

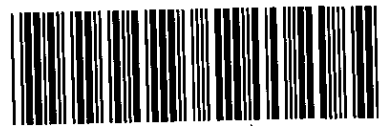
PARENT COMPANY ACCOUNTS FOR  
BRITISH AIRWAYS (BA) LIMITED  
COMPANY NUMBER : 07990613  
(PAGE 93)

## **British Airways Plc**

### **Annual Report and Accounts Year ended 31 December 2020**

Company registration number: 1777777

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## **Officers and professional advisers**

### **Directors**

|                 |                           |
|-----------------|---------------------------|
| Alex Cruz       | (Chairman)                |
| Alison Reed     | (Deputy Chairman)         |
| Sean Doyle      | (Chief Executive Officer) |
| Rebecca Napier  | (Chief Financial Officer) |
| Gavin Patterson |                           |
| Julia Simpson   |                           |
| Lynne Embleton  |                           |

### **Secretary**

Andrew Fleming

### **Registered office**

Waterside  
PO Box 365  
Harmondsworth  
UB7 0GB

### **Parent company**

International Consolidated Airlines Group S.A. ('IAG')  
El Caserío, Iberia Zona Industrial nº 2 (La Muñeza)  
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28042 Madrid  
Spain

### **Independent auditor**

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

## Strategic report

The Directors present their strategic report for the year ended 31 December 2020.

British Airways Plc ('British Airways', 'BA', 'the airline' or 'the Group') is the UK's largest international scheduled airline and one of the world's leading global airlines. The Group's principal place of business is London with significant presence at Heathrow, Gatwick and London City airports. As part of IAG, and together with joint business, codeshare and franchise partners, British Airways operates one of the most extensive international scheduled airline networks. British Airways is a founding member of the oneworld alliance, whose member airlines serve some 1,000 destinations in over 170 territories.

In October 2020, Sean Doyle, former CEO of Aer Lingus, took over as CEO of British Airways from Chairman and former CEO, Alex Cruz, who had led the airline since 2016, and steered BA through the first seven months of the COVID-19 crisis. Alex Cruz became non-executive Chairman at this time.

The strategic report is presented in the following four sections:

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

### Management review and outlook

#### *Overview*

- Total revenue: £4,001 million, down 69.9% (2019: £13,290 million)
- Operating loss before exceptional items: £2,328 million (2019: £1,921 million profit)
- Passengers: 12.3 million, down 74.3% (2019: 47.7 million)
- Punctuality: 85% (2019: 76%)

2020 was an exceptionally difficult year as a result of the COVID-19 pandemic. In British Airways' 100-year history, the airline had never experienced a crisis of this magnitude, which forced us to vastly reduce our flying schedule, workforce, fleet and operation as we navigated continual, fast-changing global travel restrictions and three UK Government lockdowns. Over the year BA saw an average 66% reduction in its schedule compared to 2019.

British Airways stopped flying to China at the end of January 2020. By March, the virus had moved throughout Europe and during the same month the UK began its first national lockdown. The UK Government imposed a ban on all but essential travel and between April and June 2020, we operated just 5% of our planned schedule compared with the same period in 2019. During this time, we operated 134 repatriation flights from 21 countries, keeping vital air links open and returning 40,000 Britons to the UK.

Over the summer months, travel restrictions that required customers to quarantine were one of the main causes of the downturn in traffic. As restrictions were introduced or lifted, the airline's Operations team worked tirelessly to reduce or introduce new flights respectively, to benefit customers and generate revenue, creating a dynamic schedule. Often larger aircraft were introduced on busy routes or flights were consolidated to reduce costs. A new route from Heathrow to the Maldives and services to the Caribbean (which benefitted from a travel corridor) were popular with customers. While there was a significant reduction in passenger schedules, cargo demand increased, particularly for Personal Protective Equipment. British Airways, working with IAG Cargo, adapted its Cargo business to ensure cargo only flights had a positive cash contribution.

When the results of testing showed vaccines were effective, the airline witnessed a large increase in the numbers of people visiting [ba.com](https://www.britishairways.com) to look at flights to Dubai, Florida and New York as well as holidays to the Maldives, the Caribbean, Orlando and the Canary Islands for 2021. However, the introduction of hotel quarantine requirements by the UK Government on 15 February 2021 is expected to greatly impact demand on affected routes while the policy is in place.

British Airways continues to operate in a time of great uncertainty, where continually changing global travel restrictions create significant challenges in network planning and scheduling.

#### *Business restructuring*

COVID-19's devastating impact on travel meant British Airways' Management Team had no option but to take urgent action to restructure the business to ensure it could emerge from the crisis and still be able to compete.

In April 2020, British Airways formally notified trade unions about a proposed restructuring and redundancy programme, subject to consultation. Every option to save as many jobs as possible was explored. In September 2020, by working with the trade unions, British Airways was able to mitigate the number of redundancies, protect as many jobs as possible and reach industrial agreements across the main areas of the business, including the airline's cabin crew and pilot communities.

## Strategic report continued

### Management review and outlook continued

Despite reaching agreements, regrettably around 23% of our colleagues left the airline in 2020 as part of the restructure and redundancy programme. To reduce operational complexity, replication and cost, management created one cabin crew fleet based out of Heathrow, outsourced the airline's Gatwick handling operation and consolidated its three engineering sites in Wales into one base. During the year the airline consolidated the operation in to London Heathrow Terminal 5, briefly suspending operations from London Heathrow Terminal 3, London Gatwick and London City, and permanently retired its entire B747 fleet due to the reduced demand for travel.

The Government's Coronavirus Job Retention Scheme has helped the airline retain many jobs through the crisis. We received £258 million from the scheme in 2020 for which we are very grateful.

#### *Liquidity*

British Airways has had to act decisively to ensure it can remain competitive in a structurally changed industry. With an immense focus on liquidity, the airline has taken on a significant amount of new debt. Further opportunities to preserve the cash position have been implemented including management pay cuts, pilots unpaid leave, participation in the UK Government's Job Retention Scheme, deferring a number of aircraft scheduled for delivery between 2020 and 2022 and robust financial controls to ensure only business critical spend was made.

British Airways availed itself of a £298 million loan from the Bank of England Coronavirus Corporate Financing Facility ('CCFF'), with the loan repayable in the first half of 2021.

On 30 March 2020, the secured US dollar Revolving Credit Facility was extended for one year from 23 June 2020 to 23 June 2021. As at 31 December 2020 the available facility was \$768 million.

In November 2020, British Airways entered into an asset-financing structure, where a total of over \$1 billion was raised to refinance short term funding and finance recent and future aircraft deliveries. In the same month, British Airways secured a three year Term Loan with its parent company, IAG, for an amount of €1.65 billion, which was fully drawn by year-end.

On 22 February 2021, British Airways entered into a five year term-loan of £2 billion underwritten by a syndicate of banks, partially guaranteed by UK Export Finance.

#### *Keeping customers safe*

To protect our customers and crew, and build confidence in travel during these uncertain times, the airline introduced new COVID-19 safety measures including minimising contact, sanitising our aircraft from nose to tail and asking customers and crew to wear face masks unless they have a medical exemption.

British Airways produced comprehensive video and text guides, published on its website [ba.com](https://www.britishairways.com), to help customers understand the changes to the travel experience. A new, contactless table service was introduced in the airline's lounges to minimise movement, and aircraft boarding and disembarkation has been operated row-by-row. On board, changes were made to catering services to reduce contact between cabin crew and customers. Customers are provided with individual personal protection packs and cabin air is completely replaced every two to three minutes, passing through HEPA filters which remove microscopic bacteria and virus clusters with over a 99.9 per cent efficiency, equivalent to hospital operating theatre standards. In November 2020, respected industry body Skytrax awarded British Airways four stars for COVID safety.

BA was the first airline in the UK to trial VeriFLY, a mobile travel health passport, for passengers who were eligible to travel between London and the US from 4 February 2021. The new digital health travel passport, which can be downloaded to a mobile device, is designed to offer peace of mind before travel by checking customers meet the entry requirements of their destination by providing digital health document verification and confirming eligibility. Use of the VeriFLY app will be optional and customers will also continue to be able to evidence they meet the US entry requirements at check-in.

#### *Flexibility for customers*

To give customers as much flexibility as possible during this period of uncertainty, we launched a Book with Confidence policy in March 2020. Since its introduction the policy has been providing customers with the option to change their booking date and destination (for those booked to travel up until April 2022) or to cancel it completely and accept a voucher for future travel. Where we cancelled a customer's flight, they were entitled to a cash refund.

The airline is incredibly grateful to the colleagues, who between March and December, handled around six million calls, helping customers change their bookings, re-book flights and issue refunds and vouchers. At one point, colleagues were handling 8,500 tweets per day. During 2020, British Airways issued more than 2.8 million refunds and 1.9 million vouchers for future travel. British Airways has also partnered with insurance companies to provide COVID-19 travel cover.

## Strategic report continued

### Management review and outlook continued

#### *Governmental imposed travel restrictions*

The devolved administrations of the UK each impose their own restrictions on travel. On 3 July 2020 the UK government announced that all travellers arriving into England would be required to self-isolate for 14 days, unless arriving from a country on the UK Government's exempt list, which since its announcement, has had a number of countries, territories or regions removed and/or added at short notice. The self-isolation period was reduced from 14 days to ten on 14 December 2020.

From 5 January 2021, the UK Government announced a third lockdown in England, with a travel ban for the majority of the population. On 18 January 2021, travel corridors were suspended, with any travellers arriving in England from anywhere outside the UK, Ireland, the Channel Islands or the Isle of Man required to self-isolate for 10 days. At the end of January 2021, the UK Government announced that people arriving from countries with a high infection rate would be required to quarantine in a hotel for 10 days.

Worldwide travel and border restrictions have also greatly affected the number of services operated during the year. Travel to the United States, one of BA's key markets, from the UK has remained suspended since March 2020 for most travellers.

In November 2020 the airline began a pre-flight COVID-19 testing trial with American Airlines and the **oneworld** alliance for customers travelling from the US to the UK. This involved them taking three COVID-19 tests, before and after their flight. Researchers at the Oxford Internet Institute, at the University of Oxford, will review and analyse the survey data from the trial. It is hoped that the results will demonstrate with scientific certainty the essential role that COVID-19 pre-flight testing can play in safely re-starting travel and eliminating quarantine.

#### *Sustainable recovery*

Despite the challenges brought in this period, we remain committed to the airline's sustainable future. In the short-term this means improving our operational efficiency and introducing carbon offset and removal projects, while in the medium to longer term it means investing in the development of sustainable aviation fuels ('SAF') and helping accelerate the growth of new technologies such as zero emissions hydrogen-powered aircraft.

From January 2020 we began offsetting carbon emissions on all flights within the UK as a short-term, interim measure, while alternatives to fossil fuels are developed and new technologies evolve. We also launched a carbon offsetting tool to give customers the option to offset the emissions from their international flights and invest in carbon reduction projects including forestry and renewable energy projects in Peru, Sudan and Cambodia.

In February 2020, Alex Cruz welcomed HRH the Prince of Wales to the airline's engineering base in Cardiff to see our sustainable initiatives. Later the same month we announced a target of removing more than 700 tonnes of single-use plastic on board flights by the end of the year. Due to COVID-19 safety measures we have had to re-introduce many elements of plastic packaging eliminated earlier in the year, but plan to get back on track as soon as we are able.

Along with our partner Velocys, we achieved planning permission to create the UK's first commercial-scale waste-to-jet fuel plant in Lincolnshire. The plant will support BA's medium-term plans to create SAF that can power aircraft and reduce carbon emissions.

British Airways has also partnered with sustainable jet fuel company LanzaJet, announced on 9 February 2021. The partnership will initially commit British Airways to 7,500 tonnes of SAF from LanzaJet's US biorefinery over a five year period expecting to commence as early as the end of 2022. Following the successful start-up of the US plant, British Airways hopes to deploy the technology and SAF production capacity in the UK.

In December 2020, British Airways announced its partnership with ZeroAvia, a leading innovator in decarbonising commercial aviation, in a project to explore how hydrogen-powered aircraft can play a leading role in the future of sustainable flying. This followed ZeroAvia's successful completion of the world's first hydrogen fuel cell powered flight of a commercial-size aircraft in September 2020.

