accrual and BARP to future contributions on 31 March 2018 and on 1 April 2018 to launch a new flexible benefits scheme, including a 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.

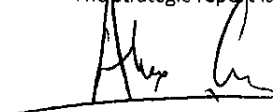
The financial risks faced by the Group are covered in more detail in note 27 to the financial statements

Compliance and regulatory

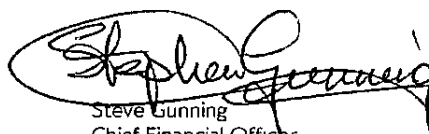
Non-compliance with key regulations including competition, bribery, corruption and sanctions laws

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 February 2018



Steve Gunning
Chief Financial Officer
22 February 2018

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 12 of the strategic report.

Results and dividends

The pre-exceptional operating profit for the year ended 31 December 2017 amounted to £1,774 million (2016: £1,497 million). The operating profit for the year ended 31 December 2017 is £1,680 million (2016: £1,413 million).

The Company paid the following dividends:

First interim dividend of £100 million paid in April 2017

Second interim dividend of £100 million paid in August 2017

Third interim dividend of £200 million paid in September 2017

Fourth interim dividend of £60 million paid in December 2017

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: £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, 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 sex, marital status (both marriage and civil partnership), race, colour, nationality, ethnic or national origins, sexual orientation, gender reassignment, disability, religion or belief and age. The Group's diversity and inclusion policy covers British Airways' employees in all parts of the Company, at all levels and covers all aspects of the employment relationship. The Company 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 and applications are welcomed from individuals with disabilities. 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

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. 22 per cent (2016: 19 per cent) of STEM work experience placements were completed by females. 46 per cent of BA's workforce is female, with 28 per cent of women in senior leadership positions. Females make up 50 per cent of the BA Board and 25 per cent of the BA Management Committee.

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. However, as the Company continues to be an issuer of listed debt it remains subject to certain provisions of the Companies Act 2006, Listing Rules and the Disclosure and Transparency Rules. In order to comply with these provisions, certain information about the Company's Corporate Governance is detailed in this report.

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. 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 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 12 of the strategic report.

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.

Directors' report continued

Going concern

The business activities, performance, strategy and risks of the Group are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in the financial review on pages 6 to 9 of the strategic report, and 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

LAG 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 2017 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 2017 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.

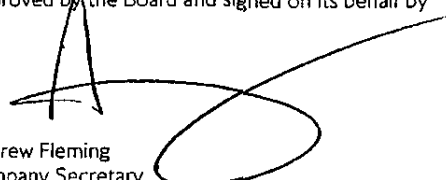
The Directors as listed are responsible for keeping adequate accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the 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 February 2018
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 2017 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 as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent Company
Group balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
Group consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Group statement of other comprehensive income for the year then ended	Cash flow statement for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 37 to the financial statements including a summary of significant accounting policies
Group cash flow statement for the year then ended	
Related notes 1 to 37 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the financial statements 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 public interest 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.

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.

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	• Valuation of British Airways defined benefit pension plan obligations • Passenger revenue recognition, specifically in relation to the risk of management override • Valuation of aircraft maintenance obligations
Audit scope	• The components where we performed full audit procedures accounted for 95% of operating profit, 95% of revenue and 95% of total assets.
Materiality	• Overall group materiality of £80 million which represents approximately 5% of 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
Valuation of defined benefit pension plan obligations (£25,065 million, FY16: £24,609 million) <i>Refer to the accounting policies (page 28) and note 32 of the Group financial statements (pages 75 to 80).</i> The valuation of these balances requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of defined benefit plan obligations.	Our procedures included the following: • We involved internal experts to assist in the evaluation of the assumptions used in the valuation of the Group's defined benefit pension plan obligations. • We understood the key assumptions used and the process followed to develop those. This included conference calls with British Airways' external actuaries. • We compared the assumptions applied to those used in the prior year and understood the basis for any changes. • We independently checked a sample of the scheme membership data provided to the actuaries to the pension plan membership records. • We evaluated the independence and qualification of management's external actuaries involved in the valuation process. • We assessed the adequacy of the related disclosures.	The actuarial assumptions used in the valuation of the year-end defined benefit pension plan obligations are within an acceptable range for the respective durations of the Group's pension plans. We consider the valuation of the pension plan obligations to be appropriate.
Risk	Our response to the risk	Key observations communicated to the Board of Directors
Passenger revenue recognition, specifically in relation to the risk of management override (£11,011 million, FY16: £10,295 million) <i>Refer to the accounting policies (page 28) and note 4 of the Group financial statements (page 37).</i> The accounting for passenger revenue is susceptible to management override through the recording of manual	Our procedures included the following: • We tested the key controls in the passenger revenue process to validate that they were designed and operating effectively. • We tested the general IT controls to confirm that they were preventative of unauthorised system override.	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. We concluded that the recognition of revenue in the year was appropriate.

journal entries either in the underlying ledgers or as a consolidation journal, the override of IT systems to accelerate revenue recognition, or the manipulation of inputs used to calculate the recognition of revenue for used tickets.

- We used data analytic techniques to analyse the flow of transactions from ticket sales to passenger revenue.
- We identified and tested manual postings to passenger revenue.
- We tested a sample of passenger tickets to ensure that the revenue was recognised in the correct period.
- We validated the inputs into the calculations for the recognition of unused tickets by re-running key reports and checked the completeness and accuracy of the underlying data.

Risk	Our response to the risk	Key observations communicated to the Board of Directors
Valuation of aircraft maintenance obligations (£325 million, FY16: £318 million) <i>Refer to the accounting policies (page 28) and note 26 of the Group financial statements (page 60).</i> The accounting for maintenance obligations under lease agreements, including the restoration and handback provision, is subject to management assumptions. These assumptions include the number of hours or cycles each engine will have flown at the return date and the cost of performing the required restoration work at that future date.	Our procedures included the following: • We obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease. • We confirmed there were no changes in lease or maintenance agreements during the year which would impact the aircraft restoration and handback provisions. • We assessed management's assumptions as to the forecast usage of each asset at the return date through an analysis of historical flight data and current engine conditions. We corroborated the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices. • For maintenance under power by the hour contracts we confirmed that the expense was recognised at the contractual flying hour rates and checked the actual flying hours in BA's operating system to confirm the completeness of the accruals for un-invoiced maintenance work.	We concluded that the assumptions used in the calculation of the engine maintenance provision and the value of the provision at 31 December 2017 was appropriate.

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 Group financial statements.

We performed an audit of the financial information of the Parent Company financial statements. The Parent Company accounted for 95% (2016: 95%) of the Group's operating profit, 95% (2016: 95%) of the Group's revenue and 95% (2016: 95%) of the Group's total assets.

For the remaining components, that together represent 5% (2016: 5%) of the Group's operating profit, we performed other procedures, including analytical review and testing of journals 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 £80 million (2016: £74 million), which is approximately 5% (2016: 5%) of operating profit. We believe that 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 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 £80 million (2016: £74 million) based on 5% (2016: 5%) of operating profit.

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% (2016: 75%) of our planning materiality, namely £60 million (2016: £54 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 £4 million (2016: £4 million), which is set at 5% of 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 12, 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 in relation to the financial statements set out on page 16, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

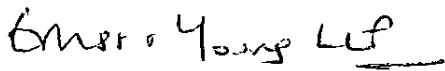
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS and the Companies Act 2006) and those tax compliance regulations relevant to the Group. In addition, we concluded that there are certain significant laws and regulations specific to the aviation industry which may affect the determination of the amounts and disclosures in the financial statements, being the requirements set out by the Civil Aviation Authority, the International Air Transport Association and The EU Emissions Trading Scheme.
- We understood how British Airways Plc is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures, the Head of Legal and Company Secretary, and the Board.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of stakeholder and analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors those programmes and controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations set out in the paragraphs above. Our procedures included corroborating our enquiries through our review of board minutes, papers provided by Management and the Board, and correspondence received from regulatory bodies. In addition we performed journal entry testing, with a focus on journals indicating large or unusual transactions based on our understanding of the business.

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.

Other matters we are required to address

- Following the recommendation of the Board of Directors, we were appointed as auditor by the Board of Directors and signed an engagement letter on 20 February 2018. We were appointed by the Company on May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 34 years, covering the years ending 31 March 1985 to 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Board of Directors



Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 February 2018

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 of that company; 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		Group	
£ million	Note	2017	2016
CONTINUING OPERATIONS			
Passenger revenue		11,011	10,296
Cargo revenue		683	589
Traffic revenue		11,694	10,885
Other revenue		532	513
Total revenue	4	12,226	11,398
Employee costs	8	2,559	2,427
Restructuring	8	-	4
Depreciation, amortisation and impairment	6	751	756
Aircraft operating lease costs	6	223	155
Fuel, oil costs and emission charges		2,537	2,457
Engineering and other aircraft costs		763	700
Landing fees and en route charges		930	869
Handling, catering and other operating costs		1,649	1,512
Selling costs		480	414
Currency differences		(6)	88
Property, IT and other costs		566	519
Total expenditure on operations before exceptional items		10,452	9,901
Operating profit before exceptional items		1,774	1,497
Exceptional items	5	(94)	(84)
Operating profit after exceptional items	6	1,680	1,413
Finance costs	9	(106)	(145)
Finance income	9	35	22
(Loss)/profit on sale of property, plant and equipment and investments		(6)	123
Net gain relating to available-for-sale financial assets		6	4
Share of post-tax profits in associates accounted for using the equity method	18	165	147
Realised losses on derivatives not qualifying for hedge accounting ¹		(9)	(6)
Unrealised gains on derivatives not qualifying for hedge accounting ¹		-	40
Net financing (charge)/credit relating to pensions	32b	(24)	10
Net currency retranslation credits/(charges)		3	(18)
Profit before tax from continuing operations		1,744	1,590
Tax	10	(297)	(221)
Profit after tax from continuing operations		1,447	1,369
DISCONTINUED OPERATIONS			
Loss after tax from discontinued operations	12	(44)	(24)
Profit after tax		1,403	1,345
Attributable to:			
Equity holders of the parent		1,385	1,329
Non-controlling interest		18	16
		1,403	1,345

¹The prior year consolidated income statement includes disaggregation to conform to the current year presentation of derivative fair value changes as described in note 2. The prior year consolidated income statement has also been re-presented to separately identify the results of discontinued operations. Refer to note 12 for further details. The loss after tax from discontinued operations is attributable entirely to equity holders of the parent.

Group statement of other comprehensive income

For the year ended 31 December			Group
£ million	Note	2017	2016
Profit after tax for the year		1,403	1,345
Other comprehensive income:			
Items that will not be reclassified to net profit			
Remeasurement of post-employment benefit obligations	32c	792	(1,829)
Income taxes	10	(140)	369
		652	(1,460)
Items that may be reclassified to net profit			
Currency translation differences	31a	8	32
Fair value movements in equity on cash flow hedges	31a	157	(405)
Fair value of cash flow hedges reclassified to net profit	31a	22	506
Other movements in comprehensive income of associates	18	(4)	20
Available-for-sale financial assets - fair value movements in equity	31a	8	3
Available-for-sale financial assets - recycled to net profit	31a	-	(1)
Income taxes	10	(36)	(31)
		155	124
Total other comprehensive income/(loss)		807	(1,336)
Total comprehensive income for the year (net of tax)		2,210	9
Attributable to:			
Equity holders of the parent		2,192	(7)
Non-controlling interest	31a	18	16
		2,210	9

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

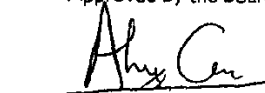
Balance sheets

As at 31 December		Group		Company	
£ million	Note	2017	2016	2017	2016
Non-current assets					
Property, plant and equipment:					
Fleet	13	6,935	7,105	6,713	6,866
Property	13	785	784	751	748
Equipment	13	218	235	212	229
		7,938	8,124	7,676	7,843
Intangibles:					
Goodwill	16	40	40	-	-
Landing rights	16	644	656	644	643
Emissions allowances	16	16	3	16	3
Software	16	291	293	281	284
		991	992	941	930
Investments in subsidiaries	18	-	-	1,278	1,315
Investments in associates accounted for using the equity method	18	1,912	1,857	1,563	1,563
Available-for-sale financial assets	19	60	53	40	40
Employee benefit assets	32a	904	866	904	866
Deferred tax assets	10	-	-	-	29
Derivative financial instruments	28	73	61	74	61
Other non-current assets	20	282	447	334	526
Total non-current assets		12,160	12,400	12,810	13,173
Current assets and receivables					
Inventories		131	133	128	131
Trade receivables	20	766	710	751	693
Other current assets	20	597	594	527	783
Derivative financial instruments	28	206	139	209	139
Other current interest-bearing deposits	21	1,840	1,425	1,840	1,425
Cash and cash equivalents	21	956	1,070	886	1,003
		2,796	2,495	2,726	2,428
Assets held for sale	15	22	-	-	-
Total current assets and receivables		4,518	4,071	4,341	4,174
Total assets		16,678	16,471	17,151	17,347
Shareholders' equity					
Issued share capital	29	290	290	290	290
Share premium	29	1,512	1,512	1,512	1,512
Other reserves ¹	31	3,972	2,239	4,410	2,886
Total shareholders' equity		5,774	4,041	6,212	4,688
Non-controlling interest	31	200	200	-	-
Total equity		5,974	4,241	6,212	4,688
Non-current liabilities					
Interest-bearing long-term borrowings	24	3,716	4,470	3,985	4,745
Employee benefit obligations	32a	698	1,991	668	1,960
Deferred tax liabilities	10	376	62	280	-
Provisions for liabilities and charges	26	337	307	281	237
Derivative financial instruments	28	57	5	57	5
Other non-current liabilities	23	52	61	35	38
Total non-current liabilities		5,236	6,896	5,306	6,985
Current liabilities					
Current portion of long-term borrowings	24	572	680	588	689
Trade and other payables ²	22	1,943	1,697	2,245	2,167
Deferred revenue on ticket sales ²		2,638	2,639	2,541	2,545
Derivative financial instruments	28	52	18	52	23
Current tax payable	10	116	64	101	46
Provisions for liabilities and charges	26	125	236	106	204
Liabilities directly associated with the assets held for sale	15	22	-	-	-
Total current liabilities		5,468	5,334	5,633	5,674
Total equity and liabilities		16,678	16,471	17,151	17,347

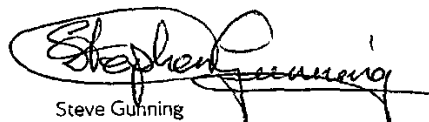
¹The profit for the year for the Company is £1,190 million (2016: £2,218 million).

²The prior year Group and Company balance sheets include disaggregation to reflect deferred revenue on ticket sales separately.

Approved by the Board and signed on its behalf by



Alex Cruz
Chairman and Chief Executive Officer
22 February 2018



Steve Gunning
Chief Financial Officer
22 February 2018

Cash flow statements

For the year ended 31 December £ million	Note	Group		Company	
		2017	2016	2017	2016
Cash flow from operating activities					
Operating profit from continuing operations after exceptional items		1,680	1,413	1,601	1,339
Exceptional items		94	84	94	82
Operating profit before exceptional items from continuing operations		1,774	1,497	1,695	1,421
Operating loss from discontinued operations		(44)	(24)	-	-
		1,730	1,473	1,695	1,421
Depreciation, amortisation and impairment		766	769	726	735
Employer contributions to defined benefit pension schemes	32d	(765)	(731)	(763)	(729)
Defined benefit pension scheme service costs	32b	203	158	201	157
Movement in working capital and other non-cash movements		300	109	411	78
<i>Decrease/(increase) in trade and other receivables, prepayments, inventories and current assets</i>		13	(295)	277	(273)
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>		287	404	134	351
Payments related to restructuring	26	(110)	(59)	(110)	(59)
Interest paid		(73)	(113)	(92)	(130)
Interest received		20	25	20	25
Taxation	10	(107)	(104)	(107)	(104)
Net cash generated from operating activities		1,964	1,527	1,981	1,394
Cash flow from investing activities					
Purchase of property, plant and equipment and intangible assets		(575)	(1,755)	(566)	(1,746)
Investment in subsidiaries	18	-	-	(37)	(8)
Sale of property, plant and equipment and intangible assets		3	1,008	3	1,008
Dividends received	18	114	105	103	117
Loan repaid by fellow group undertaking		53	34	53	34
Other investing movements		4	4	4	3
Increase in other current interest-bearing deposits		(415)	(227)	(415)	(227)
Net cash used in investing activities		(816)	(831)	(855)	(819)
Cash flow from financing activities					
Proceeds from long-term borrowings		-	729	-	729
Repayments of borrowings		(121)	(405)	(106)	(327)
Repayment of finance leases		(615)	(419)	(638)	(396)
Dividends paid		(460)	(351)	(460)	(351)
Distributions made to holders of perpetual securities		(18)	(16)	-	-
Net cash flow from financing activities		(1,214)	(462)	(1,204)	(345)
(Decrease)/increase in cash and cash equivalents		(66)	234	(78)	230
Net foreign exchange differences		(31)	(12)	(39)	(17)
Cash and cash equivalents at 1 January		1,070	848	1,003	790
Cash and cash equivalents as at 31 December¹		973	1,070	886	1,003
Interest-bearing deposits maturing after more than three months		1,840	1,425	1,840	1,425
Cash, cash equivalents and other interest-bearing deposits at 31 December		2,813	2,495	2,726	2,428

¹The closing cash and cash equivalents balance includes £17 million presented as held for sale, refer to note 15

Statements of changes in equity

For the year ended 31 December 2017

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
Profit for the year	-	-	1,385	1,385	18	1,403
Other comprehensive income for the year	-	-	807	807	-	807
Total comprehensive income for the year	-	-	2,192	2,192	18	2,210
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	3,972	5,774	200	5,974

For the year ended 31 December 2016

For the year ended 31 December 2016	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 2016	290	1,512	2,596	4,398	200	4,598
Profit for the year	-	-	1,329	1,329	16	1,345
Other comprehensive loss for the year	-	-	(1,336)	(1,336)	-	(1,336)
Total comprehensive (loss)/income for the year	-	-	(7)	(7)	16	9
Dividends	-	-	(350)	(350)	-	(350)
Distributions made to holders of perpetual securities	-	-	-	-	(16)	(16)
As at 31 December 2016	290	1,512	2,239	4,041	200	4,241

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
Profit for the year	-	-	1,190	1,190
Other comprehensive income for the year	-	-	793	793
Total comprehensive income for the year	-	-	1,983	1,983
Dividends	-	-	(460)	(460)
Credit of share-based payment (net of tax)	-	-	1	1
As at 31 December 2017	290	1,512	4,410	6,212

For the year ended 31 December 2016

	Company			
£ million	Issued share capital	Share premium	Other reserves (note 31)	Total equity
Balance at 1 January 2016	290	1,512	2,399	4,201
Profit for the year	-	-	2,218	2,218
Other comprehensive loss for the year	-	-	(1,381)	(1,381)
Total comprehensive income for the year	-	-	837	837
Dividends	-	-	(350)	(350)
As at 31 December 2016	290	1,512	2,886	4,688

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 22 February 2018 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 its 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 its 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 available-for-sale financial assets 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 12), and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis 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, page 37 and note 12, page 46 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 has been presented as a discontinued operation for the year ended 31 December 2017. A single amount is 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. Comparative information has also been re-presented to reflect discontinued operations as a separate line item.

In order to provide additional information on the nature of non-operating items included in the income statement, the Group has included an additional line item to separate the unrealised movements on open derivatives from realised gains and losses.

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

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as sales in advance of carriage in current liabilities until the customer has flown. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

Other revenue including maintenance, handling, holiday and commission revenues is recognised at the time the service is provided in accordance with the invoice or contract.

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 IFRIC 13 'Customer loyalty programmes', the fair value 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.

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). Subsequently they are accounted for at cost less any accumulated impairment losses. 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.

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.

2 Significant accounting policies continued

a Capitalisation of interest on progress payments

Interest attributed to progress payments and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction 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 seven 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 four 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.

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.

2 Significant accounting policies continued

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.

Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short-dated nature of these assets. A provision for impairment of receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

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 profit or loss 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.

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 IAS 39 'Financial Instruments - Recognition and Measurement', 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 and re-evaluates this designation at each period-end, except for those financial instruments measured at fair value through the income statement

a Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. 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 Available-for-sale financial assets

Other equity investments (other than interests in associates and joint ventures) classified as available-for-sale financial assets are those that are neither classified as held for trading nor designated at fair value through profit or loss, and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold, when the cumulative amount recognised in equity is recognised in the income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss previously reported in equity is included in the income statement.

2 Significant accounting policies continued

Financial instruments continued

The fair value of quoted investments is determined by reference to published bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost (disclosed in note 28b).

c Derivatives

Derivative financial instruments, comprising foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures), 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. The treatment of gains and losses arising from revaluation is described below in the accounting policy for cash flow hedges. The gains or losses related to derivatives not used as effective hedging instruments are recognised in 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 until the investment is sold when the cumulative amount recognised in equity is recognised in the income statement.

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.

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 for the period are taken to equity. Gains and losses taken to 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.

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 IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in other comprehensive income is included in the income statement.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

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.

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.

2 Significant accounting policies continued

Critical accounting estimates and judgements continued

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

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

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 2017 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, following legal proceedings the Group has appealed the initial judgment that the Trustee has the power to award discretionary increases to pensions in payment in the 2013/14 scheme year. Further information on these proceedings is disclosed in note 33. The sensitivity to changes in pension increase assumptions is disclosed in note 32.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

c Passenger revenue recognition

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.

At 31 December 2017 the Group recognised £2,638 million in respect of deferred revenue on ticket sales (2016: £2,639 million) of which £77 million (2016: £75 million) related to customer loyalty programmes.

d Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is 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 issues 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 2017 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

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

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"). BA 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. BA has significant influence over Iberia, even though BA 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. BA has significant influence over AGL due to representation on the AGL board as provided for by the governance agreement, but not control as BA no longer has the power to direct the activities of AGL even though BA holds more than 50 per cent of the voting power of AGL.

2 Significant accounting policies continued

b Engineering and other aircraft costs

The Group has a number of maintenance contracts with service providers to repair or replace engine parts. These agreements are complex and 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. Movements on provisions for the contractual maintenance and return conditions for aircraft held under operating leases are disclosed in note 26.

3 Changes in accounting policy and disclosures

Impact of new International Financial Reporting Standards

The Group has adopted IAS 7 (Amendment) 'Statement of cash flows' for the first time in the year ended 31 December 2017. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group has addressed this requirement by providing a reconciliation between the opening and closing balances of long-term borrowings (see note 24f).

Other amendments adopted for the first time in the year ended 31 December 2017 have not resulted in a significant change to the financial position or performance of the Group, or to presentation and disclosures in the Group financial statements.

New standards, amendments and interpretations not yet effective

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

The Group has identified the following changes to revenue recognition on adoption of IFRS 15: Revenue from Contracts with Customers:

- Passenger revenue – revenue associated with ancillary services that is currently recognised when paid, such as administration fees, will be deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – interline cargo revenue will be 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 holiday revenue with performance obligations that are fulfilled over time, will be deferred (with the related costs) and recognised over the performance obligation period.

The Group expects to apply the standard on a fully retrospective basis. On adoption of the standard, the adjustment to retained earnings as at 1 January 2017 is expected to be a charge of £12 million. For the year ended 31 December 2017, adjustments to reflect the new standard are expected to be: increase to revenue £46 million; and increase to operating costs £50 million, resulting in a reduction in operating profit of £4 million. As at 31 December 2017, current assets will have no impact and current liabilities will increase by £19 million.