As a result of the reduced flying due to the COVID-19 pandemic, we have been able to accelerate the redesign of our fleet composition to an increasingly fuel efficient fleet. We have permanently retired older, less fuel-efficient aircraft including the entire B747 fleet in 2020 and welcomed four new Airbus A350 aircraft (bringing the total number in our fleet to eight, with five entering service in 2020), two 787-10s (bringing the total number of 787 aircraft to 32), four 777-300ERs, two A321neos and three A320neos.

#### *Government affairs*

Since taking up the role of CEO, Sean Doyle has focused his engagement with the UK Government on making the case for the importance of re-opening air travel in order that British Airways can trade its way out of the crisis, including advocating the use of a pre-flight COVID-19 testing regime to eliminate the requirement for quarantine. In doing so Sean has engaged both through industry forums and directly with a number of government departments.

## Strategic report continued

### Management review and outlook continued

The Group aimed throughout 2020 to work constructively with regulators and contributed to their deliberations wherever possible on how to respond to the virus to allow safe, continued operations and to demonstrate the inherent safety of air services themselves. British Airways continues to demonstrate the economic and social value of aviation, through trade, tourism and bringing families together as tools to support economic recovery from the pandemic.

#### *Brexit*

The UK formally left the EU on 31 January 2020, with the transition period ending on 31 December 2020. IAG has engaged with regulators and policy makers in the UK, Brussels and a number of EU Member States to ensure that the needs of BA's customers after Brexit are understood and, in particular, that policymakers recognise the economic and social importance of uninterrupted air services between the UK and the EU.

Before the end of the transition period, all operating permits and approvals were successfully obtained. Consequently, there has been no impact to BA's flying schedule as a result of Brexit. In addition, during 2020, the UK Government also finalised agreements with all other countries with which it needed to replace existing EU-wide arrangements for air services, including formally signing on 17 November 2020 the agreement reached in 2018 with the USA. In preparation for the UK's exit from the EU, BA undertook a comprehensive supply chain review, which resulted in the short-term stockpiling of some key items, such as certain aircraft parts and catering items, to ensure continued operational robustness and reduced supply chain risk.

Management's assessment remains that Brexit itself will have no significant long-term impact on the business.

#### *Non-financial information statement*

Pursuant to the Companies Act 2006 s.414CA (7), British Airways is not required to include a non-financial information statement as a consolidated management report containing non-financial information has been included in IAG's Annual Report and Accounts for the year ended 31 December 2020.

### Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2020.

#### Summary financial performance

| £ million  | 2020    | 2019     | Better/(worse) |
|--|---------|----------|----------------|
| <b>CONTINUING OPERATIONS</b>                             |         |          |                |
| Total revenue  | 4,001   | 13,290   | (69.9%)        |
| Total expenditure on operations before exceptional items | (6,329) | (11,369) | 44.3%          |
| Operating (loss)/profit before exceptional items         | (2,328) | 1,921    | nm             |
| Exceptional items  | (1,553) | (583)    | nm             |
| Operating (loss)/profit after exceptional items          | (3,881) | 1,338    | nm             |
| Non-operating items                                      | (303)   | 121      | nm             |
| (Loss)/profit before tax                                 | (4,184) | 1,459    | nm             |
| Tax  | 695     | (350)    | nm             |
| (Loss)/profit after tax                                  | (3,489) | 1,109    | nm             |
| <hr/>  |         |          |                |
|  | 2020    | 2019     | Better/(worse) |
| <b>CONTINUING OPERATIONS</b>                             |         |          |                |
| Available seat kilometres (ASK) (m)                      | 63,725  | 186,170  | (65.8%)        |
| Revenue passenger kilometres (RPK) (m)                   | 39,118  | 155,580  | (74.9%)        |
| Passenger load factor (%)                                | 61.4    | 83.6     | (26.5%)        |
| Passenger revenue per ASK (p)                            | 4.54    | 6.39     | (28.9%)        |
| Passenger revenue per RPK (p)                            | 7.40    | 7.65     | (3.3%)         |
| Non-fuel costs per ASK at constant currency* (p)         | 8.05    | 4.35     | (85.1%)        |

\*Stated before exceptional items

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

## Strategic report continued

### Financial review continued

#### Revenue

| £ million                    | 2020         | 2019          | Better/(worse) |
|------------------------------|--------------|---------------|----------------|
| <b>CONTINUING OPERATIONS</b> |              |               |                |
| Passenger revenue            | 2,894        | 11,899        | (75.7%)        |
| Cargo revenue                | 890          | 711           | 25.2%          |
| Other revenue                | 217          | 680           | (68.1%)        |
| <b>Total revenue</b>         | <b>4,001</b> | <b>13,290</b> | <b>(69.9%)</b> |

Overall capacity, measured by ASKs, was down by 65.8 per cent for the year and the number of passengers carried decreased by 74.3 per cent to 12.3 million. The significant fall in demand was experienced across all regions due to worldwide governments' travel restrictions, following the spread of the virus globally, particularly from late February 2020 onwards. Capacity reductions were first seen in the Asia Pacific region in January and February, with extensive reductions from late February, as the pandemic spread to Italy, the rest of Europe and then to many countries across the globe. This translated to total revenue before exceptional items for the year of £4,001 million (2019: £13,290 million). Cargo carried, measured in cargo tonne kilometres, fell by 35.4 per cent, due to the significant reduction in passenger schedules. The Group has adapted the Cargo business to ensure that cargo-only flights have a positive cash contribution, with yields increased to cover all aircraft operating costs. Cargo revenue increased by 25.2 per cent to £890 million.

#### Operating costs before exceptional items

| £ million  | 2020         | 2019          | Better/(worse) |
|--|--------------|---------------|----------------|
| <b>CONTINUING OPERATIONS</b>   |              |               |                |
| Employee costs   | 1,695        | 2,529         | 33.0%          |
| Depreciation, amortisation and impairment                              | 1,076        | 1,106         | 2.7%           |
| Fuel, oil costs and emission charges                                   | 1,160        | 3,237         | 64.2%          |
| Engineering and other aircraft costs                                   | 446          | 715           | 37.6%          |
| Landing fees and en route charges                                      | 460          | 919           | 49.9%          |
| Handling, catering and other operating costs                           | 857          | 1,878         | 54.4%          |
| Selling costs  | 126          | 516           | 75.6%          |
| Currency differences   | 38           | (9)           | nm             |
| Property, IT and other costs   | 471          | 478           | 1.5%           |
| <b>Total Group expenditure on operations before exceptional items</b>  | <b>6,329</b> | <b>11,369</b> | <b>44.3%</b>   |
| <b>Total Group expenditure excluding fuel before exceptional items</b> | <b>5,169</b> | <b>8,132</b>  | <b>36.4%</b>   |

Fuel, oil costs and emission charges, excluding the exceptional charge for overhedging, decreased by £2,077 million, or 64.2 per cent, to £1,160 million compared to £3,237 million in the prior year, reflecting the reduced capacity. Average commodity fuel prices for the twelve months were lower than in the same period last year, an average of \$628 per metric ton in 2019 to \$376 per metric ton in 2020. However, effective fuel prices were higher than in 2019, with the majority of the reduced commodity price being offset by the fuel hedging programme. British Airways took delivery of four A350, three A320 neo, two A321 neo, four B777-300ER and two B787-10 aircraft. One A350 delivered in late 2019 entered service during the year. These are next generation aircraft which benefit from improved fuel performance and reduced emissions.

Employee costs before exceptional items decreased by £834 million, or 33.0 per cent, to £1,695 million compared to £2,529 million in the prior year. The reduction in employee costs included a credit of £258 million relating to amounts received from the UK Government under the COVID Job Retention Scheme from the start of April to 31 December 2020. The restructuring and redundancy programme resulted in further pre-exceptional employee cost savings, along with volume driven savings driven by the decreased flying schedule.

The favourable movement in the remaining operating cost base was largely a direct result of volume-based savings. Engineering savings of £269 million, or 37.6 per cent, was driven mainly by fewer flying hours of engines on pay-as-you-go maintenance contracts. Handling, catering and other operating costs decreased in 2020 including cost-saving initiatives from the closure of certain lounges and other catering and supply chain savings.



## Strategic report continued

### Financial review continued

#### Exceptional items

Exceptional items have been recognised in respect of the impact of overhedging relating to the COVID-19 related capacity reductions, being the aggregate of fuel and foreign currency overhedging in fuel costs (a loss of £837 million), and passenger revenue (a loss of £53 million). At 31 December 2020, £630 million has been paid in respect of these items. In addition, there is an exceptional impairment expense of £399 million related to fleet and other assets, together with an associated inventory impairment expense of £18 million. An exceptional expense of £226 million has been recorded in relation to the restructuring programme. A further exceptional expense of £20 million has been recorded in respect of a fine issued on 16 October 2020 in relation to the theft of customer data at British Airways in 2018 (refer to note 4 for more details).

*The exceptional expense of £583 million in 2019 related to the APS settlement agreement. This was a non-cash past service cost arising from the increase in the IAS 19 defined benefit obligation of APS following the settlement agreement between the Trustee Directors of the Airways Pension Scheme and British Airways, which was approved by the High Court in November 2019. The higher pensions in payment growth assumptions following the settlement agreement resulted in a non-cash increase to the IAS 19 defined benefit liability.*

#### Non-operating items

Non-operating items were a charge of £303 million, an adverse change of £424 million from the prior year. The year on year movement included a £144 million net loss from the share of post-tax profits and losses of associates (2019: £170 million net profit). There was an increase in finance costs of £50 million primarily due to higher levels of debt in 2020, including short-term loans that were repaid within the year. The retranslation credit of £55 million was down £46 million from 2019 as a result of the revaluation of financial assets.

#### Taxation

*The tax credit on continuing operations for 2020 was £695 million (2019: £350 million charge), which included a tax credit of £291 million (2019: nil) relating to exceptional items. The Group loss before tax was £4,184 million (2019: £1,459 million profit) including a £144 million post-tax share of associate's net losses (2019: £170 million net profits). After adjusting for exceptional items and post-tax share of associate's net losses, the Group's effective tax rate was 16.2 per cent (2019: 18.7 per cent), compared to the UK corporation tax rate of 19.0 per cent (2019: 19.0 per cent).*

During the year, the net deferred tax liability reversed by £585 million to a deferred tax asset of £401 million, driven primarily by tax losses carried forward, the timing of tax deductions on fixed assets qualifying for capital allowances and an increase in the fair value losses recognised on cash flow hedges.

#### Capital expenditure

Total capital expenditure in the year amounted to £950 million (2019: £1,571 million). This included £868 million (2019: £1,354 million) of fleet-related expenditure (aircraft, aircraft progress payments, spares, modifications and refurbishments). During the year the Group took delivery of four Airbus A350-1000s, two Boeing 787-10s, two Airbus A321neos and three Airbus A321neos. The Group also took delivery of four Boeing 777-300s that were direct leases, and therefore not included in capital expenditure.

#### Liquidity

The Group's liquidity position at 31 December 2020 included £1.3 billion of cash, cash equivalents and other interest-bearing deposits (2019: £2.6 billion). At the end of the year, net debt was £7.5 billion (2019: £3.7 billion). Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits.

In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £0.5 billion (2019: £0.5 billion) and further general facilities of £0.6 billion (2019: £1.0 billion).

In November 2020, British Airways entered into an asset-financing structure, raising a total of \$1,005 million was raised to finance all 14 aircraft. The transaction, through an unconsolidated structured entity, includes Class A certificates with an annual coupon of 4.25 per cent and maturity of 12.0 years and Class B Certificates with an annual coupon of 8.375 per cent and a maturity of 8.0 years, supported by a collateral pool of new Airbus A320 NEO, Airbus A350-1000, Boeing 787-10 aircraft, as well as vintage Airbus A320-200. At the end of the year, \$428 million (£313 million) remained undrawn.

In April 2020, British Airways accessed the Bank of England CCFF facility, drawing down £298 million, which has a twelve month maturity period. British Airways also secured a three year Term Loan with its parent company, IAG, for an amount of €1.65 billion, which was fully drawn by the year end. On 31 December 2020, IAG announced that British Airways had received commitments for a 5-year term-loan of £2 billion underwritten by a syndicate of banks, partially guaranteed by UK Export Finance.