IFRS 9 'Financial Instruments' is effective for periods beginning on or after 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 strategy and objectives. The standard will allow the Group to hedge account for specific risk components of its fuel purchases, such as crude oil price risk. It also requires movements in the time value of options (currently recognised in the income statement) to be recognised in other comprehensive income as they are considered to be a cost of hedging. The standard requires companies to make an election on whether gains and losses on equity instruments measured at fair value should be recognised in the income statement or other comprehensive income, with no recycling. On adoption of the standard, the Group expects the following changes:

Financial assets will be classified as at 'amortised cost', 'fair value through profit and loss', or 'fair value through other comprehensive income'. The Group has reviewed its existing classifications and confirmed that most financial assets will continue to be recognised at amortised cost. Equity investments, previously classified as available-for-sale will be classified as financial assets at fair value through other comprehensive income, with no recycling of gains and losses.

The new impairment model will be applied to trade receivables and other financial assets. Any adjustment to existing provisions on transition will not be material.

The Group will continue to undertake hedging activity in line with its financial risk management objectives and policies. The following changes to hedge accounting will be adopted:

- Non-financial components of price risk may be designated in a hedge relationship;
- Movements in the time value of options will be classified as cost of hedging; and
- Hedge effectiveness assessments will be aligned to the requirements of IFRS 9.

3 Changes in accounting policy and disclosures continued

The amounts recognised in the income statement in respect of derivatives not qualifying for hedge accounting will reduce.

On adoption of the standard, to reflect the change in accounting for the time value of options, there will be a reclassification of accumulated post-tax gains of £21 million from retained earnings to unrealised gains and losses in other reserves as at 1 January 2017. Comparative information in the income statement in respect of the year ended 31 December 2017 will be adjusted to reflect a reduction in unrealised losses on derivatives not qualifying for hedge accounting of £13 million, a reduction in net currency retranslation charges of £9 million and an increase in the tax charge of £4 million, with an offsetting movement in other comprehensive income. Other changes to hedge accounting will be applied prospectively.

IFRS 16 'Leases' is effective from 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group has a number of operating leases for assets including aircraft, property and other equipment. Details of the Group's operating lease commitments are disclosed in note 25.

The Group is currently assessing the impact of the new standard and expects its implementation to have a significant impact on the financial statements from the date of adoption. The main changes will be as follows:

- 1 The amounts recognised as assets and liabilities on adoption of IFRS 16 will be subject to a number of judgements, estimates and assumptions. This includes:
 - a. Judgements when reviewing current agreements (such as agreements for terminal capacity) to determine whether they contain leases as defined under the new standard.
 - b. Assumptions used to calculate the discount rate to apply to lease obligations, which is likely to be based on the incremental borrowing rate for the estimated lease term
 - c. Estimation of the lease term, including options to extend the lease where the Group is reasonably certain to extend.
- 2 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' asset. It is expected that lease obligations, which are predominantly US dollar denominated, will be recognised at the exchange rate ruling on the date of adoption and the appropriate incremental borrowing rate at that date, with the related 'right-of-use' asset recognised at the exchange rate ruling at the commencement of the lease.
- 3 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.
- 4 The Group's operating and financial statistics will also be impacted. These comprise operating margin and operating margin before exceptional items; EBITDAR and net debt/total capital ratio. The definitions of these metrics will be reviewed on adoption of IFRS 16 to ensure that they continue to measure the outcome of the Group's strategy and monitor performance against long-term planning targets.

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 right-of-use asset will be recognised at the historic exchange rate. This will create volatility in the income statement.

IFRIC Interpretation 23 'Uncertainty over tax treatments' (not yet endorsed by the EU); 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 is currently assessing the impact of the interpretation.

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	
	2017	2016 ¹
UK	5,884	5,674
USA	2,326	2,139
Rest of the world	4,016	3,585
Revenue	12,226	11,398

¹The prior period analysis removes revenues from operations that have been reported within discontinued operations as described in note 12. The revenue from discontinued operations is £44 million (2016: £45 million) of which £22 million is from the "USA" category (2016: £22 million) and £22 million from the "Rest of the world" category (2016: £23 million).

The total of non-current assets excluding available-for-sale financial assets, employee benefit assets, other non-current assets and derivative financial instruments located in the UK is £10,612 million (2016: £10,750 million), USA is £9million (2016: £33 million) and the total of these non-current assets located in other countries is £200 million (2016: £190 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	
	2017	2016
Revision in US Post Retirement Benefit Plan past service costs	-	40
Restructuring costs	(94)	(124)
Exceptional items	(94)	(84)

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

£ million	Group	
	2017	2016
Employee costs	-	40
Restructuring	(94)	(124)
Exceptional items	(94)	(84)

BA has embarked on a transformation programme to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs and include other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year ended 31 December 2017 in respect of this programme amounted to £94 million (2016: £124 million), with a related tax credit of £18 million (2016: £25 million).

In 2016 the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to further bring the level of benefits in line with national trends seen in the US. This scheme is accounted for in a similar way to a defined benefit pension plan, so any reduction in benefit results in the recognition of a past service gain when the plan amendment occurs. This resulted in a one-off gain in 2016 in employee costs of £40 million with a related tax charge of £8 million.

6 Expenses by nature

Operating profit is arrived at after charging:

Depreciation, amortisation and impairment of non-current assets:

£ million	Group	
	2017	2016 ¹
Owned assets	459	481
Finance leased aircraft	207	206
Other leasehold interests	30	30
Amortisation of intangible assets	55	39
Depreciation, amortisation and impairment	751	756

¹The prior period analysis excludes expenses from operations that have been reported within discontinued operations as described in note 12. Relating to discontinued operations are the depreciation on owned assets of £1 million (2016: £1 million) and an impairment charge on property, plant and equipment and intangible assets of £14 million (2016: £12 million).

Operating lease costs:

£ million	Group	
	2017	2016 ¹
Minimum lease rentals - aircraft	223	155
- property and equipment	130	111
Property and equipment sub-lease rentals received	(2)	(1)
Operating lease costs	351	265

¹The prior period analysis excludes expenses from operations that have been reported within discontinued operations as described in note 12. The aircraft lease rentals from discontinued operations are £4 million (2016: £4 million).

Cost of inventories:

£ million	Group	
	2017	2016
Cost of inventories recognised as an expense, mainly fuel	1,485	1,116

7 Auditor's remuneration

£ '000	Group	
	2017	2016
Fees payable to the Group's auditor for the audit of the Group's accounts	1,505	1,489
Fees payable to the Group's auditor and its associates for other services:		
Audit of the Group's subsidiaries pursuant to legislation - UK	169	170
Audit of the Group's subsidiaries pursuant to legislation - Worldwide	120	119
Other services pursuant to legislation	148	127
Other services relating to taxation	-	6
Other assurance services	319	344
	2,261	2,255

Fees payable to the Group's auditor for the audit of the Group's pension schemes total £40,000 (2016: £38,000).

The audit fees payable to Ernst & Young LLP are approved by the BA Board.

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	
	2017	2016	2017	2016
UK	38,960	39,444	36,830	37,547
Overseas	4,165	4,430	2,932	3,293
	43,125	43,874	39,762	40,840

£ million	2017	2016 ¹	2017	2016
Wages and salaries	1,648	1,571	1,558	1,493
Social security costs	189	188	179	180
Costs related to pension scheme benefits (note 32b)	273	223	264	217
Other employee costs	449	445	430	429
Total employee costs excluding restructuring	2,559	2,427	2,431	2,319
Restructuring	-	4	-	4
Total employee costs	2,559	2,431	2,431	2,323

¹The prior period excludes expenses from operations that have been reported as discontinued operations as described in note 12. The employee costs in relation to discontinued operations are £9 million for wages and salaries (2016: £8 million), £4 million for social security costs (2016: £4 million) and £1 million for other employee costs (2016: £1 million).

Included in 'wages and salaries' is a total expense for share-based payments of £7 million (2016: £10 million) that arises from transactions accounted for as equity-settled share-based payment transactions (see note 30). Note 5 shows exceptional items of £94 million (2016: £84 million) which include restructuring costs of £94 million (2016: £124 million) comprising of employee severance costs of £57 million (2016: £113 million) and in 2016 a £40 million pension credit. Including the exceptional items results in total employee costs of £2,616 million (2016: £2,544 million). Other employee costs include allowances and accommodation for crew.

b Directors' emoluments

£ million	Group	
	2017	2016
Directors' remuneration	3	4

During the year, four Directors (2016: four) of the Company were employed and remunerated by IAG.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £1,359,000 (2016: £830,000) and contributions to the Company's defined benefit scheme amounted to £nil (2016: £nil). The value of the accrued benefits in respect of his pension scheme at 31 December 2017 amounted to £nil (2016: £nil). The highest paid director participated in IAG's Long Term Incentive Schemes, the awards for which were exercised during the year (no awards were exercised in prior year).

During the year no Directors (2016: none) accrued benefits under a defined benefit pension scheme and no Directors (2016: one) accrued benefits under a defined contribution pension scheme. There were no pension contributions made during the year (2016: less than £1 million).

Four Directors (2016: eight) participated in IAG's Long Term Incentive Schemes and four exercised awards during the year (2016: seven). The aggregate compensation paid to past directors in respect of loss of office during the year amounted to £nil (2016: £357,000).

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	
	2017	2016
Short-term employee benefits	5	8
Share-based payments	2	4
Other benefits ¹	1	1
At 31 December	8	13

¹Other benefits relate to post-employment benefits of £229,000 (2016: £482,000) and termination benefits of £276,000 (2016: £464,000).

9 Finance costs and income

a Finance costs

£ million	Group	
	2017	2016
On bank loans	(13)	(19)
On finance leases	(86)	(97)
On other loans	(12)	(31)
Interest expense	(111)	(147)
Unwinding of discounting on provisions (note 26)	(1)	1
Capitalised interest on progress payments ¹	6	2
Change in fair value of cross currency swaps	-	(1)
Finance costs	(106)	(145)

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.

b Finance income

£ million	Group	
	2017	2016
Interest on other investments and interest-bearing deposits (financial assets not at fair value through income statement)	20	22
Other finance income	15	-
Finance income	35	22

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 2017

£ million	Group			
	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	(36)	(284)	1	(319)
Rate change	(2)	10	-	8
Total deferred tax	(41)	(274)	1	(314)
Total tax	(297)	(176)	1	(472)

The tax charge on continuing operations for 2017 include an £18 million tax credit in relation to exceptional items (see note 5). Current tax in other comprehensive income related to employee retirement benefit plans and current tax in statement of changes in equity related to share-based payments.

The tax charge of £176 million in the statement of other comprehensive income included £140 million relating to items that will not be reclassified to net profit and £36 million relating to items that may be reclassified to net profit

10 Tax continued

a Tax on ordinary activities continued

For the year ended 31 December 2016

				Group
£ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current income tax				
Movement in respect of prior years	8	-	-	8
Movement in respect of current year	(225)	112	2	(111)
Total current income tax	(217)	112	2	(103)
Deferred tax				
Movement in respect of prior years	(11)	-	-	(11)
Movement in respect of current year	(30)	261	(2)	229
Rate change	37	(35)	-	2
Total deferred tax	(4)	226	(2)	220
Total tax	(221)	338	-	117

The tax charge on continuing operations for 2016 included a £17 million tax credit in relation to exceptional items (see note 5). Current tax in other comprehensive income related to employee retirement benefit plans and current tax in statement of changes in equity related to share-based payments.

The tax credit of £338 million in the statement of other comprehensive income included a credit of £369 million relating to items that will not be reclassified to net profit and a charge of £31 million relating to items that may be reclassified to net profit.

b Current and deferred tax

Current tax account

£ million

Current tax asset/(liability)	Opening balance	Movement in respect of prior years	Movement in respect of current year	Cash paid	Other movements	Closing balance
For the year ended 31 December 2017	(64)	2	(160)	107	(1)	(116)
For the year ended 31 December 2016	(69)	8	(111)	104	4	(64)

£101 million of the current tax liability related to the Company (2016: £46 million).