## Strategic report continued

### Financial review continued

#### Pensions

The Group operates two significant defined benefit pension schemes, the Airways Pension Scheme ('APS') and the New Airways Pension Scheme ('NAPS'), both of which are in the UK and are closed to new members. British Airways closed NAPS to future accrual from 31 March 2018. The main defined contribution scheme is the British Airways Pension Plan ('BAPP'). Triennial actuarial valuations are due to take place in 2021 for APS and NAPS, both with effective dates of 31 March 2021.

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

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

After the deferral period, BA will resume contributions under the terms of the 2019 Scheme Funding Agreement. Both BA and NAPS have agreed that a new recovery plan should be agreed as quickly as is practical, ideally before the end of the deferral period on 30 September 2021.

#### Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of risks. The Group remains focused on mitigating these risks at all levels in the business although many remain outside our control, for example, changes in the political and economic environment, government regulation, external events causing operational disruption, fuel price and foreign exchange volatility and changes in the competitive landscape. The risks and uncertainties described below are the ones that are expected to have the most significant impact on the Group. The Group carries out detailed risk management reviews under the IAG risk management framework. Risks are maintained in a risk heatmap, which is reviewed semi-annually by the BA Board. As part of the risk management framework, potential emerging risks and longer term threats are considered to identify new trends, regulations or business disruptors that could impact our business strategy and plans. These emerging risks are monitored within the overall risk framework until they are re-assessed to be no longer a potential threat to the business or where an assessment of the risk impact can be made, and appropriate mitigations can be put in place.

This year, in response to the pandemic crisis, the risk management framework has evolved to further develop the Group's assessment of risks. The process helped the BA Board and management to respond quickly to the new and rapidly changing risk landscape, enabling clear understanding and identification of emerging risks arising from the impact of the pandemic and how the pandemic has affected existing risks included within the Group's risk map.

For all risks, business owners are assigned, and the business will agree appropriate mitigations and timelines for implementation, following discussions with all relevant stakeholders. Where risk treatments require time to implement, short term mitigations are assessed and the timeline to risk mitigation and consequent risk acceptance discussed and agreed. Every risk has clear Management Committee oversight.

The list presented is not intended to be exhaustive.

## Strategic report continued

### Principal risks and uncertainties continued

| Strategic  |  |
|--|--|
| Risk description   | Mitigation   |
| <b>Airports, infrastructure and critical third parties</b>   |  |
| BA is dependent on the timely entry of new aircraft and the engine performance of the aircraft to improve operational efficiency and resilience and support the delivery of the sustainability programme.  | The Group mitigates engine and fleet performance risks, including unacceptable levels of carbon emissions to the extent possible by working closely with the engine and fleet manufacturers, as well as retaining flexibility with existing aircraft return requirements.  |
| BA is dependent on the timely, on budget delivery of infrastructure changes particularly at key airports.  | BA is particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports. The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports   |
| BA is dependent on resilience within the operations of the Air Traffic Control (ATC) services to ensure that its flight operations are delivered as scheduled.   | London Heathrow has no spare runway capacity. The UK government has re-confirmed its approval for a third runway expansion proposal at Heathrow and IAG continues to promote an efficient, cost effective, ready to use and fit for purpose third runway solution.   |
| BA is dependent on the performance and cost of critical third party suppliers that provide services to customers such as airport operators, border control and caterers. The impact of the pandemic on the BA's supply chain will also impact BA where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services. | The Group participates in the slot trading market, including at London airports.   |
|  | IAG is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive. The Group pro-actively works with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.   |
|  | IAG's procurement function and BA pro-actively works with suppliers to ensure operations are maintained and the impact to BA is understood, with mitigations implemented where necessary.  |
|  | IAG's procurement function has led an ongoing review of all critical contracts across the Group's businesses.  |
| <b>Brand reputation</b>  |  |
| 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.  | Brand initiatives have been identified and are aligned to the Strategic Business Plan. The Group continues to focus on customer engagement and enhancements to the customer experience and support the brand proposition.  |
| If the airline is unable to meet the expectations of customers and does not engage effectively to maintain their emotional attachment to the brand, then the brand will be eroded, and market share lost.  | New hygiene protocols have been introduced across the Group's operations and BA was awarded a Skytrax 4-star Airline Safety rating in November.  |
|  | The Group continues to track and report internally on Net Promoter Score to measure customer satisfaction. The Group had functionality and disruption management processes in place to help customers when their journeys were disrupted. These have been further enhanced in the year to respond to the unprecedented levels of flight disruptions caused by governments' restrictions. Customer engagement through disruption and recovery processes have been a key area of focus for management, particularly the speed with which customer issues are resolved. |
|  | The Group's strategic business plans focus on the allocation of resources to safety, operational integrity and resilience to maintain operational excellence, customer engagement and brand leadership position.   |
|  | The Group's global loyalty strategy builds and maintains customer loyalty.   |

## Strategic report continued

### Principal risks and uncertainties continued

| Strategic continued   |  |
|---|--|
| Risk Description  | Mitigation   |
| <b>Competition, consolidation and government regulation</b>   |  |
| <p>BA operates in highly competitive markets. Competitor capacity growth in excess of demand growth could materially impact margins. Any failure of a joint business or a joint business partner could adversely affect business operations and financial performance.</p> <p>Regulation of the airline industry covers many of the Group's activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact operational and financial performance. The ability to comply with and influence changes to regulations is key to maintaining operational and financial performance.</p> <p>Governments' support schemes for the aviation sector create distortionary effects across the markets in which BA operates.</p> | <p>The Management Committee and BA Board have met regularly to discuss strategic issues and plans throughout the year, with additional meetings convened to address issues arising from the responses of regulators and governments to the pandemic.</p> <p>The Group has strong global market positioning, leadership in strategic markets, alliances and a diverse customer base.</p> <p>The Management Committee regularly reviews the commercial performance of joint business agreements.</p> <p>BA's revenue management department and systems optimise market share and yield through pricing and inventory management activity. Additional processes and reviews have allowed daily and weekly route analysis as required. The Group maintains rigorous cost control and targeted investment to remain competitive. IAG's procurement function has led an ongoing review of all critical contracts.</p> <p>The Group has the flexibility to react to market opportunities arising from competitors, leading to opportunities to adapt and capture market share.</p> <p>The Group has fleet flexibility to allow capacity to be deployed as needed.</p> <p>IAG's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</p> |
| <b>Digital disruptors</b>   |  |
| <p>Technology disruptors may use tools to position themselves between the airline's brand and its customers.</p>  | <p>The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.</p> <p>As part of IAG, BA benefits from the Hangar 51 programme which continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.</p> <p>The IAG Tech function is responsible for the delivery of digital and IT capabilities for BA. The Management Committee's Chief Digital and Information Officer ('CDIO') ensures that IAG Tech understand BA's digital and IT requirements.</p>   |

## Strategic report continued

### Principal risks and uncertainties continued

| Strategic continued   |  |
|---|--|
| Risk Description  | Mitigation   |
| <b>Sustainable aviation</b>   |  |
| <p>Increasing global concern about climate change and the impact of carbon affect performance as customers seek alternative methods of transport or reduce their levels of travel.</p> <p>New taxes and the increasing price of carbon costs may impact on the demand for air travel. Customers may choose to reduce the amount they fly.</p>   | <p>IAG has announced a Climate Change strategy to meet target of net zero carbon emissions by 2050 and is implementing plans to meet this goal, including investment in sustainable fuels and participation in the Carbon Offsetting and Reduction Scheme for International Aviation.</p> <p>BA offsets all UK domestic flight carbon emissions</p> <p>As outlined in the strategic report on page 4, the Group is exploring the use of sustainable fuels to power aircraft and the Group's fleet replacement plan introduces more carbon efficient aircraft into the fleet.</p> <p>The Group continues to support and influence effective market-based policy measures, directly and through industry collaboration such as the UK Sustainable Aviation Group and Airlines for Europe.</p>  |
| <b>Business and operational</b>   |  |
| <b>Cyberattack and data security</b>  |  |
| <p>The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, foreign governments or hacktivists.</p> <p>If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p> <p>The fast moving nature of this risk means that the Group will always retain a level of vulnerability.</p> <p>In relation to the theft of customer data in 2018 the UK Information Commissioner's Office ('ICO') issued a final penalty notice to British Airways in October 2020.</p> | <p>IAG has a Cyber Strategy that drives investment and operational planning that is approved by the IAG Board.</p> <p>There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure and regulations are adhered to.</p> <p>A cyber risk management framework reviews the risk across the business and the BA Cyber Governance Board assesses the portfolio of cyber projects.</p> <p>Threat Intelligence is used to analyse cyber risks to the Group. BA has a Data Protection Officer in place.</p> <p>BA is subject to the requirements of the National Information Security Directive ('NISD').</p> <p>New working practices have been reviewed to ensure the integrity of the cyber and data security environment with additional oversight measures being implemented as required.</p> <p>All third party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.</p> |

## Strategic report continued

### Principal risks and uncertainties continued

| Business and operational continued  |  |
|---|--|
| Risk Description  | Mitigations  |
| <b>Event causing significant network disruption</b>   |  |
| <p>An event causing significant network disruption may result in lost revenue, customer disruption and additional costs.</p> <p>The pandemic is likely to continue to have an adverse effect on the Group, as would any future pandemic outbreak or other material event that results in the imposition of governments' restrictions on travel and the movement of its populations.</p>   | <p>The Group has business continuity plans to mitigate this risk with focus on operational and financial resilience. This includes functionality and disruption management processes in place to help customers when their journeys are disrupted. These have been further enhanced in 2020 to respond to the unprecedented levels of flight disruptions caused by governments' restrictions.</p> <p>Actions taken to mitigate the impacts included, but weren't limited to, negotiations with Trade Unions regarding the restructuring and redundancy programme, an extensive review of the fleet composition and early retirement of older aircraft, accessing government and capital market financing, deferring capital spend and adapting financial controls to only business critical spend.</p> <p>Disruption events are mitigated by additional resilience to the extent feasible, although many remain outside of the Group's control such as adverse weather, another pandemic, civil unrest or terrorist events seen in cities served by the Group's airlines.</p> <p>Response plans to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.</p> <p>The Group manages flight operations in such a way as to maintain resilience of the network schedule, including matching service capacity to demand, for both passenger and cargo.</p> |
| <b>IT systems and IT infrastructure</b>   |  |
| <p>The dependency on IT systems for key business and customer processes is increasing and the failure of a critical system may cause significant disruption to the operation and lost revenue.</p> <p>The level of transformational change at pace required by the Group may result in disruption as the legacy environment is addressed and obsolescence within the IT estate could result in service outages and/or operational disruption, particularly if the Group needs to defer investment to preserve cash.</p> | <p>IAG Tech works with the Group to deliver digital and IT change initiatives to enhance security and stability. It has established new governance and a structure that is mirrored across into BA to ensure that IT investment and BA's requirements are appropriately prioritised and delivered. There is an increased focus on service delivery and services management as the Group addresses its legacy environment, with agreed plans and investment to upgrade or transform away from obsolete systems or architecture. The BA IT Board led by the BA CDIO reviews delivery timelines for IT systems and infrastructure provided by IAG Tech to the Group.</p> <p>Reversion plans are developed for migrations on critical IT infrastructure.</p> <p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p>   |
| <b>Safety and security incident</b>   |  |
| <p>The safety and security of customers and employees are fundamental values for BA. A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brand, operations and financial performance.</p>   | <p>The Board's Safety Review Committee satisfies itself that the Group has the appropriate resources and procedures which include compliance with Air Operator Certificate requirements.</p> <p>The Crisis Management Centre responds in a structured way in the event of a safety or security incident. Employees and key third parties take part in crisis management exercises.</p> <p>The Group has a Safety Board that meets regularly, ensuring lessons from incidents are fed into daily operations and operations are structured around the safety policies of the Group. The IAG Safety committee also shares best practices between IAG Group's airlines.</p>  |