Deferred tax account

£ million

Deferred tax asset/(liability)	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
For the year ended 31 December 2017	(62)	(3)	(319)	8	(376)
For the year ended 31 December 2016	(282)	(11)	229	2	(62)

£280 million of the deferred tax liability related to the Company (2016: £29 million deferred tax asset).

10 Tax continued

b Current and deferred tax continued

Detailed deferred tax

For the year ended 31 December 2017

£ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
Property, plant and equipment	(581)	1	(1)	-	(581)
Employee severance and other employee related provisions	17	-	(5)	-	12
Tax losses carried forward	35	1	(28)	-	8
Fair value losses recognised on cash flow hedges	91	-	(35)	2	58
Foreign currency translations	6	(4)	-	(1)	1
Employee benefit plans	359	(2)	(250)	7	114
Share-based payment schemes	4	-	-	-	4
Other provisions	1	1	-	-	2
Hedge ineffectiveness on open fuel contracts	6	-	-	-	6
As at 31 December	(62)	(3)	(319)	8	(376)

In 2017 the effect of tax rate changes on items that will not be reclassified to the income statement was £10 million (2016: £24 million) and the effect on items that may be reclassified to the income statement was £nil (2016: £11 million).

For the year ended 31 December 2016

£ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
Property, plant and equipment	(619)	7	(8)	39	(581)
Employee severance and other employee related provisions	-	5	13	(1)	17
Tax losses carried forward	68	(8)	(24)	(1)	35
Fair value losses recognised on cash flow hedges	123	-	(21)	(11)	91
Foreign currency translations	5	(4)	5	-	6
Employee benefit plans	107	-	276	(24)	359
Share-based payment schemes	7	-	(3)	-	4
Other provisions	13	(11)	(1)	-	1
Hedge ineffectiveness on open fuel contracts	14	-	(8)	-	6
As at 31 December	(282)	(11)	229	2	(62)

10 Tax continued

b Current and deferred tax continued

Detailed deferred tax movement in respect of current year in the income statement, other comprehensive income and statement of changes in equity

For the year ended 31 December 2017

For the year ended 31 December 2017				Group
£ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Property, plant and equipment	(1)	-	-	(1)
Employee severance and other employee related provisions	(5)	-	-	(5)
Tax losses carried forward	(28)	-	-	(28)
Fair value losses recognised on cash flow hedges	-	(35)	-	(35)
Employee benefit plans	(1)	(249)	-	(250)
Share-based payment schemes	(1)	-	1	-
Total tax	(36)	(284)	1	(319)

A tax charge of £35 million (2016: £21 million) related to tax in other comprehensive income that may be reclassified to the income statement and a tax charge of £249 million (2016: £282 million credit) related to tax in other comprehensive income that will not be reclassified to the income statement.

For the year ended 31 December 2016

For the year ended 31 December 2016				Group
£ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Property, plant and equipment	(8)	-	-	(8)
Employee severance and other employee related provisions	13	-	-	13
Tax losses carried forward	(24)	-	-	(24)
Fair value losses recognised on cash flow hedges	-	(21)	-	(21)
Foreign currency translations	5	-	-	5
Employee benefit plans	(6)	282	-	276
Share-based payment schemes	(1)	-	(2)	(3)
Other provisions	(1)	-	-	(1)
Hedge ineffectiveness on open fuel contracts	(8)	-	-	(8)
Total tax	(30)	261	(2)	229

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/(credit) is calculated at the standard rate of UK corporation tax. The tax charge on the profit for the year ended 31 December 2017 and 2016 is lower than the expected tax charge at the UK rate. The Group's effective tax rate is 17.0% (2016: 13.9%) and the differences to the UK rate are explained below:

	Group	
£ million	2017	2016 ¹
Accounting profit before tax	1,744	1,590
Tax calculated at the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	336	318
Effects of:		
Non-deductible expenses - non-recurring items	-	3
Non-deductible expenses - recurring items	2	4
Non-taxable income	(1)	(7)
Employee benefit plan accounting under IFRIC 14	(3)	(5)
Euro preferred securities accounted for as non-controlling interests	(4)	(10)
Adjustments in respect of prior years	1	3
Tax rate changes	2	(37)
Non-taxable dividends	(1)	-
Tax on associates' profits	(31)	(29)
Tax incentives	(4)	(5)
Gain on disposal of AGL	-	(14)
Tax charge in the income statement	297	221

¹The prior period excluded expenses from operations that have been reported as discontinued operations as described in note 12

d Other taxes

The Group also contributed tax and related revenues through payment of transaction and payroll related taxes and charges. A breakdown of these other taxes and charges paid during 2017 is as follows:

	Group	
£ million	2017	2016 ¹
Payroll related taxes	189	188
UK Air Passenger Duty	682	652
Other ticket taxes and charges	439	397
	1,310	1,237

¹The prior period excluded expenses from operations that have been reported as discontinued operations as described in note 12

e Factors that may affect future tax charges

	Group	
£ million	2017	2016
Unrecognised temporary differences - losses		
UK capital losses arising before the change in ownership of the UK Group in 2011	32	28
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	250	250

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of £903 million (2016: £960 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

10 Tax continued

e Factors that may affect future tax charges continued

Tax rate changes

The main rate of corporation tax applicable from 1 April 2020 is reducing from 18 per cent to 17 per cent. This will reduce the Group's future current tax charge. The deferred tax on temporary differences and tax losses at 31 December 2017 was calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

f Contingent tax liabilities

The Group files income tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to potentially 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	
	2017	2016
First interim dividend:		
A1 Ordinary shares: £87.41 per share (2016: £305.95)	78	275
A2 Ordinary shares: £87.41 per share (2016: £305.95)	9	30
C Ordinary shares: £87.41 per share (2016: £305.95)	13	45
Second interim dividend:		
A1 Ordinary shares: £87.41 per share (2016: £nil)	78	-
A2 Ordinary shares: £87.41 per share (2016: £nil)	9	-
C Ordinary shares: £87.41 per share (2016: £nil)	13	-
Third interim dividend:		
A1 Ordinary shares: £174.83 per share (2016: £nil)	157	-
A2 Ordinary shares: £174.83 per share (2016: £nil)	17	-
C Ordinary shares: £174.83 per share (2016: £nil)	26	-
Fourth interim dividend:		
A1 Ordinary shares: £52.45 per share (2016: £nil)	47	-
A2 Ordinary shares: £52.45 per share (2016: £nil)	5	-
C Ordinary shares: £52.45 per share (2016: £nil)	8	-
	460	350

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 constitute a disposal group under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' because it represents a separate major operation with a distinct brand and has been treated as a separate cash generating unit ('CGU') for the purpose of impairment testing. The Openskies operation is 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 will result in 100 per cent of BA Group's airline operations consisting of flights departing or arriving in the UK. The assets and liabilities of Openskies have therefore been 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 has been written down to €1, resulting in an impairment charge of £14 million with a provision for loss on disposal of £10 million. 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	2017	2016
Passenger revenue	42	44
Other revenue	2	1
Total revenue	44	45
Employee costs	14	13
Depreciation, amortisation and impairment	1	13
Aircraft operating lease costs	4	4
Fuel, oil and emission charges	16	12
Engineering and other aircraft costs	11	10
Landing fees and en route charges	6	8
Handling, catering and other operating costs	11	8
Selling costs	1	1
Impairment of assets held for sale at fair value	14	-
Loss on remeasurement of assets to fair value	10	-
Total operating costs	88	69
Operating loss and loss before tax from discontinued operations	(44)	(24)
Tax	-	-
Loss after tax from discontinued operations	(44)	(24)

The discontinued operations had a net cash outflow of £19 million as reported in the cash flow statement. The results for the prior period have been presented in line with the requirements of IFRS 5.

b Cash flows relating to discontinued operations

£ million	2017	2016
Net cash outflow from operating activities	(19)	(11)
Net decrease in cash and cash equivalents	(19)	(11)

There were no cash flows relating to investing or financing activities in the discontinued operations.

13 Property, plant and equipment

a Group

	Group			
£ million	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2016	14,872	1,597	912	17,381
Exchange adjustment	1	-	1	2
Additions	1,625	22	31	1,678
Disposals	(1,943)	(4)	(11)	(1,958)
Reclassification to intangible assets	-	-	(16)	(16)
Balance as at 31 December 2016	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)
As at 31 December 2017	14,829	1,637	923	17,389
Depreciation and impairment				
Balance at 1 January 2016	7,806	795	660	9,261
Charge for the year	639	40	39	718
Disposals	(995)	(4)	(9)	(1,008)
Reclassification to intangible assets	-	-	(8)	(8)
Balance as at 31 December 2016	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)
As at 31 December 2017	7,894	852	705	9,451
Net book amounts				
31 December 2017	6,935	785	218	7,938
31 December 2016	7,105	784	235	8,124
Analysis as at 31 December 2017				
Owned	2,962	722	176	3,860
Finance leased	3,473	-	3	3,476
Progress payments	424	63	39	526
Assets not in current use	76	-	-	76
	6,935	785	218	7,938
Analysis as at 31 December 2016				
Owned	2,828	751	181	3,760
Finance leased	3,946	-	5	3,951
Progress payments	254	33	49	336
Assets not in current use	77	-	-	77
	7,105	784	235	8,124

	Group	
£ million	2017	2016
The net book amount of property comprises:		
Freehold	230	239
Long-leasehold improvements	279	279
Short-leasehold improvements ²	276	266
As at 31 December	785	784

¹ Refer to note 15.

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

At 31 December 2017, bank and other loans of the Group are secured on fleet assets with a net book amount of £519 million (2016: £567 million).

13 Property, plant and equipment continued

b Company

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2016	14,294	1,508	874	16,676
Additions	1,635	22	29	1,686
Disposals	(1,980)	-	(9)	(1,989)
Balance as at 31 December 2016	13,949	1,530	894	16,373
Additions	460	44	20	524
Disposals	(111)	(21)	(14)	(146)
As at 31 December 2017	14,298	1,553	900	16,751
Depreciation and impairment				
Balance at 1 January 2016	7,481	743	635	8,859
Charge for the year	636	39	38	713
Disposals	(1,034)	-	(8)	(1,042)
Balance as at 31 December 2016	7,083	782	665	8,530
Charge for the year	603	37	36	676
Disposals	(101)	(17)	(13)	(131)
As at 31 December 2017	7,585	802	688	9,075
Net book amounts				
31 December 2017	6,713	751	212	7,676
31 December 2016	6,866	748	229	7,843
Analysis as at 31 December 2017				
Owned	2,750	688	170	3,608
Finance leased	3,463	-	3	3,466
Progress payments	424	63	39	526
Assets not in current use	76	-	-	76
	6,713	751	212	7,676
Analysis as at 31 December 2016				
Owned	2,599	715	175	3,489
Finance leased	3,936	-	5	3,941
Progress payments	254	33	49	336
Assets not in current use	77	-	-	77
	6,866	748	229	7,843

£ million	Company	
	2017	2016
The net book amount of property comprises:		
Freehold	196	203
Long-leasehold improvements	279	279
Short-leasehold improvements ¹	276	266
As at 31 December	751	748

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

At 31 December 2017, bank and other loans of the Company are secured on fleet assets with a net book amount of £386 million (2016: £427 million)

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £5,377 million for the Group (2016: £6,025 million) and £5,374 million for the Company (2016: £6,022 million). The majority of capital expenditure commitments are denominated in US dollars and as such the commitments are subject to exchange movements.

The outstanding commitments include £5,308 million for the acquisition of 25 Airbus A320s (from 2018 to 2022), ten Airbus A321s (from 2018 to 2019), 18 Airbus A350s (from 2019 to 2022) and 17 Boeing 787s (from 2018 to 2023).

15 Assets and liabilities held for sale

Assets held for sale as at 31 December 2017 represents the assets and liabilities of Openskies SASU, a 100 per cent owned 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 has been written down to €1, resulting in an impairment charge of £14 million with a provision for loss on disposal of £10 million. There were no assets held for sale as at 31 December 2016.

E million	2017
Property, plant and equipment	1
Intangible assets	13
Trade receivables	3
Other current assets	2
Cash and cash equivalents	17
Impairment provision on revaluation 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

					Group
£ million	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 January 2016	40	724	6	462	1,232
Additions	-	-	4	54	58
Disposals	-	-	(7)	-	(7)
Reclassification from property, plant and equipment	-	-	-	16	16
Exchange differences	-	5	-	-	5
Balance as at 31 December 2016	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
As at 31 December 2017	40	693	16	583	1,332
Amortisation					
Balance at 1 January 2016	-	59	-	192	251
Charge for the year ²	-	-	-	39	39
Reclassification from property, plant and equipment	-	-	-	8	8
Impairment ³	-	12	-	-	12
Exchange differences	-	2	-	-	2
Balance as at 31 December 2016	-	73	-	239	312
Charge for the year ²	-	1	-	54	55
Reclassification to held for sale ¹	-	(26)	-	-	(26)
Exchange differences	-	1	-	(1)	-
As at 31 December 2017	-	49	-	292	341
Net book amounts					
31 December 2017	40	644	16	291	991
31 December 2016	40	656	3	293	992

¹Refer to note 15

²Amortisation on non-EU based landing rights was less than £1 million for the period.

³The impairment charge of £12 million in 2016 relates to landing rights associated with Openskies operation, £10 million of which relates to landing rights in the EU that have an indefinite life.

16 Intangible assets continued

b Company

£ million	Company			
	Landing rights	Emissions allowances	Software	Total
Cost				
Balance at 1 January 2016	692	6	461	1,159
Additions	-	4	51	55
Disposals	-	(7)	-	(7)
Balance as at 31 December 2016	692	3	512	1,207
Additions	1	19	47	67
Disposals	-	(6)	-	(6)
As at 31 December 2017	693	16	559	1,268
Amortisation				
Balance at 1 January 2016	49	-	191	240
Charge for the year ¹	-	-	37	37
Balance as at 31 December 2016	49	-	228	277
Charge for the year ¹	-	-	51	51
Exchange Adjustments	-	-	(1)	(1)
As at 31 December 2017	49	-	278	327
Net book amounts				
31 December 2017	644	16	281	941
31 December 2016	643	3	284	930

¹Amortisation on non-EU based landing rights was less than £1 million for the period.

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 (2016: two) 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	2017				2016			
	Emissions allowances	Landing rights	Goodwill	Total	Emissions allowances	Landing rights	Goodwill	Total
Network airline operations	16	644	40	700	3	646	40	689

The recoverable amount of the network airline operations has been measured based on its 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 beyond 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

	2017	2016
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	8.5%	8.5%
Long-term growth rate	2.3%	2.5%

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 constitute a disposal group under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and have therefore been 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 has been written down to €1, resulting in an impairment charge of £14 million which is included in the loss from discontinued operations (see note 12). In 2016, the Group recognised an impairment charge of £12 million in respect of landing rights associated with the Openskies operation.

c Impairment of fleet

During the year ended 31 December 2017 and 2016 no impairment charge was recognised.

18 Investments

a Group

£ million	Group	
	2017	2016
Balance at 1 January	1,857	1,775
Exchange differences	8	20
Share of attributable results	165	147
Share of movements on other reserves	(4)	20
Dividends received ¹	(114)	(105)
As at 31 December	1,912	1,857

¹The Group received dividends, net of withholding tax, of £12 million (2016: £10 million) from Iberia and £102 million (2016: £95 million) from AGL.

	Percentage of equity owned	Measurement basis	Principal activities	Holding	Country of incorporation and principal operations
IB Opco Holding, S.L. ('Iberia') ¹	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

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

£ million	Group			
	2017		2016	
	Iberia	AGL	Iberia	AGL
Non-current assets	3,204	27	2,781	19
Current assets	2,195	1,308	2,069	1,421
Current liabilities	(1,847)	(1,200)	(1,643)	(1,346)
Non-current liabilities	(2,159)	(1)	(1,967)	-
Net equity	1,393	134	1,240	94
Group's share of net equity	189	115	168	81
Goodwill attributable to investments in associates	8	1,598	8	1,598
Total investment in associates	197	1,713	176	1,679

The Group's carrying amount of investments in other associates was £2 million (2016: £2 million).

Revenues	4,285	814	3,714	747
Operating costs	(4,103)	(618)	(3,495)	(577)
Other income and costs (including tax)	36	(39)	(16)	(36)
Net profit after tax	218	157	203	134
Other comprehensive (expense)/income	(32)	-	145	-
Total comprehensive income for the year (net of tax)	186	157	348	134

The Group's share of total comprehensive income of other associates was less than £1 million (2016: less than £1 million).

While the Group holds less than 20 per cent of the issued share capital of Iberia, it accounts for its 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 its 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	
			Total 2017	Total 2016
Balance at 1 January	1,909	(594)	1,315	1,315
Additions	37	-	37	8
Disposals ¹	(294)	294	-	-
Provision	-	(74)	(74)	(8)
As at 31 December	1,652	(374)	1,278	1,315

¹BA de-recognised one investment in subsidiary during the year following liquidation (2016: one). The net carrying value of the investments at the date of liquidation was less than £1 million (2016: less than £1 million).

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 84 and 85.

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

£ million	Company	
	Total 2017	Total 2016
As at 31 December	1,563	1,563

19 Available-for-sale financial assets

£ million	Group		Company	
	2017	2016	2017	2016
Listed securities				
Comair Limited	20	13	-	-
Unlisted securities (see note 28b)	40	40	40	40
Available-for-sale financial assets	60	53	40	40

20 Trade receivables and other assets

Other non-current assets are set out below:

£ million	Group		Company	
	2017	2016	2017	2016
Prepayments and accrued income	95	135	78	116
Other debtors	10	59	10	58
Loans owed by fellow group undertakings	177	253	177	253
Amounts owed by subsidiaries	-	-	69	99
Other non-current assets	282	447	334	526

Trade receivables and other current assets are set out below:

£ million	Group		Company	
	2017	2016	2017	2016
Trade receivables	784	726	769	710
Provision for doubtful receivables	(18)	(16)	(18)	(17)
Net trade receivables	766	710	751	693
Prepayments and accrued income	415	443	284	321
Other debtors	94	100	93	100
Loans owed by fellow group undertakings	88	51	88	51
Amounts owed by subsidiaries	-	-	62	311
Trade receivables and other current assets	1,363	1,304	1,278	1,476

The ageing analysis of trade receivables is as follows:

£ million	Group		Company	
	2017	2016	2017	2016
Neither past due nor impaired	698	567	683	551
Past due but not impaired:				
< 30 days	16	80	16	80
30 - 60 days	22	32	22	31
> 60 days	30	31	30	31
Net trade receivables	766	710	751	693

Trade receivables are generally non-interest-bearing and on 30 day terms.

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

a Cash and cash equivalents

£ million	Group		Company	
	2017	2016	2017	2016
Cash at bank and in hand	901	950	831	883
Short-term deposits falling due within three months	55	120	55	120
Cash and cash equivalents	956	1,070	886	1,003
Other current interest-bearing deposits maturing after three months	1,840	1,425	1,840	1,425

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 £956 million for the Group (2016: £1,070 million) and £886 million for the Company (2016: £1,003 million).

At 31 December 2017, the Group and Company had no outstanding bank overdrafts (2016: £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 deposit was made.

b Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2017	2016
(Decrease)/increase in cash and cash equivalents from continuing operations	(66)	234
Cash used in discontinued operations	(17)	-
Increase in other current interest-bearing deposits	415	227
Net cash outflow from repayment of debt	736	824
New loans and finance leases taken out	-	(729)
Decrease in net debt resulting from cash flow	1,068	556
Exchange differences and other non-cash movements	96	(749)
Decrease/(increase) in net debt during the year	1,164	(193)
Net debt at 1 January	(2,656)	(2,463)
Net debt as at 31 December	(1,492)	(2,656)

Net debt is calculated as total cash and cash equivalents and current interest bearing deposits less total interest bearing borrowings.

22 Trade and other payables

£ million	Group		Company	
	2017	2016	2017	2016
Trade creditors	1,319	1,126	1,264	1,049
Amounts owed to subsidiary companies	-	-	372	556
Other creditors	487	496	479	492
Other taxation and social security	32	31	32	31
Accruals and deferred income	105	44	98	39
As at 31 December	1,943	1,697	2,245	2,167

23 Other non-current liabilities

£ million	Group		Company	
	2017	2016	2017	2016
Accruals	12	10	9	7
Deferred income	40	51	26	31
As at 31 December	52	61	35	38

24 Long-term borrowings

£ million	Group		Company	
	2017	2016	2017	2016
a Current				
Bank and other loans ¹	83	121	42	80
Finance leases ²	489	559	516	582
Loans from subsidiaries	-	-	30	27
As at 31 December	572	680	588	689
b Non-current				
Bank and other loans ¹	393	431	307	295
Finance leases ²	3,323	4,039	3,331	4,075
Loans from subsidiaries	-	-	347	375
As at 31 December	3,716	4,470	3,985	4,745

¹Bank and other loans are repayable up to 2027. Bank and other loans of the Group amounting to £433 million (2016: £515 million) and bank and other loans of the Company amounting to £306 million (2016: £338 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 £34 million (2016: £63 million) of finance leases with subsidiaries of the Group, of which £27 million (2016: £26 million) is classified as current.

c Bank and other loans

Bank and other loans comprise the following:

£ million	Group		Company	
	2017	2016	2017	2016
Floating rate pound sterling mortgage loans secured on aircraft (i)	24	45	-	-
Floating rate US dollar mortgage loan secured on aircraft (ii)	-	10	-	10
Floating rate euro mortgage loan secured on aircraft (iii)	246	255	246	255
Fixed rate Chinese yuan mortgage loans secured on aircraft (iv)	60	73	60	73
Fixed rate US dollar mortgage loan secured on aircraft (v)	103	132	-	-
European Investment Bank sterling loans secured on property (vi)	-	2	-	2
Fixed rate unsecured US dollar loans (vii)	43	35	43	35
	476	552	349	375
Less: current instalments due on bank and other loans	83	121	42	80
Non-current bank and other loans as at 31 December	393	431	307	295

(i) Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 1.07 per cent. The loans are repayable between 2018 and 2019.

(ii) Floating rate US dollar mortgage loans were secured on specific aircraft assets of the Group and bears interest of 3.66 per cent. The loans were repaid in 2017.

(iii) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.17 per cent and 1.17 per cent. The loans are repayable between 2024 and 2027.

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

(v) 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 are repayable between 2021 and 2026.

(vi) European Investment Bank pound sterling loan was secured on certain property assets of the Group and bears interest of 0.50 per cent. The loan was repaid in 2017.