## Strategic report continued

### Principal risks and uncertainties continued

| Business and operational continued  |   |
|---|---|
| Risk Description  | Mitigations   |
| <b>People, culture and employee relations</b>   |   |
| <p>Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance</p> <p>Employees are vital to the sustainable success of BA. The Group may fail to attract, motivate, develop and retain employees to deliver service and brand excellence. If our people are not engaged, do not have the right skillsets or they do not display the required leadership behaviours, then BA's transformation plans to drive the business forward may not be achieved.</p> | <p>Collective bargaining takes place on a regular basis led by human resources specialists with a strong skillset in industrial relations.</p> <p>As described on page 21 of the Directors' report, BA have adapted our approach to engagement and communication using digital platforms under the current remote working measures.</p> <p>Management's focus is on leadership development, talent strategy and on how we can create a talent pipeline of future leaders and emerging talent, particularly with digital skillsets and attract more women and those from more socially diverse backgrounds into flying and engineering. This includes our Flying Futures, apprenticeship and work experience programmes.</p> <p>Extensive work has been done to deliver a broad diversity and inclusion strategy. BA has signed the Time to Change Pledge and launched "Unmind" a mobile tool to provide personal support for those experiencing mental health challenges.</p>   |
| <b>Political and economic environment</b>   |   |
| <p>Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange and interest rate movements create volatility.</p> <p>Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of the Group.</p> <p>Political decisions to respond to the pandemic impacts economies across all markets, causing longer term economic stress.</p>   | <p>The BA Board and Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts.</p> <p>Reviews are used to drive the Group's financial performance through the management of capacity, together with the management of cost control and capital expenditure.</p> <p>External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed as part of the business performance monitoring</p> <p>Wider macro-economic trends are being monitored including the US-China relationship, tariff regimes and the risk of protectionism in markets. The stress of the pandemic could have further reaching impacts including currency devaluations, new tax regimes on corporates and individuals as well as changes in control of governments and new government policies.</p> <p>IAG Government Affairs and BA have been in discussions with governments regarding restrictions and approaches for the implementation of consistent, customer centric testing regimes.</p> |
| <b>Financial</b>  |   |
| <b>Debt funding</b>   |   |
| The Group carries debt and needs to finance ongoing operations, committed aircraft orders and future fleet plans.   | The Group's activities to mitigate debt funding risks are detailed in note 24 <i>Financial risk management objectives and policies</i> on page 70.  |
| <b>Financial risk</b>   |   |
| The Group's financial position and performance is affected by volatility in the price of oil and petroleum products and foreign exchange risk on revenue, purchases and borrowings or currency devaluation risk of cash held in foreign currencies.   | <p>As detailed in note 24 <i>Financial risk management objectives and policies</i> on page 70 fuel price currency risk is partially hedged with over the counter derivatives in line with the IAG hedging policy with IAG Group Treasury oversight.</p> <p>BA's commercial policy is to review routes when there are delays in the repatriation of cash as well as the risk of devaluation.</p>   |

## Strategic report continued

### Principal risks and uncertainties continued

| Financial continued   |  |
|---|--|
| Risk Description  | Mitigations  |
| <b>Pensions</b>   |  |
| The Group has two significant employer funded defined benefit schemes, APS and NAPS. Negative movements in pension asset values and financial returns from these assets may adversely affect the funding level of the scheme. The Group is exposed to the risks of operating underfunded defined benefit schemes. The deficit in NAPS is also 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.  |
| <b>Noncompliance with key regulation and laws</b>   |  |
| The Group is exposed to the risk of individual employees' or groups of employees' inappropriate and/or unethical behaviour resulting in reputational damage, fines or losses to the Group.  | <p>The Group has clear frameworks in place including comprehensive policies designed to ensure compliance.</p> <p>There are mandatory training programmes in place to educate employees in these matters.</p> <p>Compliance professionals specialising in competition law and anti-bribery legislation support and advise the business.</p> <p>IAG has a Code of Conduct framework and training that BA follows.</p> <p>A Data Protection Officer is in place.</p> |

### Section 172 statement

During 2020, the Board and designated subcommittees acted in a way, they consider, in good faith, would most likely promote the success of British Airways for the benefit of its members as a whole, based on information available to them at the time. The following disclosure describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

### Stakeholders

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

| Customers  |   |
|--|---|
| Why it is important to engage and what matters to them?                            | <p>Customers are central to the success of BA and engagement enables the Company to understand and drive the product and service initiatives that will deliver the greatest value to the customer.</p> <p>If the airline is unable to meet the expectations of customers and does not engage effectively to maintain their emotional attachment to the brand, then the brand will be eroded and market share lost.</p> <p>British Airways provides a loyalty scheme to customers through the acquisition of points from Avios Group (AGL) Limited which are then issued to Executive Club members as part of the ticket. Customers value the Tier benefits associated with the loyalty scheme, for example access to lounges and the ease of redeeming the points.</p> <p>Customers continue to value safety, reliability, value for money and a seamless and unique customer experience throughout their journey from booking to arrival at their destination. There is a growing trend in ethical and sustainability concerns being a factor in consumer choices.</p> |
| How management and/or Directors engaged and what was the impact of the engagement? | <p>The Board and Management Committee receive regular updates regarding customer relationships, development and engagement, including results of customer feedback surveys, net promoter score and complaints data.</p> <p>During 2020, British Airways decided to offer greater booking flexibility to its customers as a result of COVID-19. It also reviewed and made changes to its customer experience in light of COVID-19 including its cleaning programme for aircraft and its onboard catering proposition. The strategic report on page 3 outlines BA's Book with Confidence commitment made during the year and the steps taken during the year as a result of COVID-19, to keep customers safe.</p>   |



## Strategic report continued

### Section 172 statement continued

| <b>Workforce</b>   |  |
|--|--|
| Why it is important to engage and what matters to them?                            | <p>The Group's long-term success is predicated on the commitment of the workforce to the airline's purpose and demonstrating British Airways' values on a daily basis. To be able to compete in a challenging commercial aviation environment, the workforce needs to be adaptive and have a constantly evolving skill base.</p> <p>Engagement with the workforce is essential to ensure the Group fosters an environment that the workforce is motivated to work in and that best supports their wellbeing.</p>   |
| How management and/or Directors engaged and what was the impact of the engagement? | <p>The section of the Directors' report on page 21 explain how the Company engages with the workforce.</p> <p>Colleagues are provided information that is of concern to them, including industry, business and financial performance updates on the Company intranet and via email and are encouraged to share their views on all matters with senior management.</p> <p>Given the significant impact of COVID-19 on the Company, British Airways has made use of the Government furlough scheme to avoid, reduce or mitigate redundancies that would otherwise have been required. Resources are available to colleagues to support mental health and positive wellbeing, which has been particularly important throughout the pandemic with colleagues on furlough and working from home.</p> <p>During 2020, the Board and Management Committee had to take essential action to restructure the business, engaging in a very extensive consultation process with employees and employee representatives taking into account the representations received and reshaping proposals as appropriate. Further information is outlined in the strategic report and principal decisions section below.</p> |
| <b>Suppliers</b>   |  |
| Why it is important to engage and what matters to them?                            | <p>The Group's suppliers are fundamental to ensuring that the airline meets the high standards of conduct that customers and other key stakeholders expect. Suppliers are an extension of the airline, sometimes representing the brand and enabling the Group to run uninterrupted operations. Key suppliers include aircraft manufacturers, fuel suppliers and worldwide airports.</p> <p>Suppliers value operational stability ensuring predictable demand, transparency and integrity at all times in all business dealings and timely settlement avoiding liquidity challenges.</p>   |
| How management and/or Directors engaged and what was the impact of the engagement? | <p>There is active supplier management including contingency planning. IAG GBS provides a centralised procurement function for the IAG Group and manages supplier engagement. The IAG Group Supplier Code of Conduct sets out the standards to which suppliers engaging with BA must comply.</p> <p>The Board receives updates regarding material developments in key supplier relationships, including updates through internal audit and risk management.</p> <p>The impact of COVID-19 has required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. The Group has pro-actively worked with suppliers to ensure operations are maintained and the impact to their business is understood, with mitigations implemented where necessary.</p> <p>During 2020, as part of the initiatives to preserve liquidity, the Group worked with suppliers to defer aircraft deliveries and associated delivery payments.</p>  |
| <b>Investors</b>   |  |
| Why it is important to engage and what matters to them?                            | <p>Continued access to capital is of vital importance to the long-term success of British Airways. The key investors of British Airways are its parent company, IAG, and lenders that finance the acquisition of aircraft.</p> <p>Lenders value meeting coupon and repayment commitments on time.</p> <p>For IAG, return on invested capital, operating margins and free cash generated are important as value is created by generating strong and sustainable results that translate into dividends and share price appreciation. In addition to these financial measures, operating within the Group's policies and maintaining and enhancing brand and reputation are also important.</p>   |

## Strategic report continued

### Section 172 statement continued

| <b>Investors continued</b>   |   |
|--|---|
| How management and/or Directors engaged and what was the impact of the engagement? | <p>The CEO is a member of the IAG Management Committee and attends weekly meetings for regular engagement with IAG management as well as the monthly IAG Management Committee meetings where the Group's operational and financial performance, strategic plans, risks and opportunities are reviewed. Challenges are raised and addressed by management ahead of approval.</p> <p>The British Airways Management Committee provides regular operational and financial performance communications, such as quarterly trading results, to IAG.</p> <p>The CFO attends monthly IAG operating company CFO meetings with the IAG Group CFO and CFOs from the other operating companies within the IAG Group. The CFO attends regular meetings with credit ratings agencies.</p>   |
| <b>Communities and environment</b>   |   |
| Why it is important to engage and what matters to them?                            | <p>The communities in which the airline operates require British Airways to operate in a socially responsible manner and protect the environment.</p> <p>Sustainability is crucial, and communities expect the Group to provide means to minimise the effect of flying on the environment from reduced noise levels, waste management and reducing or offsetting carbon emissions. Communities expect the airline to minimise the negative effects of globalisation, for example employing ethically responsible supply chains and preventing illegal global trafficking.</p>   |
| How management and/or Directors engaged and what was the impact of the engagement? | <p>The Group continues to support charitable giving, through Flying Start and working closely with non-profit organisations delivering change.</p> <p>The Group's culture and commitment to corporate responsibility continues to grow. Tackling the effect of aviation on the climate requires a multi-faceted response and British Airways is committed to this. Sustainability is embedded into the Group's business plans that are reviewed and approved by the Board and IAG. The Board Corporate Responsibility Committee sets and approves BA's corporate responsibility strategy and monitors progress on key initiatives.</p> <p>British Airways is contributing to IAG's commitment to achieving net zero CO<sub>2</sub> emissions by 2050 and began offsetting carbon emissions on all flights within the United Kingdom in January 2020.</p> <p>The Group will continue to invest in new generation aircraft which tend to have at least 20 per cent lower carbon emissions and 50 per cent lower noise levels than the aircraft they replace. BA has taken delivery of four new Airbus A350 aircraft, two 787-10s, four 777-300ERs, two A321neos and three A320neos that were ordered before the pandemic. These aircraft will help with meeting the Flightpath Net Zero carbon reduction commitment.</p> <p>The strategic report on page 4 provides more information on sustainable recovery.</p> |
| <b>Pension Trustees</b>  |   |
| Why it is important to engage and what matters to them?                            | <p>As described in note 29 of the annual report and accounts the Group has two main funded pension schemes, APS and NAPS which a significant number of current and former employees are members of. The Pension Trustees are concerned with the Group's covenant and the funding levels and deficit recovery plans of the defined benefit schemes, to ensure the schemes are able to meet their obligations in the future and the financial stability of the Group.</p>   |
| How management and/or Directors engaged and what was the impact of the engagement? | <p>Senior management form part of the Trustee board. Additional management representatives attend Trustee investment strategy meetings. Senior management met with the Trustee board during the year to discuss the Group's financial performance and updated forecasts.</p> <p>The Board considers the Group's ability to fund the defined benefit pension schemes and funding commitments when passing resolutions to pay dividends.</p> <p>BA and the NAPS Pension Trustee Directors agreed to a deferral of the funding commitments, with further details in the strategic report on page 8.</p>  |

## Strategic report continued

### Section 172 statement continued

#### Principal decisions

Principal decisions are those that are material to the Group and significant to any of the key stakeholder groups. In making the principal decisions outlined in the section 172 statement, the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company. The principal decisions taken during the year were a result of the material impact that COVID-19 had on the Company. Principal decisions taken during the year include:

##### *Significant reduction in operations*

Following the rapid spread of COVID-19, and associated government travel restrictions negatively impacting on the customer demand for global air traffic, decisions were taken that impacted customers and colleagues, including a significant reduction in capacity, cancelling flights and changing schedules. Most aircraft were grounded from late March and those aircraft retained serviced a small passenger operation to limited destinations as well as operating cargo only flights.

##### *Job Retention Scheme*

As a result of the significant decline in flying, BA reached agreement with trade unions, GMB and Unite to apply the Governments' Job Retention Scheme to more than 30,000 cabin crew and ground-based employees, based on operational requirements.

##### *Business restructuring*

As outlined in the strategic report, the Company undertook a restructuring and redundancy programme during 2020. This decision was taken because of the impact that the COVID-19 pandemic had on demand. This led to a need to restructure the workforce to adapt to the change in the size of the business. The Board understood the significant impact this process would have on colleagues and its priority was to protect as many jobs as possible and mitigate redundancies through meaningful consultation. Following the consultation process, agreements were reached with nearly every area of the business.

##### *Retirement of 747*

The downturn in travel and passenger demand meant that BA had to revise its fleet strategy. The Board took the decision to permanently retire the fleet of 31 Boeing 747-400 aircraft early in 2020. In making its decision, the Board had regard to carbon emissions, as these aircraft were the least fuel efficient in the longhaul fleet.

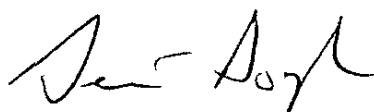
##### *Liquidity*

As outlined in the strategic report, a number of actions were taken throughout the year to enhance liquidity of the Group, which included the £298 million CCFF loan, \$1,005 million EETC financing and the five year €1,650 million IAG Term Loan. In approving these actions, the Board had regard to the interests of stakeholders, including investors, pension trustees and the long-term success of the Company.

##### *NAPS funding commitments*

As outlined in the strategic report, BA reached an agreement with the NAPS Trustee Board of Directors to defer Deficit Recovery Contribution payments that would have otherwise been due between October 2020 and September 2021, equating to a deferral of cash outflows of £450 million over that period.

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



Sean Doyle  
Chief Executive Officer  
4 March 2021



Rebecca Napier  
Chief Financial Officer  
4 March 2021

## Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2020.

### Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 14 of the strategic report.

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

### Results and dividends

The pre-exceptional operating loss for the year ended 31 December 2020 amounted to £2,328 million (2019: £1,921 million profit). The operating loss for the year ended 31 December 2020 was £3,881 million (2019: £1,338 million profit).

The Board has decided not to recommend the payment of any dividends in respect of the year ended 31 December 2020 (2019: £585 million).

### Going concern

Based on the extensive modelling the Group has undertaken in light of the COVID-19 pandemic, the Directors have a reasonable expectation that the Group has sufficient liquidity for the going concern assessment period to 31 March 2022, and accordingly the Directors have adopted the going concern basis in preparing the consolidated financial statements.

There are a number of significant factors related to COVID-19 that are outside of the control of the Group, including the status and impact of the pandemic worldwide, including the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. Due to the uncertainty that these factors create, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the sensitivities it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe downside scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at 4 March 2021. The Group has been successful in raising financing since the outbreak of COVID-19, having financed all aircraft deliveries in 2020 and secured an additional £1.8 billion of non-aircraft debt. However, the Group cannot provide certainty that it will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur. Refer to note 2 of the consolidated financial statements for further information.

### Events after the balance sheet date

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

### Directors

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

Alex Cruz  
Alison Reed  
Sean Doyle (appointed 12 October 2020)  
Rebecca Napier  
Gavin Patterson  
Julia Simpson  
Lynne Embleton

### Company Secretary

Andrew Fleming

### Directors' and Officers' liability insurance and indemnities

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

The Company has granted rolling indemnities to the Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as Officers of companies within the Group. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs. The indemnities were in force during the whole of the financial year or from the date of appointment in respect of Officers who joined during 2020 and remain in force.

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 2020 and remain in force.

## Directors' report continued

### Corporate Governance

Effective corporate governance is a key requirement for the Group. For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, British Airways has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") as its framework for disclosure regarding its corporate governance arrangements.

#### Principle 1 – Purpose and leadership

BA's purpose is to connect Britain to the world, and the world to Britain. This is supported by the Company's business plan, which is refreshed and reviewed annually by the Board.

BA has four commitments to drive behaviours to achieve the Company's vision; to be the best airline in the world:

- Be safe and secure, always
- Be passionate about service
- Be confident
- Be trusted advocates of BA

BA's purpose is underpinned by three strategic anchors:

- Customer Experience – delighting customers at every step of their journey;
- Network – growing our network profitably; and
- Efficiency – using all our resources to the best effect.

The IAG Group Code of Conduct outlines the key behaviours expected of all employees and provides guidance on how to identify and report concerns. The Code outlines the IAG commitment to placing integrity at the core of all our business activities and applies to all employees and Directors of BA and the other operating companies within IAG.

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

#### Principle 2 – Board composition

From October 2020 the Board comprised of two Executive Directors (the CEO and the CFO) and five Non-Executive Directors. Two of the Non-Executive Directors have other executive roles within IAG and three are external to IAG. During the year, the roles of Chairman and CEO were separated when Alex Cruz stepped down as CEO but remained as the Chairman. The Non-Executive Directors provide appropriate challenge and scrutiny to the Board's decision making process. Significant financial decisions must be approved by the IAG Management Committee and the IAG Board. In accordance with the Articles of Association, the CEO is appointed by the shareholders. The Board comprises four female Directors and three male Directors, and there is a diverse range of experience and skills to enable the Board to effectively fulfil its responsibilities. In accordance with the obligations for appointments and succession set out in the Articles of Association, the majority of members of the Board are United Kingdom nationals. The Directors have equal voting rights.

The Board is collectively responsible for the management and effective oversight of the Company's business. The Chairman leads the Board and is responsible for ensuring the overall effectiveness of the Board and to ensure that Directors have access to information in order to inform Board decision making. Some of the duties of the Board are executed partially through committees. There are three Board Committees; the Board Safety Review Committee, the Remuneration Committee and the Corporate Responsibility Committee. Membership of each committee is drawn from both the Non-Executive Directors and Executive Directors and includes non-Director attendees.

In order to inform the Board of the operations and performance of the business, the Board has access to members of senior management who attend Board meetings. All Directors have access to professional advice and services of the Company Secretary. Directors update their skills, knowledge and familiarity of the business by meeting with employees and by attending appropriate external seminars and training courses. There is an induction programme for all new Directors which provides access to all parts of the business, including IAG.

#### Principle 3 – Director responsibilities

Whilst the Board maintains effective oversight of the Company's business and has ultimate responsibility for major policy and financial expenditure issues, some key decisions are made by members of the Board, committees and senior management with the appropriate knowledge and experience. Company policies on governance, decision making and delegation ensure that every decision is taken with the right safeguards in place and is underpinned by appropriate considerations and processes. At the IAG level, further oversight and direction is provided by the IAG Board, IAG Management Committee and the IAG Audit and Compliance Committee. IAG carries out detailed risk management reviews under the IAG risk management framework.

The Board delegates authority for day-to-day management of the Company to the Management Committee which meets weekly and is chaired by the CEO and whose membership includes the CFO and leaders of each business area. The Management Committee is responsible for considering and recommending to the Board the BA Group's business plans, financial plans, strategic matters, major projects and programmes (including acquisitions, disposals, joint ventures), other capital investment or divestment decisions and other significant matters affecting the Company. The Board retains responsibility for reviewing the recommendations of the Management Committee and exercises an oversight role, constructively challenging recommendations and the decisions. Where financial approval is also required, this must also be obtained via the Capital Investment Committee approval process.

## Directors' report continued

### Corporate Governance continued

During 2020, in addition to the eight scheduled meetings, the Board met remotely on a fortnightly basis from April to monitor the impact of COVID-19 on the business. Board meetings were well attended during the year.

The Board receives regular and timely information on all key aspects of the business, including business risks and opportunities, the financial performance of the business, strategy, operational matters, safety, market conditions and sustainability, supported by Key Performance Indicators. *Key financial information is collated from the Group's accounting systems and the finance function is appropriately qualified to ensure the integrity of this information.* The financial controls are reviewed by the IAG internal audit function.

The Board agrees on how conflicts of interest should be identified and managed by the Company Secretary, with the conflicts register being reviewed regularly and interests authorised at each meeting of the Board.

#### Principle 1 – Opportunity and risk

##### *Opportunities*

Long term strategic opportunities are identified through the business planning process which includes input from all areas of the business. The three-year business plan is presented to the Board for approval each year.

##### *Internal control framework*

IAG complies with the Spanish corporate governance requirement regarding reporting on internal controls. The Group has an internal control framework to ensure it maintains a strong and effective internal control environment. This is independently assessed by the IAG internal audit function on an annual basis with results reported to the BA Board and the IAG Audit and Compliance Committee. The Board is responsible for ensuring findings are remediated and the effectiveness of the framework was regularly reviewed by the Management Committee during the year.

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

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

##### *Risk management*

IAG has an Enterprise Risk Management policy which sets out a framework for a comprehensive risk management process and methodology, ensuring a robust assessment of the risks, including emerging risks. BA manages its risks within the IAG framework, supported by risk management professionals in IAG. Risk owners are responsible for identifying risks in their area of responsibility. All risks are assessed for likelihood and impact against the Group business plan and strategy and are plotted on a risk heatmap. Key controls and mitigations are documented including appropriate response plans. Every risk has appropriate Management Committee oversight. Internal control and risk management systems in relation to the Group's financial reporting process and the process for the preparation of consolidated financial statements are in place. This year, in response to the pandemic crisis, the risk management framework has further evolved to develop BA's assessment of the interdependencies of risks, built on scenario planning to quantify risk impact under different assumptions and consider the risks within BA's risk map that have increased either as a result of the external environment or as a result of decisions made by the business in response to the external environment. The process adopted this year has helped the BA Board and management to respond quickly to the new and rapidly changing risk landscape, enabling clear understanding and identification of emerging risks arising from the impact of the pandemic and how the pandemic has affected existing risks included within BA's risk map. Additional controls that were identified as a result of changes to the control environment such as staff on furlough or working from home, were implemented. There were no changes in risk management and internal control systems over financial reporting that have occurred during the year that have materially affected, or are reasonably likely to materially affect, the Group's financial reporting.

The risk heatmap is reviewed twice yearly by the BA Management Committee and the IAG Head of Enterprise Risk Management to ensure that risks are appropriately evaluated and any further actions identified. This is then reported to the BA Board to assist in the management of risk. This comprehensive risk management process and methodology has been in place throughout the reporting period to which these statements apply and up to their date of approval. The principal risks and uncertainties that are reviewed by the Board are detailed further on pages 8 to 14 of the strategic report.

#### Principle 5 – Remuneration

The Remuneration Committee is responsible for setting remuneration for the Management Committee (excluding the CEO and CFO which are set by IAG). Remuneration is aligned to individual performance and behaviours, as well as achievement of BA's purpose, value and strategies and is set at a market competitive level to ensure that BA can attract and retain quality senior management.

The Remuneration Committee is chaired by a Non-Executive Director and has clearly defined terms of reference. Further information relating to remuneration is set out in the People section on page 21.

## Directors' report continued

### Corporate Governance continued

#### Principle 6 – Stakeholder relationships and engagement

Information relating to the Board's engagement with key stakeholders is set out in the Section 172 statement on pages 14 to 17 and in the People section below. The Group has an independent whistleblowing hotline through which stakeholders are encouraged to report any concerns for investigation by senior management.

#### People

British Airways continues to drive genuine and effective engagement and communication with colleagues; we've adapted our approach and increased accessibility using digital platforms in response to the current remote working measures. The Group invested in a new communication channel architecture, including a mobile-optimised digital workplace that provides news and information tailored to individual employees based on their role, location and interests. This was complemented by the introduction of mobile devices to all cabin crew, as well as a refresh of other hardware to enable more effective communication and better productivity. Regular employee communication includes a fortnightly video update by the CEO, a blog by the COO, and frequent virtual Town Halls using Teams Live across all business directorates. Fortnightly briefings for senior leaders ensure that key messages are cascaded into the organisation. A new video channel, BA:TV, carries hundreds of videos available to all employees, giving them bite-sized news, features and information.