(vii) 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	
	2017	2016	2017	2016
Loans:				
Bank:				
US dollar	\$196	\$219	\$58	\$56
Euro	€278	€303	€278	€303
Chinese yuan	¥525	¥623	¥525	¥623
Pound sterling	£24	£47	-	£2
	476	552	349	375
Loans from subsidiary undertakings:				
US dollar	-	-	\$151	\$184
Euro	-	-	€300	€300
	-	-	377	402
Finance leases:				
US dollar	\$2,303	\$2,607	\$2,302	\$2,601
Euro	€1,645	€1,807	€1,645	€1,807
Japanese yen	¥63,978	¥63,614	¥63,978	¥63,614
Pound sterling	£260	£527	£294	£590
	3,812	4,598	3,847	4,657
As at 31 December	4,288	5,150	4,573	5,434

e Obligations under finance leases

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

£ million	Group		Company	
	2017	2016	2017	2016
Future minimum payments due:				
Within one year	585	649	612	674
After more than one year but within five years	1,860	2,255	1,868	2,293
In five years or more	1,843	2,226	1,843	2,226
	4,288	5,130	4,323	5,193
Less: finance charges	476	532	476	536
Present value of minimum lease payments	3,812	4,598	3,847	4,657
The present value of minimum lease payments is analysed as follows:				
Within one year	489	559	516	582
After more than one year but within five years	1,569	1,956	1,577	1,992
In five years or more	1,754	2,083	1,754	2,083
As at 31 December	3,812	4,598	3,847	4,657

24 Long-term borrowings continued

f Changes in liabilities arising from financing activities

£ million	Group	Company
Balance at 1 January 2017		
Current	680	689
Non-current	4,470	4,745
	5,150	5,434
Additions ¹	33	31
Repayment of borrowings	(121)	(106)
Repayment of finance leases	(615)	(638)
Exchange differences	(144)	(133)
Other movements ²	(15)	(15)
As at 31 December 2017	4,288	4,573
Current	572	588
Non-current	3,716	3,985
	4,288	4,573

¹Additions are made up entirely of non-cash additions (compound interest) in both the Group and Company.

²Other movements relate to the non-cash gains on early repayment of debt.

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 twelve years for aircraft and 128 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	
	2017	2016 ¹	2017	2016
Within one year	217	241	206	212
Between one and five years	687	824	673	791
Over five years	416	579	416	579
As at 31 December	1,320	1,644	1,295	1,582

¹Included in the 2016 fleet commitments was £6 million from operations that have been reported as discontinued in the current year, £3 million of which was within one year.

b Property, plant and equipment

£ million	Group		Company	
	2017	2016	2017	2016
Within one year	104	67	99	62
Between one and five years	258	138	245	125
Over five years	1,716	1,717	1,709	1,709
As at 31 December	2,078	1,922	2,053	1,896

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 £4 million (2016: £6 million) with £3 million (2016: £3 million) falling due within one year and £1 million (2016: £3 million) between one and five years.

26 Provisions for liabilities

					Group
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2017	318	94	95	36	543
Provisions recorded during the year	53	103	32	115	303
Utilised during the year	(19)	(110)	(94)	(103)	(326)
Release of unused amounts	(5)	(13)	-	(20)	(38)
Reclassified to liabilities directly related to assets held for sale	(2)	-	-	-	(2)
Exchange differences	(21)	-	2	-	(19)
Unwinding of discount	1	-	-	-	1
As at 31 December 2017	325	74	35	28	462
Analysis:					
Current	17	54	33	21	125
Non-current	308	20	2	7	337
	325	74	35	28	462

					Company
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2017	225	94	94	28	441
Provisions recorded during the year	41	103	31	113	288
Utilised during the year	(6)	(110)	(94)	(97)	(307)
Release of unused amounts	(1)	(13)	1	(18)	(31)
Transfer from subsidiary companies	9	-	-	-	9
Exchange differences	(16)	-	2	-	(14)
Unwinding of discount	1	-	-	-	1
As at 31 December 2017	253	74	34	26	387
Analysis:					
Current	-	54	34	18	106
Non-current	253	20	-	8	281
	253	74	34	26	387

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 also capitalised. The provisions relate to leases up to 2028.

Restructuring provisions mainly represent the estimated costs of settling employee obligations under the Group's restructuring programme (see note 5). The remaining costs associated with this programme are expected to be incurred in 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. During the year BA repaid the £89 million (£104 million) European Commission fine relating to alleged anti-competitive activity concerning the Group's cargo businesses.

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; and provisions relating to unfavourable contracts. During the year the Group recognised a charge relating to compensation fees and baggage claims following the operational disruption due to a power outage in May 2017. The provision also consists of staff leaving indemnities that were set up based on Collective Labour Agreements or local country regulations. The payments associated with these provisions will be made when an employee leaves the Group.

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 markets 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 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					
2017			2016		
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	16	629	30	25	486
(30)	(23)	(559)	(30)	(40)	(403)

27 Financial risk management objectives and policies continued

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.

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)
2017	10 (10)	2 (2)	53 (73)	10 (10)	30 (30)	(200) 200
2016	10 (10)	18 (18)	(105) 126	10 (10)	33 (33)	(218) 219

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)
2017	10 (10)	(2) 2	(40) 40	10 (10)	- -	(6) 6
2016	10 (10)	(2) 2	(42) 42	10 (10)	1 (1)	(7) 7

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt 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. Had there been a 50 basis point increase in interest rates, there would have been less than £1 million adverse (2016: less than £1 million) 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 (2016: less than £1 million) 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 Group 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 Group 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.

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. Due to the volatile nature of the underlying business, 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 2017 the Group and Company had unused overdraft facilities of £10 million (2016: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 December 2017 (2016: £25 million).

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

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

million	31 December 2016	
	Currency	£ equivalent
US dollar facility expiring December 2021	\$1,164	942
US dollar facility expiring June 2022	\$1,030	833

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.

£ million	Group					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 and hire purchase 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	(1,908)	-	(12)	-	-	(1,920)
Derivative financial instruments:						
Forward currency contracts (asset)	15	4	1	-	-	20
Fuel derivatives (asset)	113	72	58	12	-	255
Currency option contracts (asset)	2	-	2	-	-	4
Forward currency contracts (liability)	(26)	(24)	(35)	(19)	-	(104)
Currency option contracts (liability)	(1)	(1)	(2)	(1)	-	(5)
As at 31 December	(2,128)	(306)	(562)	(1,570)	(1,995)	(6,561)

£ million	Group					Total 2016
	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	(259)	(390)	(667)	(1,588)	(2,226)	(5,130)
Fixed rate borrowings	(56)	(21)	(42)	(125)	(27)	(271)
Floating rate borrowings	(28)	(30)	(45)	(81)	(153)	(337)
Trade and other payables	(1,662)	-	(10)	-	-	(1,672)
Derivative financial instruments:						
Forward currency contracts (asset)	31	34	24	2	-	91
Fuel derivatives (asset)	35	29	23	3	-	90
Currency option contracts (asset)	4	6	9	-	-	19
Forward currency contracts (liability)	(9)	(1)	(2)	-	-	(12)
Fuel derivatives (liability)	(4)	(3)	(3)	-	-	(10)
Currency option contracts (liability)	-	(1)	-	-	-	(1)
As at 31 December	(1,948)	(377)	(713)	(1,789)	(2,406)	(7,233)

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 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 and hire purchase 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)	17	5	2	-	-	24
Fuel derivatives (asset)	113	72	58	12	-	255
Currency option contracts (asset)	2	-	2	-	-	4
Forward currency contracts (liability)	(26)	(24)	(35)	(19)	-	(104)
Currency option contracts (liability)	(1)	(1)	(2)	(1)	-	(5)
As at 31 December	(2,441)	(325)	(580)	(1,624)	(2,556)	(7,526)

£ million	Company					Total 2016
	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	(271)	(403)	(689)	(1,604)	(2,226)	(5,193)
Fixed rate borrowings	(72)	(40)	(59)	(177)	(579)	(927)
Floating rate borrowings	(18)	(19)	(25)	(77)	(154)	(293)
Trade and other payables	(2,128)	-	(7)	-	-	(2,135)
Derivative financial instruments:						
Forward currency contracts (asset)	31	34	24	2	-	91
Fuel derivatives (asset)	35	29	23	3	-	90
Currency option contracts (asset)	4	6	9	-	-	19
Forward currency contracts (liability)	(13)	(2)	(2)	-	-	(17)
Fuel derivatives (liability)	(4)	(3)	(3)	-	-	(10)
Currency option contracts (liability)	-	(1)	-	-	-	(1)
As at 31 December	(2,436)	(399)	(729)	(1,853)	(2,959)	(8,376)

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 2017					
Financial assets					
Derivative financial assets	280	(1)	279	(1)	278
Financial liabilities					
Derivative financial liabilities	(110)	1	(109)	1	(108)

£ 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 2016¹					
Financial assets					
Derivative financial assets	228	(28)	200	-	200
Financial liabilities					
Derivative financial liabilities	(51)	28	(23)	-	(23)

¹The gross value of financial instruments and the impact of netting agreements has been amended from as presented in the prior year financial statements. There has been no impact on the net amounts presented on the balance sheet.

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. Net debt is defined as the total borrowings, finance lease liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts and was 20.0 per cent (2016: 38.5 per cent). 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).

28 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2017 and 31 December 2016 by nature and classification for measurement purposes is as follows:

At 31 December 2017 £ million	Financial assets			Group	
	Loans and receivables	Derivatives used for hedging	Available for sale	Non-financial assets	Total carrying amount
Non-current financial assets					
Available-for-sale financial assets	-	-	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 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 are £290 million and non-financial assets are £237 million.

£ million	Financial liabilities		Group	
	Loans and payables	Derivatives used for hedging	Non-financial liabilities	Total carrying amount
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	1,908	-	35	1,943
Derivative financial instruments	-	52	-	52

¹ Within the Company, total other long-term liabilities are £35 million, of which loans and payables 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 are £2,210 million and non-financial liabilities are £35 million.

28 Financial instruments continued

a Financial assets and liabilities by category continued

At 31 December 2016 £ million	Financial assets			Group	
	Loans and receivables	Derivatives used for hedging	Available for sale	Non-financial assets	Total carrying amount
Non-current financial assets					
Available-for-sale financial assets	-	-	53	-	53
Derivative financial instruments	-	61	-	-	61
Other non-current assets ¹	253	-	-	194	447
Current financial assets					
Trade receivables	710	-	-	-	710
Derivative financial instruments	-	139	-	-	139
Other current assets ¹	155	-	-	439	594
Other current interest-bearing deposits	1,425	-	-	-	1,425
Cash and cash equivalents	1,070	-	-	-	1,070

¹ Within the Company, total other non-current assets are £526 million, of which loans and receivables are £352 million and non-financial assets are £174 million. Total other current assets in the Company are £783 million, of which loans and receivables are £466 million and non-financial assets are £317 million.

£ million	Financial liabilities		Group	
	Loans and payables	Derivatives used for hedging	Non-financial liabilities	Total carrying amount
Non-current financial liabilities				
Interest-bearing long-term borrowings	4,470	-	-	4,470
Derivative financial instruments	-	5	-	5
Other long-term liabilities ¹	10	-	51	61
Current financial liabilities				
Current portion of long-term borrowings	680	-	-	680
Trade and other payables ¹	1,662	-	977	2,639
Derivative financial instruments	-	18	-	18

¹ Within the Company, total other long-term liabilities are £38 million, of which loans and payables are £7 million and non-financial liabilities are £31 million. Total trade and other payables in the Company are £2,545 million, of which loans and payables are £2,128 million and non-financial liabilities are £417 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 or liabilities;

Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; 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 2017 are set out below:

£ million	Fair value				Group
	Level 1	Level 2	Level 3	Total	Carrying value
					Total
Financial assets:					
Available-for-sale financial assets ¹	20	-	40	60	60
Amounts owed by associated group undertakings	-	269	-	269	265
Forward currency contracts	-	20	-	20	20
Currency option contracts	-	4	-	4	4
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	-	104	-	104	104
Currency option contracts	-	5	-	5	5

¹ Within the Company, available-for-sale financial assets 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).