British Airways has a well-established framework in place to ensure that employees are represented and their right to collective bargaining is respected. The COVID-19 pandemic has had a profound impact upon our business and our industry as a whole. This has resulted in wide-scale collective consultations affecting all workgroups and has ultimately led to British Airways becoming a much smaller organisation. Across the airline, all impacted colleagues were offered, and thousands engaged in an individual consultation meeting with their manager. Throughout the consultations, British Airways also provided access to information packs (including industry updates on financial and economic factors affecting the performance of the Group), recorded briefings and resources, as well as an FAQ search centre with 508 questions and answers available to employees at a time suited to them. Sadly, we had to say goodbye to many colleagues with c8,000 leaving under voluntary redundancy and c1,500 under compulsory redundancy in 2020. We've also had many colleagues furloughed, which has been difficult, but necessary to bring the Company through this crisis.

British Airways remains committed to remuneration 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. However, as the airline faced its greatest crisis during 2020, we took the decision not to operate any form of incentive plan linked to Company performance.

The Company's half-year and annual financial results are shared with all employees through a blend of email, video and infographic content, all accessible on mobile.

#### Energy and carbon

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

| BA Group  | Metric                     | Measure               | 2020        |
|---|----------------------------|-----------------------|-------------|
| Annual GHG emissions in tonnes of CO <sub>2</sub> e | Scope 1                    | MT CO <sub>2</sub> e  | 7,250,236   |
|   | Scope 2 location-based     | MT CO <sub>2</sub> e  | 33,027      |
|   | Scope 2 market-based       | MT CO <sub>2</sub> e  | 8,499       |
|   | Scope 3                    | MT CO <sub>2</sub> e  | 2,108,930   |
| Energy in kWh                                       | Electricity                | kWh                   | 129,407,816 |
|   | Total energy               | MWh                   | 27,816,480  |
| Intensity ratio                                     | Flight emissions intensity | gCO <sub>2</sub> /pkm | 110.4       |

Refer to page 4 of the strategic report for efficiency actions taken by the Group. The Group has followed the 2019 HM Government Environmental Reporting Guidelines and has used the 2020 UK Government's Conversion Factors for Company Reporting.

#### Political donations

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

#### Auditors

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

#### Directors' statement as to disclosure of information to the auditor

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

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

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

## Directors' report continued

### Directors' responsibilities statement in relation to the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance;
- In respect of the financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company and / or the group will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Approved by the Board and signed on its behalf by



Andrew Fleming  
Company Secretary  
4 March 2021

**Company registration number - 1777777**



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

### Opinion

We have audited the financial statements of British Airways Plc ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Group consolidated income statement, the Group consolidated statement of other comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

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

### Material uncertainty related to going concern

We draw attention to note 2 of the consolidated financial statements which discloses the significant impact on the Group and the Parent Company's results and cash flows caused by the COVID-19 pandemic.

In its assessment of going concern, the Group has modelled two scenarios, the Base Case and the Downside Case. The Base Case takes into account the Directors' views on the anticipated impact and recovery from the COVID-19 pandemic on the Group across the going concern period. The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a deeper and more gradual recovery relative to the Base Case.

The Directors of the Company have a reasonable expectation that the Group and the Parent Company have sufficient liquidity to continue in operational existence for the period to 31 March 2022 ('the going concern period') and hence continue to adopt the going concern basis in preparing the financial statements. However, as disclosed in note 2, in the event that a more severe downside scenario than those the Directors have considered were to occur, the Group and the Parent Company will need to secure sufficient additional funding which indicates that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

#### *How we evaluated management's assessment*

##### *Risk assessment procedures*

- We obtained an understanding of management's basis for the use of the going concern basis of accounting. To challenge the completeness of this assessment, we independently identified factors that may indicate events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Events or conditions were identified and we designed our audit procedures to evaluate the effect of these risks on the entity's ability to continue as a going concern.

##### *Management's method*

- In conjunction with our walkthrough of the Group's financial statement close process, we confirmed our understanding of management's going concern assessment process including the review controls in place. We engaged with the Board and management throughout our audit to ensure all key factors were considered in their assessment.

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

- We obtained the Board approved forecast cash flows covering the period of the assessment from the date of approval of the financial statements to 31 March 2022 ('the going concern period'). The Group has modelled two scenarios referred to as the Base Case and the Downside Case. The Group's business plan, prepared and approved by the Board in December 2020, was subsequently refreshed with the latest available internal and external information in February 2021 ('the Base Case'). The Directors also prepared a downside scenario (the 'Downside Case') which applied further stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case.
- We used our understanding of the business to evaluate whether the forecasting method adopted by management in assessing going concern was appropriate.
- We enquired of management as to its knowledge of any matters which indicate events or conditions beyond the period of its assessment and read industry analysis, including International Air Transport Association's ('IATA') February 2021 forecasts, to challenge management's macro assumptions used in the assessment.

### *Assumptions*

- We evaluated and challenged the key assumptions in the Base Case and Downside Case forecasts in the context of other evidence gained from our audit work.
- We reviewed independent external market data, including IATA's report, other analyst forecasts and competitor trading updates for indicators of contradictory evidence to challenge these forecasts. This included specific consideration of the expected rate of recovery of passenger numbers in the context of the current travel restrictions and the expectations of how long they may remain in place.
- We tested the mathematical accuracy of the forecasts and confirmed the Base Case and Downside Case forecasts were consistent with those used in other accounting assessments, including the impairment analysis and the recoverability of deferred tax assets and considered whether there was any indication of management bias.

### *Debt facilities / liquidity*

- We reviewed the Group's borrowing facilities to assess their continued availability through the going concern period and to confirm that there were no financial covenant requirements or any other restrictions in respect of these facilities.
- We obtained the new financing agreements entered into during the year and since the year end, including the 5 year term loan Export Development Guarantee Facility of £2 billion. We reviewed the key terms and condition of the facilities and agreed the amounts received to the bank statements, where appropriate.
- We reviewed the agreement reached on 19 February 2021 with the Trustee of NAPS to confirm the deferral of deficit contributions through to 30 September 2021.
- We checked that borrowing repayments due in the going concern period, which principally relate to the Coronavirus Corporate Finance Facility of £300 million repayable in April 2021, were included in management's forecasts.

### *Stress testing and management's plans for future actions*

- We assessed the plausibility of management's downside scenario by evaluating the actual COVID-19 impact on the Group to date and comparing to external industry analysis to consider the wider outlook for the industry as a whole.
- We evaluated management's reverse stress testing and performed our own independent reverse stress testing on the forecasts to understand how severe the downside scenarios would have to be to result in the elimination of liquidity headroom.
- We evaluated management's plans for future actions within the control of the Group to reduce operating and capital expenditure in the going concern period in order to determine whether such actions are feasible in the circumstances. We also understood the additional mitigations which are not in the control of the Group, and are therefore excluded from the forecasts, but which the Group could look to utilise in the event of a more severe downside scenario. These mitigations include the Directors pursuing a range of financing options, including the renegotiation of existing financing arrangements and securing additional long term financial facilities.

### *Disclosures*

- We considered whether management's disclosures in the annual report and financial statements, including the material uncertainty identified, sufficiently and appropriately capture the impact of COVID-19 on the going concern assessment and through consideration of relevant disclosure requirements.

### **Our key observations**

We observed that management's methodology and the underlying assumptions had been assessed taking account of the continuing impact of COVID-19. Management's forecasts were modelled by geographical region including assumptions on the timing of a gradual easing of travel restrictions based on the deployment of vaccines and the introduction of travel corridors in the respective regions. We consider management's approach to be appropriate given the different responses by individual governments to travel restrictions and the differing stages of the vaccine roll-out.

Our independent research showed that management's Base and Downside Cases were comparable to the consensus position from our review of industry analyses. We performed additional stress tests that considered the impact of a slower recovery of capacity. The forecasts show that results will need to improve in the second half of 2021 relative to 2020, otherwise the Group will need to secure sufficient additional funding.

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

The recovery underpinning management's forecasts is highly dependent on when governments will ease lockdown restrictions which in turn is dependent on the effectiveness of vaccination programmes. Given the ongoing uncertainty over the impact of the COVID pandemic, there is a possibility of there being a more severe scenario than considered by the Group, which would require the Group to obtain additional funding which is not currently secured. This represents a material uncertainty that could cast significant doubt upon the Group's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

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.

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 course of 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 themselves. 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 directors' report.

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 22, 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's and the 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.

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006 and The Companies (Miscellaneous Reporting) Regulations 2018) and the relevant tax compliance regulations, principally relating to those issued by HMRC. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the General Data Protection Regulation, and those laws and regulations relating to health and safety, employee matters and specific aviation regulations as set by the Civil Aviation Authority.
- We understood how British Airways Plc is complying with those frameworks by making enquires of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquires through our review of Board minutes and by understanding the entity level controls implemented by those charged with governance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered where the significant estimates and judgements are in the financial statements. We assessed the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual journals or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management and internal audit.

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

### **Use of our report**

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



Kathryn Barrow (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
4 March 2021

### Notes:

1. The maintenance and integrity of the British Airways Plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept 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 2020

| £ million  | Note | Group          |               |
|--|------|----------------|---------------|
|  |      | 2020           | 2019          |
| Passenger revenue  |      | 2,894          | 11,899        |
| Cargo revenue  |      | 890            | 711           |
| Other revenue  |      | 217            | 680           |
| <b>Total revenue</b>   | 3    | <b>4,001</b>   | <b>13,290</b> |
| Employee costs   | 7    | 1,695          | 2,529         |
| Depreciation, amortisation and impairment  | 5    | 1,076          | 1,106         |
| Fuel, oil costs and emission charges   |      | 1,160          | 3,237         |
| Engineering and other aircraft costs   |      | 446            | 715           |
| Landing fees and en route charges  |      | 460            | 919           |
| Handling, catering and other operating costs   |      | 857            | 1,878         |
| Selling costs  |      | 126            | 516           |
| Currency differences   |      | 38             | (9)           |
| Property, IT and other costs   |      | 471            | 478           |
| <b>Total expenditure on operations before exceptional items</b>                        |      | <b>6,329</b>   | <b>11,369</b> |
| <b>Operating (loss)/profit before exceptional items</b>                                | 5    | <b>(2,328)</b> | <b>1,921</b>  |
| Exceptional items  | 4    | (1,553)        | (583)         |
| <b>Operating (loss)/profit after exceptional items</b>                                 |      | <b>(3,881)</b> | <b>1,338</b>  |
| Finance costs  | 8    | (269)          | (219)         |
| Finance income   | 8    | 15             | 36            |
| Share of post-tax (losses)/profits in associates accounted for using the equity method | 16   | (144)          | 170           |
| Net financing credit relating to pensions  | 29b  | 4              | 23            |
| Net currency retranslation credits   |      | 55             | 101           |
| Other non operating credits  | 8    | 36             | 10            |
| <b>Total net non-operating (costs)/income</b>  |      | <b>(303)</b>   | <b>121</b>    |
| <b>(Loss)/profit before tax</b>  |      | <b>(4,184)</b> | <b>1,459</b>  |
| Tax  | 9    | 695            | (350)         |
| <b>(Loss)/profit after tax</b>   |      | <b>(3,489)</b> | <b>1,109</b>  |

## Consolidated statement of other comprehensive income

For the year ended 31 December 2020

| £ million   | Note | Group <sup>1</sup> |              |
|---|------|--------------------|--------------|
|   |      | 2020               | 2019         |
| (Loss)/profit after tax for the year  |      | (3,489)            | 1,109        |
| Other comprehensive income:   |      |                    |              |
| <b>Items that will not be reclassified to net (loss)/profit</b>               |      |                    |              |
| Remeasurements of post-employment benefit obligations                         | 29c  | (554)              | (651)        |
| Fair value movements on cash flow hedges                                      | 28a  | 19                 | (29)         |
| Fair value movement in other equity investments                               | 28a  | (47)               | (6)          |
|   |      | <b>(582)</b>       | <b>(686)</b> |
| <b>Items that may be reclassified to net (loss)/profit</b>                    |      |                    |              |
| Currency translation differences  | 28a  | 15                 | (22)         |
| Fair value movements on cash flow hedges                                      | 28a  | (1,181)            | 366          |
| Fair value of cash flow hedges reclassified and reported in net (loss)/profit | 28a  | 1,024              | 86           |
| Other movements in comprehensive income of associates                         | 16   | (12)               | 6            |
|   |      | <b>(154)</b>       | <b>436</b>   |
| <b>Total other comprehensive loss</b>   |      | <b>(736)</b>       | <b>(250)</b> |
| <b>Total comprehensive (loss)/income for the year (net of tax)</b>            |      | <b>(4,225)</b>     | <b>859</b>   |

<sup>1</sup>In 2020 the Group reviewed and amended the reporting of individual line items in the consolidated statement of other comprehensive income and presented them as net of tax as opposed to the tax shown separately. The 2019 amounts have been re-classified accordingly. There is no change in total comprehensive income. Please refer to note 2 for further details.

## Balance sheets

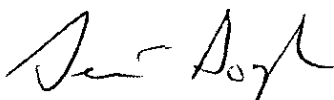
As at 31 December 2020

| As at 31 December 2020                      |      | Group         |                   | Company       |                   |
|---|------|---------------|-------------------|---------------|-------------------|
| £ million                                   | Note | 2020          | 2019 <sup>1</sup> | 2020          | 2019 <sup>1</sup> |
| <b>Non-current assets</b>                   |      |               |                   |               |                   |
| Property, plant and equipment:              |      |               |                   |               |                   |
| Fleet                                       | 11   | 8,849         | 8,838             | 8,679         | 8,636             |
| Property                                    | 11   | 1,329         | 1,406             | 1,286         | 1,364             |
| Equipment                                   | 11   | 203           | 244               | 197           | 231               |
|   |      | 10,381        | 10,488            | 10,162        | 10,231            |
| Intangibles:                                |      |               |                   |               |                   |
| Goodwill                                    | 14   | 40            | 40                | -             | -                 |
| Landing rights                              | 14   | 693           | 693               | 693           | 693               |
| Emissions allowances                        | 14   | 27            | 36                | 27            | 36                |
| Software                                    | 14   | 302           | 325               | 290           | 312               |
|   |      | 1,062         | 1,094             | 1,010         | 1,041             |
| Investments in subsidiaries                 | 16   | -             | -                 | 847           | 1,278             |
| Investments in associates                   | 16   | 1,688         | 1,838             | 1,563         | 1,563             |
| Equity investments                          | 17   | 2             | 49                | 2             | 40                |
| Employee benefit assets                     | 29a  | 256           | 266               | 256           | 266               |
| Deferred tax assets                         | 9    | 401           | -                 | 478           | -                 |
| Derivative financial instruments            | 25   | 20            | 59                | 22            | 60                |
| Other non-current assets                    | 18   | 174           | 191               | 170           | 190               |
| <b>Total non-current assets</b>             |      | <b>13,984</b> | <b>13,985</b>     | <b>14,510</b> | <b>14,669</b>     |
| <b>Current assets and receivables</b>       |      |               |                   |               |                   |
| Inventories                                 |      | 73            | 156               | 70            | 152               |
| Trade receivables                           | 18   | 356           | 1,202             | 342           | 1,186             |
| Other current assets                        | 25   | 351           | 683               | 383           | 716               |
| Derivative financial instruments            | 25   | 52            | 91                | 54            | 96                |
| Other current interest-bearing deposits     | 19   | -             | 1,330             | -             | 1,330             |
| Cash and cash equivalents                   | 19   | 1,261         | 1,258             | 1,195         | 1,158             |
|   |      | 1,261         | 2,588             | 1,195         | 2,488             |
| <b>Total current assets and receivables</b> |      | <b>2,093</b>  | <b>4,720</b>      | <b>2,044</b>  | <b>4,638</b>      |
| <b>Total assets</b>                         |      | <b>16,077</b> | <b>18,705</b>     | <b>16,554</b> | <b>19,307</b>     |
| <b>Shareholders' equity</b>                 |      |               |                   |               |                   |
| Issued share capital                        | 26   | 290           | 290               | 290           | 290               |
| Share premium                               | 26   | 1,512         | 1,512             | 1,512         | 1,512             |
| Other reserves <sup>2</sup>                 | 28a  | (235)         | 4,005             | (30)          | 4,416             |
| <b>Total shareholders' equity</b>           |      | <b>1,567</b>  | <b>5,807</b>      | <b>1,772</b>  | <b>6,218</b>      |
| <b>Total equity</b>                         |      | <b>1,567</b>  | <b>5,807</b>      | <b>1,772</b>  | <b>6,218</b>      |
| <b>Non-current liabilities</b>              |      |               |                   |               |                   |
| Borrowings                                  | 22   | 7,477         | 5,378             | 7,444         | 5,360             |
| Employee benefit obligations                | 29a  | 651           | 338               | 621           | 310               |
| Deferred tax liabilities                    | 9    | -             | 184               | -             | 105               |
| Provisions                                  | 23   | 344           | 423               | 316           | 415               |
| Derivative financial instruments            | 25   | 168           | 156               | 168           | 157               |
| Other non-current liabilities               | 21   | 69            | 29                | 67            | 18                |
| <b>Total non-current liabilities</b>        |      | <b>8,709</b>  | <b>6,508</b>      | <b>8,616</b>  | <b>6,365</b>      |
| <b>Current liabilities</b>                  |      |               |                   |               |                   |
| Borrowings                                  | 22   | 1,310         | 932               | 1,294         | 918               |
| Trade and other payables                    | 20   | 1,243         | 2,104             | 1,616         | 2,445             |
| Deferred revenue on ticket sales            | 20   | 2,429         | 2,934             | 2,438         | 2,969             |
| Derivative financial instruments            | 25   | 552           | 105               | 553           | 107               |
| Current tax payable                         | 9    | 37            | 142               | 40            | 146               |
| Provisions                                  | 23   | 230           | 173               | 225           | 139               |
| <b>Total current liabilities</b>            |      | <b>5,801</b>  | <b>6,390</b>      | <b>6,166</b>  | <b>6,724</b>      |
| <b>Total equity and liabilities</b>         |      | <b>16,077</b> | <b>18,705</b>     | <b>16,554</b> | <b>19,307</b>     |

<sup>1</sup>The 2019 balance sheet includes a reclassification in the presentation of assets and liabilities for employee benefits and deferred tax. Refer to note 2 for further information.

<sup>2</sup>The loss for the year for the Company was £3,706 million (2019: £870 million profit).

Approved by the Board and signed on its behalf by



Sean Doyle  
Chief Executive Officer  
4 March 2021



Rebecca Napier  
Chief Financial Officer  
4 March 2021

## Cash flow statements

For the year ended 31 December 2020

| For the year ended 31 December 2020  |      | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
| £ million  | Note | 2020           | 2019           | 2020           | 2019           |
| <b>Cash flow from operating activities</b>   |      |                |                |                |                |
| Operating (loss)/profit from continuing operations after exceptional items   |      | (3,881)        | 1,338          | (3,794)        | 1,252          |
| Exceptional items  |      | 1,553          | 583            | 1,545          | 583            |
| Operating (loss)/profit from continuing operations before exceptional items  |      | (2,328)        | 1,921          | (2,249)        | 1,835          |
| Depreciation, amortisation and impairment  |      | 1,076          | 1,106          | 1,005          | 1,059          |
| Employer contributions to defined benefit pension schemes  | 29d  | (283)          | (754)          | (279)          | (745)          |
| Movement in working capital  |      | 105            | (74)           | 91             | 20             |
| <i>Decrease/(increase) in trade receivables, inventories and other current assets</i>                                  |      | 1,308          | (414)          | 1,306          | (443)          |
| <i>(Decrease)/increase in trade and other payables, deferred revenue on ticket sales and other current liabilities</i> |      | (1,203)        | 340            | (1,215)        | 463            |
| Payments related to restructuring  | 23   | (234)          | (52)           | (227)          | (52)           |
| Provisions and other non-cash movements  |      | 98             | 64             | 114            | 64             |
| Realised loss on derecognition of fuel and foreign exchange hedges   |      | (630)          | -              | (630)          | -              |
| Interest paid  |      | (226)          | (194)          | (226)          | (194)          |
| Interest received  |      | 18             | 34             | 18             | 34             |
| Tax paid   |      | (51)           | (195)          | (51)           | (195)          |
| <b>Net cash (used in)/generated from operating activities</b>  |      | <b>(2,455)</b> | <b>1,856</b>   | <b>(2,434)</b> | <b>1,826</b>   |
| <b>Cash flow from investing activities</b>   |      |                |                |                |                |
| Purchase of property, plant and equipment and intangible assets  |      | (950)          | (1,571)        | (945)          | (1,550)        |
| Sale of property, plant and equipment and intangible assets  |      | 254            | 475            | 254            | 475            |
| Dividends received   | 16   | 1              | 26             | 1              | 3              |
| Loan repaid by fellow group undertaking  |      | -              | 180            | -              | 180            |
| Loan repaid by parent company  |      | 9              | 9              | 9              | 9              |
| Other investing movements  |      | 2              | 3              | 2              | 2              |
| Decrease/(increase) in other current interest-bearing deposits   |      | 1,330          | (155)          | 1,330          | (155)          |
| <b>Net cash generated from/(used in) investing activities</b>  |      | <b>646</b>     | <b>(1,033)</b> | <b>651</b>     | <b>(1,036)</b> |
| <b>Cash flow from financing activities</b>   |      |                |                |                |                |
| Proceeds from borrowings   |      | 3,541          | 406            | 3,541          | 406            |
| Repayments of borrowings   |      | (898)          | (51)           | (898)          | (47)           |
| Repayment of lease liabilities   |      | (807)          | (669)          | (794)          | (661)          |
| Dividends paid   | 10   | -              | (585)          | -              | (585)          |
| <b>Net cash flow generated from/(used in) financing activities</b>   |      | <b>1,836</b>   | <b>(899)</b>   | <b>1,849</b>   | <b>(887)</b>   |
| Increase/(decrease) in cash and cash equivalents   |      | 27             | (76)           | 66             | (97)           |
| Net foreign exchange differences   |      | (24)           | 7              | (29)           | 6              |
| Cash and cash equivalents at 1 January   |      | 1,258          | 1,327          | 1,158          | 1,249          |
| <b>Cash and cash equivalents as at 31 December</b>   |      | <b>1,261</b>   | <b>1,258</b>   | <b>1,195</b>   | <b>1,158</b>   |
| <b>Interest-bearing deposits maturing after more than three months</b>   |      | <b>-</b>       | <b>1,330</b>   | <b>-</b>       | <b>1,330</b>   |
| <b>Cash, cash equivalents and other interest-bearing deposits at 31 December</b>                                       |      | <b>1,261</b>   | <b>2,588</b>   | <b>1,195</b>   | <b>2,488</b>   |



## Statements of changes in equity

For the year ended 31 December 2020

|  | Group                |               |                          |
|--|----------------------|---------------|--------------------------|
|  | Issued share capital | Share premium | Other reserves (note 28) |
| £ million  |                      |               | Total equity             |
| Balance at 1 January 2020                                      | 290                  | 1,512         | 4,005                    |
| Loss for the year  | -                    | -             | (3,489)                  |
| Other comprehensive loss for the year                          | -                    | -             | (736)                    |
| Total comprehensive expenses for the year                      | -                    | -             | (4,225)                  |
| Cash flow hedges transferred to the balance sheet (net of tax) | -                    | -             | (14)                     |
| Cost of share-based payment (net of tax)                       | -                    | -             | (1)                      |
| <b>As at 31 December 2020</b>                                  | <b>290</b>           | <b>1,512</b>  | <b>(235)</b>             |

For the year ended 31 December 2019

|  | Group                |               |                          |
|--|----------------------|---------------|--------------------------|
|  | Issued share capital | Share premium | Other reserves (note 28) |
| £ million  |                      |               | Total equity             |
| Balance at 1 January 2019                                      | 290                  | 1,512         | 3,741                    |
| Profit for the year  | -                    | -             | 1,109                    |
| Other comprehensive loss for the year                          | -                    | -             | (250)                    |
| Total comprehensive income for the year                        | -                    | -             | 859                      |
| Dividends  | -                    | -             | (585)                    |
| Cash flow hedges transferred to the balance sheet (net of tax) | -                    | -             | (9)                      |
| Cost of share-based payment (net of tax)                       | -                    | -             | (1)                      |
| <b>As at 31 December 2019</b>                                  | <b>290</b>           | <b>1,512</b>  | <b>4,005</b>             |