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2016 are set out below:

£ million	Fair value				Group
	Level 1	Level 2	Level 3	Total	Carrying value
					Total
Financial assets:					
Available-for-sale financial assets ¹	13	-	40	53	53
Amounts owed by associated group undertakings	-	305	-	305	304
Forward currency contracts	-	91	-	91	91
Currency option contracts	-	19	-	19	19
Fuel derivatives	-	90	-	90	90
Financial liabilities:					
Interest-bearing loans and borrowings: ¹					
Finance leases	-	4,784	-	4,784	4,598
Fixed rate borrowings	-	260	-	260	240
Floating rate borrowings	-	312	-	312	312
Forward currency contracts	-	12	-	12	12
Currency option contracts	-	1	-	1	1
Fuel derivatives	-	10	-	10	10

¹ Within the Company, available-for-sale financial assets of £40 million are fair valued at £40 million (Level 3), finance lease obligations of £4,657 million are fair valued at £4,847 million (Level 2), fixed rate borrowings of £107 million are fair valued at £117 million (Level 2) and floating rate borrowings of £268 million are fair valued at £268 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:

Available-for-sale financial assets and loan notes

Listed fixed asset investments (Level 1) are stated at market value as at 31 December 2017. For unquoted investments (Level 3) where the fair value cannot be measured reliably, the investment is stated at historic cost less accumulated impairment losses.

Forward currency transactions 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 2017 (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	
	2017	2016	2017	2016
Balance at 1 January	40	40	40	40
As at 31 December	40	40	40	40

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.

28 Financial instruments continued

d Cash flow hedges

At 31 December 2017 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 crude, gas oil and jet kerosene 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.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity and the periods in which the related cash flows are expected to occur are summarised below:

	Group and Company					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2017
Debt repayments to hedge future revenue	35	37	56	143	247	518
Forward contracts to hedge future payments	9	20	34	19	-	82
Hedges of future fuel purchases	(134)	(63)	(50)	(10)	-	(257)
	(90)	(6)	40	152	247	343
Related deferred tax credit						(58)
Total amount included within equity						285

Notional value of significant financial instruments used as cash flow hedging instruments:

	Group and Company
million	Notional amount
To hedge future currency revenues against euro	€488
To hedge future operating payments in US dollars	\$3,829
Hedges of future fuel purchases	\$2,578
Debt repayments to hedge future revenue	
- US dollars	\$2,511
- euro	€1,922
- yen	¥60,805
- yuan	¥525

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.

28 Financial instruments continued

d Cash flow hedges continued

£ million	Group and Company					Total 2016
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Debt repayments to hedge future revenue	29	65	91	202	305	692
Forward contracts to hedge future payments	(26)	(37)	(24)	(2)	-	(89)
Hedges of future fuel purchases	(20)	(32)	(24)	(3)	-	(79)
	(17)	(4)	43	197	305	524
Related deferred tax credit						(91)
Total amount included within equity						433

Notional value of significant financial instruments used as cash flow hedging instruments:

million		Group and Company Notional amount
To hedge future currency revenues against euro		€480
To hedge future operating payments in US dollars		\$961
Hedges of future fuel purchases		\$2,543
Debt repayments to hedge future revenue	- US dollars	\$2,798
	- euro	€2,111
	- yen	¥60,577
	- yuan	¥623

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a gain of £12 million (2016: £14 million gain). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases.

29 Share capital and share premium

	Group and Company			
	2017		2016	
	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	
	2017	2016
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	2017	2016
IPSP and IDBP schemes recharged from IAG (a)	7	10
Total share-based payments charge recorded in employee costs	7	10

a IPSP and IDBP 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 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 is 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 and 2016 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

In 2011 the Group introduced the IAG Incentive Award Deferral Plan (IADP), 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	Currency translation	Total	Group Non-controlling interests ¹
Balance at 1 January 2016	3,031	(454)	19	2,596	200
Profit for the year	1,329	-	-	1,329	16
Exchange gains	-	-	32	32	-
Fair value of cash flow hedges transferred to passenger revenue	-	(67)	-	(67)	-
Fair value of cash flow hedges transferred to fuel and oil costs	-	567	-	567	-
Fair value of cash flow hedges transferred to losses on fuel derivatives	-	6	-	6	-
Net change in fair value of cash flow hedges	-	(405)	-	(405)	-
Share of movement in reserves of associates	20	-	-	20	-
Available-for-sale financial assets - marked to market	-	3	-	3	-
Available-for-sale financial assets - recycled to the income statement	-	(1)	-	(1)	-
Pension remeasurements ²	(1,829)	-	-	(1,829)	-
Income tax	369	(31)	-	338	-
Dividends	(350)	-	-	(350)	-
Distributions made to holders of perpetual securities	-	-	-	-	(16)
Total income and expense for the year	(461)	72	32	(357)	-
Balance at 1 January 2017	2,570	(382)	51	2,239	200
Profit for the year	1,385	-	-	1,385	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	-	157	-	157	-
Share of movement in reserves of associates	(4)	-	-	(4)	-
Available-for-sale financial assets - marked to market	-	8	-	8	-
Pension remeasurements ²	792	-	-	792	-
Income tax	(139)	(36)	-	(175)	-
Dividends	(460)	-	-	(460)	-
Distributions made to holders of perpetual securities	-	-	-	-	(18)
Total income and expense for the year	1,574	151	8	1,733	-
As at 31 December 2017	4,144	(231)	59	3,972	200

¹Non-controlling interests comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Limited, a wholly-owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinated guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company. Refer to note 27g for the disclosure of the Group's capital risk management.

²Improved asset performance has resulted in a gain in pension remeasurements in 2017. Significant adverse pension remeasurements in 2016 were driven by the decline in bond yields resulting in a lower discount rate being applied to the pension liabilities.

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 available-for-sale 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

£ million	Company		
	Retained earnings	Unrealised gains and losses	Total
Balance at 1 January 2016	2,863	(464)	2,399
Profit for the year	2,218	-	2,218
Fair value of cash flow hedges transferred to passenger revenue	-	(68)	(68)
Fair value of cash flow hedges transferred to fuel and oil costs	-	566	566
Fair value of cash flow hedges transferred to losses on fuel derivatives	-	6	6
Net change in fair value of cash flow hedges	-	(405)	(405)
Available-for-sale financial assets – recycled to the income statement	-	(1)	(1)
Pension remeasurements ¹	(1,814)	-	(1,814)
Income tax	366	(31)	335
Dividends	(350)	-	(350)
Total income and expense for the year	420	67	487
Balance at 1 January 2017	3,283	(397)	2,886
Profit for the year	1,190	-	1,190
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	157
Pension remeasurements ¹	790	-	790
Income tax	(140)	(36)	(176)
Dividends	(460)	-	(460)
Total income and expense for the year	1,380	144	1,524
As at 31 December 2017	4,663	(253)	4,410

¹Improved asset performance has resulted in a gain in pension remeasurements in 2017. Significant adverse pension remeasurements in 2016 were driven by the decline in bond yields resulting in a lower discount rate being applied to the pension liabilities

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), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003. The Company's principal defined contribution scheme is the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 16 employed by the Company and certain subsidiary undertakings in the UK may become members. On 8 December 2017 the Company announced that it intends to open a new defined contribution pension scheme on 1 April 2018, replacing BARP, and NAPS, which will close to future accrual on 31 March 2018. The Company has offered a range of transition options to NAPS members. The NAPS liabilities are expected to fall as a result of the closure, because deferred pensions are assumed to rise in line with the Consumer Price Index (CPI), whereas salary growth for active members is assumed to rise in line with pay rises and promotions, which are assumed to be higher. The impact of the closure on the liabilities will only be known once members have selected their transition option, expected to be in March 2018. The changes are subject to NAPS Trustee agreeing to amend the scheme's rules to enable closure to future accrual, and therefore have not been reflected in the financial statements for the year ended 31 December 2017. The Group is committed to recovery plan payments of £300 million per year to NAPS until 2027, plus additional contributions of up to £150 million per year, depending on the Group's cash balance at the end March each year.

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 benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the Government's lower earnings limit, with pension increases also based on PIRO, subject to a cap of a maximum of five per cent in any given year.

As reported in previous years, the Trustee of APS has proposed an additional discretionary increase above CPI inflation for pensions in payment for the year ended 31 March 2014. British Airways believes that the Trustee does not have the power to grant such increases and has 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 that the Trustee does have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors.

32 Employee benefits continued

The Group has appealed the judgment and awaits an appeal hearing, expected to be in May 2018. The payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways' appeal. 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.

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two schemes is common. 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 2017 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.

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

a Employee benefit schemes recognised on the balance sheet

£ 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

£ million	As at 31 December 2016			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	8,127	15,488	367	23,982
Present value of scheme liabilities	(6,777)	(17,183)	(649)	(24,609)
Net pension asset / (liability)	1,350	(1,695)	(282)	(627)
Effect of the asset ceiling ²	(489)	-	-	(489)
Other employee benefit obligations	-	-	(9)	(9)
	861	(1,695)	(291)	(1,125)
Represented by:				
Employee benefit assets				866
Employee benefit obligations ³				(1,991)
				(1,125)

¹The present value of scheme liabilities for the US PRMB was £13 million as at 31 December 2017 (£15 million as at 31 December 2016)

²APS is 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 surplus recognised but has not recognised any adjustments as the amendment remains in exposure draft form only.

³Disclosures for post-retirement benefits are presented on a consolidated basis and include a net pension liability of £30 million (2016: £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	2017	2016
Defined benefit plans:		
Current service cost	203	158
Defined contribution plans	70	65
Pension costs recorded as employee costs	273	223

In 2016 the Group made changes to the US PRMB (Post-Retirement Medical Benefits) resulting in the recognition of a past service gain of £40 million which was disclosed as an exceptional item outside of operating profit as set out in note 5.

Pension costs (charged)/credited as finance costs:

£ million	2017	2016
Interest income on scheme assets	637	771
Interest expense on scheme liabilities	(648)	(746)
Interest expense on asset ceiling	(13)	(15)
Net financing (charge)/credit relating to pensions	(24)	10

c Remeasurements recognised in the statement of other comprehensive income

£ million	2017	2016
Return on plan assets excluding interest income	1,482	2,727
Remeasurement of plan liabilities from changes in financial assumptions	(463)	(4,556)
Remeasurement of plan liabilities from changes in demographic assumptions	-	(106)
Remeasurement of experience (losses)/gains	(239)	217
Remeasurement of the APS asset ceiling	(2)	(65)
Exchange differences	14	(46)
Pension remeasurements	792	(1,829)

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	2017	2016
As at 1 January	23,982	20,662
Interest income	637	771
Return on plan assets excluding interest income	1,482	2,727
Employer contributions ^{1 2}	765	731
Employee contributions	88	92
Benefits paid	(1,149)	(1,058)
Exchange differences	(22)	57
Fair value of scheme assets	25,783	23,982

¹Includes employer contributions to APS of £95 million (2016: £91 million) and to NAPS of £653 million (2016: £618 million), of which deficit funding payments represented £91 million for APS (2016: £86 million) and £450 million for NAPS (2016: £517 million).

²Cash payments to defined benefit pension schemes reflected in the consolidated cash flow statement were the employer contributions of £765 million (2016: £731 million).

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

Both schemes use derivative instruments for 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.

32 Employee benefits continued

d Fair value of scheme assets continued

Scheme assets as at 31 December comprise:

£ million	2017	2016
Return seeking investments - equities		
UK	2,338	2,571
Overseas	5,902	6,320
	8,240	8,891
Return seeking investments - other		
Private equity	687	696
Property	1,685	1,504
Alternative investments	904	1,015
	3,276	3,215
Liability matching investments		
UK Fixed bonds	4,318	3,247
Overseas Fixed bonds	84	92
UK Index-Linked bonds	6,730	5,641
Overseas Index-Linked bonds	155	107
	11,287	9,087
Other		
Cash and cash equivalents	592	431
Derivatives	157	192
Insurance contract	1,565	1,579
Longevity swap	(96)	(30)
Other	762	617
	25,783	23,982

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 2017		As at 31 December 2016	
	APS	NAPS	APS	NAPS
Return seeking investments	656	10,672	1,334	10,596
Liability matching investments	5,682	5,516	5,006	3,987
	6,338	16,188	6,340	14,583
Insurance contract and related longevity swap	1,447	-	1,527	-
Other	334	1,100	260	905
Fair value of scheme assets	8,119	17,288	8,127	15,488

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. As at 31 December 2017 the benchmark for APS was 9.5 per cent (2016: 19 per cent) in return seeking assets and 90.5 per cent (2016: 81 per cent) in liability matching investments; and for NAPS the benchmark was 65 per cent (2016: 68 per cent) in return seeking assets and 35 per cent (2016: 32 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 (2016: 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 (2016: 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 pensions payable by the scheme under the contract. During 2017, the Trustee of APS secured two additional longevity swap contracts one with Canada Life and one with Partner Reinsurance covering 13 per cent and 8 per cent respectively of the pensioner liabilities as at 1 January 2017 (the commencement date of the contracts). The principal increases to pensions in payment under the contract are based on RPI inflation.

32 Employee benefits continued

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	2017	2016
As at 1 January	24,609	20,165
Current service cost	203	158
Past service credit	-	(40)
Interest expense	648	746
Remeasurements – financial assumptions	463	4,556
Remeasurements – demographic assumptions	-	106
Remeasurement of experience gains/(losses)	239	(217)
Benefits paid	(1,149)	(1,058)
Employee contributions	88	92
Exchange differences	(36)	101
As at 31 December	25,065	24,609

The defined benefit obligation comprises £23 million (2016: £25 million) arising from unfunded plans and £25,042 million (2016: £24,584 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 is set out below:

£ million	2017	2016
As at 1 January	489	409
Interest expense	13	15
Remeasurements	2	65
As at 31 December	504	489

g Actuarial assumptions

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

Per cent per annum	2017			2016		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate ¹	2.45	2.55	2.5 – 3.6	2.60	2.70	2.7 – 4.1
Rate of increase in pensionable pay ²	3.15	3.15	2.5 – 3.6	3.20	3.20	3.0 – 3.7
Rate of increase of pensions in payment ³	2.05	2.05	0.0 – 3.5	2.10	2.10	1.5 – 3.5
RPI rate of inflation	3.15	3.15	2.5 – 3.1	3.20	3.20	3.0 – 3.2
CPI rate of inflation	2.05	2.05	2.0 – 3.0	2.10	2.10	2.1 – 3.0

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

²Rate of increase in pensionable pay is assumed to be in line with long term market inflation expectations. The 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 APS Trustee has proposed an additional discretionary increase of 20 basis points for the year ended 31 March 2014, a decision that British Airways has challenged. British Airways initiated legal proceedings to determine the legitimacy of the additional increase. 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 6.50 per cent grading down to 5.0 per cent over seven years (2016: 6.75 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 longevities underlying the values of the scheme liabilities were as follows:

		UK	
Mortality assumptions		2017	2016
Life expectancy at age 60 for a:			
- male currently aged 60		28.4	28.3
- male currently aged 40		29.7	29.5
- female currently aged 60		30.2	30.1
- female currently aged 40		32.8	32.6

As at 31 December 2017, the weighted-average duration of the defined benefit obligation was twelve years for APS (2016: twelve years) and 20 years for NAPS (2016: 20 years). In the US, mortality rates were based on the RP-14 mortality tables.

32 Employee benefits continued

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:

£ million	Increase in net pension liability		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	80	350	8
Future salary growth (increase of 10 basis points)	1	60	1
Future pension growth (increase of 10 basis points)	60	280	1
Future mortality rate – (one year increase in life expectancy)	300	510	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	220	1,200
Five to ten years	14	1,425
Total expected deficit payments for APS and NAPS	289	2,925

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 £524 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2018. 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 2018 would be £4 million for APS and £165 million if the NAPS scheme is not closed to future accrual. This excludes any additional deficit contribution that may become due depending on the Group's cash balance as at 31 March 2018. 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 2017 amounted to £250 million (2016: £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 as determined by the scheme actuary (see note 32b).

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:

Regulatory proceedings and litigation

The European Commission issued a decision in which it found that BA, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). BA 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) (GC 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 EC chose not to appeal the GC 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. BA has therefore again been fined €104 million. BA has appealed the New Decision to the GC again (as have other carriers).

A large number of claimants have 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. It is not possible at this stage to predict the outcome of the proceedings, which British Airways will vigorously defend. British Airways has joined the other airlines alleged to have participated in cartel activity to these proceedings to contribute to such damages, if any are awarded.

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 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 has challenged the decision, as it considers the Trustee has no power to grant such increases, 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 Trustee does have the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. The Group has appealed the judgment and awaits an appeal hearing, currently expected to be mid-2018. Payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways' appeal. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known.

b Guarantees

Pensions

The Group and Company have provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which at 31 December 2017 amounted to £250 million (2016: £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.

In addition, a guarantee amounting to £230 million (2016: £230 million) was issued by a third party in favour of APS, triggered in the event of a BA insolvency.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at 31 December 2017 are not expected to result in material losses for the Group.

Perpetual securities and audit exemptions

The Company has also issued guarantees in respect of the fixed perpetual preferred securities issued by a subsidiary undertaking which amounted to £265 million (2016: £253 million) and in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 36 in respect of audit exemptions.

34 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2017 with related parties.

£ million	Group		Company	
	2017	2016	2017	2016
Parent¹:				
Sales to/purchases on behalf of IAG	57	47	57	47
Purchases from IAG	41	42	41	42
Amounts owed by IAG	42	35	42	35
Amounts owed to IAG	11	20	11	20
Subsidiary undertakings of the parent:				
Sales to subsidiary undertakings of the parent	127	67	127	67
Purchases on behalf of subsidiary undertakings of the parent	208	164	208	164
Amounts owed by subsidiary undertakings of the parent	309	322	309	322
Amounts owed to subsidiary undertakings of the parent	43	63	43	63
Associates²:				
Sales to associates	508	429	508	429
Purchases from associates	400	353	400	353
Amounts owed by associates	92	184	92	184
Amounts owed to associates	843	996	843	996
Subsidiaries³:				
Sales to subsidiaries	-	-	370	360
Purchases from subsidiaries	-	-	162	159
Amounts owed by subsidiaries	-	-	131	410
Amounts owed to subsidiaries	-	-	783	1,021

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

²Sales 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.

³Outstanding 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, costs borne by the Company on behalf of the Group's retirement benefit plans amounted to £6 million in relation to the Pension Protection Fund levy (2016: £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 2017 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2016: £nil).

Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or officers of the Company at 31 December 2017 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 2017 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) and Teleflight Limited (03918190).

37 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking as at 31 December 2017 was International Consolidated Airlines Group S.A., 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.

Subsidiary undertakings at 31 December 2017

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 (calIBA) 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 ²	Jersey	Holding company	13 Castle Street, St Helier, JE4 5UT
Bealine plc	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
bmibaby Limited ²	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BritAir Holdings Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways (BA) Limited	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 Finance (Jersey) Limited Partnership	Jersey	Finance	13 Castle Street, St Helier, JE4 5UT
British Airways Holdings BV ¹	Netherlands	Holding company	Strawinskylaan 3105, Atrium 1077ZX Amsterdam
British Airways Holdings Limited	Jersey	Holding company	13 Castle Street, St Helier, JE4 5UT
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	Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU
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
OpenSkies SASU ¹	France	Airline	3 rue Le Corbusier, 94150 Rungis
Overseas Air Travel Limited ¹	England	Transport	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Speedbird Insurance Company Limited	Bermuda	Insurance	Canon's Court, 22 Victoria Street, Hamilton, HM 12
Teleflight Limited	England	Call centre	Waterside, PO Box 365, Harmondsworth, UB7 0GB

¹Not directly owned by British Airways Plc

²99.0% holding

Associated undertakings at 31 December 2017

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 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA
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

Available-for-sale investments at 31 December 2017

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	11.50	South Africa	Airline operations	1 Marignane Drive, Bonaero Park, 1619 El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, 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		2017	2016	2015 ¹
Traffic and capacity				
Revenue passenger km (RPK)	m	146,561	144,399	142,016
Available seat km (ASK)	m	179,077	177,756	174,274
Passenger load factor	%	81.8	81.2	81.5
Cargo tonne km (CTK) ²	m	4,500	4,233	4,180
Total revenue tonne km (RTK)	m	19,029	18,545	18,256
Total available tonne km (ATK)	m	26,697	26,131	25,427
Overall load factor ²	%	71.2	71.0	71.8
Passengers carried	'000	45,163	44,322	43,323
Tonnes of cargo carried ²	'000	513	470	664
Operations				
Average manpower equivalent (MPE)		38,347	39,024	39,304
ASKs per MPE		4,670	4,555	4,434
Aircraft in service at year end		293	293	284
Aircraft utilisation (average hours per aircraft per day) ²		10.88	11.08	10.59
Punctuality - within 15 minutes ²	%	80	77	78
Regularity ²	%	98.6	99.0	99.1
Financial				
Passenger revenue per RPK	p	7.51	7.13	7.21
Passenger revenue per ASK	p	6.15	5.79	5.87
Cargo revenue per CTK	p	15.18	13.91	13.09
Average fuel price (US cents/US gallon) ²		170.95	163.00	174.44
Operating margin	%	13.7%	12.4%	10.9
Operating margin before exceptional items	%	14.5%	13.1%	11.1
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	2,748	2,408	2,133
Net debt/total capital ratio	%	20.0	38.5	34.9
Total traffic revenue per ATK	p	43.8	41.7	42.1
Total traffic revenue per ASK	p	6.5	6.1	6.1
Total expenditure before exceptional items on operations per ASK	p	5.84	5.57	5.78
Total expenditure before exceptional items on operations excluding fuel per ASK	p	4.42	4.19	4.04
Total expenditure before exceptional items on operations per ATK	p	39.2	37.9	39.6

¹2015 statistics include both continuing and discontinued operations

²Statistics include both continuing and discontinued operations

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 2017

	On balance sheet fixed assets	Off balance sheet operating leases	Total December 2017	Total December 2016	Changes since December 2016 (Note 2)	Future deliveries (Note 3)	Options (Note 4)
AIRLINE OPERATIONS (NOTE 1)							
Airbus A318	1		1	2	(1)		
Airbus A319	19	25	44	44			
Airbus A320	40	27	67	67		25	33
Airbus A321	14	4	18	18		10	
Airbus A350						18	36
Airbus A380	12		12	12			7
Boeing 747-400	36		36	37	(1)		
Boeing 757-200	1	2	3	3			
Boeing 767-300	8		8	8			
Boeing 777-200	41	5	46	46			
Boeing 777-300	9	3	12	12			
Boeing 787-8	9		9	8	1	3	
Boeing 787-9	7	9	16	16		2	6
Boeing 787-10						12	
Embraer E170	6		6	6			
Embraer E190	9	6	15	14	1		
TOTAL OPERATIONS	212	81	293	293	-	70	82

Notes:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.

2. One Airbus A318 was sub-leased to Titan Airways and one Boeing B747-400 was temporarily stood down from service during the period. One Boeing B787-800 and one Embraer E190 were delivered and entered into service during the period.

3. Future deliveries have decreased by one as one Boeing B787-800 was delivered and entered into service during the period.

4. Fifteen options on Embraer E190 aircraft expired in the period.

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 tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Continuing operations	The segments of the business that are considered to be normal, and expected to operate in the foreseeable future.
Discontinued operations	A discontinued operation is a component of the entity or Group that has been disposed of or is classified as held for sale.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and aircraft rentals.
Exceptional items	Those items that in management's view need to be separately disclosed by virtue of their size or incidence.
Load factor	The percentage relationship of revenue load carried to capacity available.
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors.
Merger	The combining of two or more entities through a purchase acquisition.
Net debt	Loans, finance leases and hire purchase arrangements net of other current interest-bearing deposits and cash and cash equivalents less overdrafts.
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 three 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 traffic revenue per ASK	Revenue from total traffic divided by ASK.
Total traffic revenue per ATK	Revenue from total traffic divided by ATK.