For the year ended 31 December 2020

|  | Company              |               |                          |
|--|----------------------|---------------|--------------------------|
|  | Issued share capital | Share premium | Other reserves (note 28) |
| £ million  |                      |               | Total equity             |
| Balance at 1 January 2020                                      | 290                  | 1,512         | 4,416                    |
| Loss for the year  | -                    | -             | (3,706)                  |
| Other comprehensive loss for the year                          | -                    | -             | (725)                    |
| Total comprehensive expenses for the year                      | -                    | -             | (4,431)                  |
| Cash flow hedges transferred to the balance sheet (net of tax) | -                    | -             | (14)                     |
| Cost of share-based payment (net of tax)                       | -                    | -             | (1)                      |
| <b>As at 31 December 2020</b>                                  | <b>290</b>           | <b>1,512</b>  | <b>(30)</b>              |

For the year ended 31 December 2019

|  | Company              |               |                          |
|--|----------------------|---------------|--------------------------|
|  | Issued share capital | Share premium | Other reserves (note 28) |
| £ million  |                      |               | Total equity             |
| Balance at 1 January 2019                                      | 290                  | 1,512         | 4,361                    |
| Profit for the year  | -                    | -             | 870                      |
| Other comprehensive loss for the year                          | -                    | -             | (220)                    |
| Total comprehensive income for the year                        | -                    | -             | 650                      |
| Dividends  | -                    | -             | (585)                    |
| Cash flow hedges transferred to the balance sheet (net of tax) | -                    | -             | (9)                      |
| Cost of share-based payment (net of tax)                       | -                    | -             | (1)                      |
| <b>As at 31 December 2019</b>                                  | <b>290</b>           | <b>1,512</b>  | <b>4,416</b>             |

## 1 Authorisation of financial statements and compliance with international accounting standards

The Group's and Company's financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 4 March 2021 and the balance sheets were signed on the Board's behalf by Sean Doyle and Rebecca Napier. British Airways Plc is a public limited company limited by shares incorporated, registered and domiciled in England. The Company's registered office is Waterside, PO Box 365, Harmondsworth, UB7 0GB.

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

## 2 Significant accounting policies

### Basis of preparation

The Group has prepared the consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 8 to 14) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on pages 5 to 8). Further information is provided in note 24 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.

The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. In 2020 the Group reviewed and amended the reporting of individual line items in the Consolidated statement of other comprehensive income and Other reserves to better reflect the nature of underlying transactions and improve comparability between reporting periods. As a result, for the year ended 31 December 2019, components of equity previously reported gross of tax have been reclassified to be reported net of tax. These reclassifications have not affected reported total net income and or total reserves for 2019.

The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. Deferred tax assets arising on the restriction of surpluses to reflect minimum funding requirements of the British Airways APS and NAPS defined benefit schemes, as detailed in note 29, previously recognised within Employee benefit assets in the balance sheet at 31 December 2019, have been reclassified to be presented net within Deferred tax liabilities at both 31 December 2019 and 1 January 2019 to conform to the current period presentation. At 31 December 2019, the reclassification had the effect of reducing Deferred tax liabilities by £239 million, reducing the Employee benefit assets by £177 million and increasing the Employee benefit obligations by £62 million. At 1 January 2019, the reclassification had the effect of reducing Deferred tax liabilities by £335 million, increasing Deferred tax assets by £118 million, reducing the Employee benefit assets by £329 million and increasing the Employee benefit obligations by £124 million. There is no impact to the Profit after tax, total Other comprehensive income, Net assets or the Statement of changes in equity in any period presented.

### Going concern

The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Group's results and cash flows. At 31 December 2020, the Group had cash and interest-bearing deposits of £1.3 billion, £0.6 billion of undrawn general facilities and a further £0.8 billion of committed and undrawn aircraft specific facilities. Liquidity has been enhanced through to the date of this report by a further £2 billion arising from the Group finalising the terms of a UK Export Credit Facility.

The reduction in liquidity during 2020 was partially mitigated by, amongst other actions, accessing the UK's Coronavirus Corporate Finance Facility ('CCFF'). This action raised an additional £298 million, of which the full amount matures within 12 months from the date of this report. The Group's facilities do not contain financial covenants, but there are a number of non-financial covenants to protect the position of the banks, including restrictions on the upstreaming of cash to IAG or lending to other Group companies.

Despite the uncertainty of the COVID-19 pandemic, the Group has continued to successfully secure financing arrangements for all aircraft delivered in 2020. This includes the one-year aircraft-backed financing facilities for old and new aircraft which were secured in the second quarter of 2020 and subsequently repaid prior to year-end and the aircraft-specific facility achieved as part of the Enhanced Equipment Trust Certificate ('EETC') financing structure. In total the Group raised proceeds of £1.0 billion through aircraft specific financing.

In its assessment of going concern over the period to 31 March 2022 (the 'going concern period'), the Group has modelled two scenarios referred to below as the Base Case and the Downside Case. The Group's three-year business plan, prepared and approved by the Board in December 2020, was subsequently refreshed with the latest available internal and external information in February 2021. This refreshed business plan supports the Base Case, which takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group across the going concern period. The key inputs and assumptions underlying the Base Case include:

- As part of the recovery, the Group has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines during the year. Travel corridors between countries are assumed to be introduced from quarter 3 2021, first in Europe then North America, with other regions following in the first half of 2022;

## 2 Significant accounting policies continued

### Going concern continued

- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from a reduction of 84 per cent in quarter 1 2021 (compared to the equivalent period in 2019) to 17 per cent in quarter 1 2022, (again compared to quarter 1 2019), with the average over the going concern period being 43 per cent down;
- Passenger unit revenue per ASK, although forecast to continue recovering, is expected to still remain below levels of 2019 by the end of the going concern period, which is based on, amongst other assumptions, a greater weighting of shorthaul versus longhaul, leisure versus business and economy versus premium compared to 2019. Specifically, the Group's expectation is that traffic related to domestic and leisure will recover faster than longhaul and business;
- The Group has assumed that committed and undrawn general facilities of £0.6 billion will not be drawn over the going concern period. The availability of certain of these facilities reduces to nil over the going concern period;
- The Group has assumed that of the committed and undrawn aircraft specific facilities of £0.8 billion, £0.3 billion will be drawn to fund specific aircraft scheduled for delivery during 2021 and of the remaining £0.5 billion, £0.2 billion would be available to be drawn over the going concern period if required and;
- Of the capital commitments detailed in note 13, £1.2 billion is due to be paid over the going concern period and the Group has forecast securing 80 per cent, or £0.6 billion, of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. This loan to value assumption is below the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date.

The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case. The Downside Case is representative of a slower roll out of the vaccination programme on a regional basis, with travel restrictions remaining in place and the gradual recovery of capacity being delayed longer than in the Base Case. The Downside Case models a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul. The result of which is that the levels of capacity assumed under the Base Case for the third quarter of 2021 are not achieved under the Downside Case until the first quarter of 2022. In the Downside Case, over the going concern period capacity would be 61 per cent down on 2019. The Directors consider the Downside Case to be a severe but plausible scenario.

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

Furthermore, to add resilience to the liquidity position of the Group, the Directors are actively pursuing a range of financing options, including the renegotiation of existing financing arrangements and securing additional long term financial facilities, but these have not been included in the Base or Downside Cases.

Having reviewed the Base Case, Downside Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for the foreseeable future and hence continue to adopt the going concern basis in preparing the financial statements.

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are outside of the control of the Group, including: the status and impact of the pandemic worldwide; the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Group, therefore, is not able to provide certainty that there could not be a more severe downside scenario than those it has considered, including the sensitivities in relation to the timing of recovery from the COVID-19 pandemic, capacity operated, impact on yield, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe scenario were to occur, the Group will need to secure sufficient additional funding. As set out above, sources of additional funding are expected to include the renegotiation of existing financing arrangements and securing additional long term financial facilities. However, the Group's ability to obtain additional funding in the event of a more severe downside scenario represents a material uncertainty at 4 March 2021 that could cast significant doubt upon the Group's ability to continue as a going concern.

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

### Change in accounting policy

There are no 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.

### 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. Acquisition-related costs are expensed as incurred.

## 2 Significant accounting policies continued

### Consolidation continued

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.

#### *Unconsolidated structured entities*

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. In certain instances, the Group will finance several such transactions at once through Enhanced Equipment Trust Certificates ('EETCs'). Under each of these financing structures, a company (the EETCs Issuer) is established to facilitate such financing on behalf of a number of unrelated investors. The proceeds from the issuance of the EETCs by the EETCs Issuer are then used to purchase aircraft solely from the Group. Payments by the Group (under the asset financed liabilities) to the EETCs Issuer are distributed, through a trust, to the aforementioned unrelated investors. The main purpose of the trust structure is to enhance the credit worthiness of the Group's debt obligations through certain bankruptcy protection provisions and liquidity facilities, and also to lower the Group's total borrowing cost.

This EETCs Issuer is established solely with the purpose of providing the asset-backed financing and upon maturity of such financing is expected to have no further activity. The relevant activities of the EETCs Issuer are restricted to pre-established financing agreements and the retention of the title of the associated financed aircraft. Accordingly, the Group has determined that each EETCs Issuer is a structured entity. Under the contractual terms of the EETCs structure, the Group does not own any of the share capital of the EETCs Issuer, does not have any representation on the respective boards and has no ability to influence decision making.

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

### 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.

### 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 the operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

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

### Revenue from contracts with customers

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided. Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as deferred revenue on ticket sales in current liabilities until the customer has flown. Prior to the impact of COVID-19 on the ability of passengers to utilise the Group's transportation services, unused tickets were recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. If as a result of the impact of COVID-19 a flight is cancelled, the passenger is entitled to either a refund, rescheduling the original flight or the receipt of a voucher. Where a voucher is issued, given the relative short period of historical data, no revenue is recognised until either the voucher is redeemed through transportation services or it expires. Revenue is stated net of compensation for flight delays and cancellations, taking into consideration the level of expected claims.

The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. The Group acts as an agent where (i) it collects various taxes and fees assessed on the sale of tickets to passengers and remits these to the relevant taxing authorities; and (ii) where it provides interline services to airline partners outside of the Group.

Other revenue including maintenance, handling, hotel and holiday and commissions is recognised as the related performance obligations are satisfied (over time), being where the control of the goods or services are transferred to the customer.

## 2 Significant accounting policies continued

### Revenue recognition – customer loyalty programmes

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

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

### Intangible assets

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

#### a Goodwill

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

#### b Landing rights

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

#### c Software

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

#### d Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances 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.

#### a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned. All other borrowing costs are recognised in the income statement in the year in which they are incurred.

#### b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or right of use assets, are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, with useful economic lives of 11 and 29 years. For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to its residual value over the average remaining life of the related fleet. Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rate.

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

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 Other property, plant and equipment

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

## 2 Significant accounting policies continued

### 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. The cumulative impairment losses are shown as a reduction in the carrying value of intangible assets.

### Non-current assets held for sale

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

### Inventories

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

### Cash and cash equivalents

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

### Employee benefits

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

#### a Pension obligations

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

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset to the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of scheme assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the 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 employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises the related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the income statement. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in the statement of other comprehensive income. Re-measurements are not reclassified to the income statement in subsequent periods.

#### b Severance obligations

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

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

## 2 Significant accounting policies continued

### Share-based payments

IAG has a number of equity-settled share-based employee incentive plans in which certain of the Group's employees participate. Prior to the merger with Iberia, the awards were made under schemes operated by the 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.

### Taxation

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

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

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

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

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

### Provisions

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

### Foreign currency translation

#### a Functional and presentational currency of the Group

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

#### b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency, sterling, using the rate of exchange prevailing at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and translations as at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except where hedge accounting is applied and on the translation of foreign operations. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the balance sheet are recognised within 'net currency retranslation credits' in the income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

#### c Group companies

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

### Financial instruments

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

#### a Loans and receivables

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

## 2 Significant accounting policies continued

### Financial instruments continued

#### b Other equity investments

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

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

#### c Derivatives financial instruments and hedging activities

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

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

#### d Cash flow hedges

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

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

#### e Long term borrowings

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

#### f Other interest-bearing deposits

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

#### g Impairment of financial assets

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

#### Derecognition of financial assets and liabilities

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

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

#### Exceptional items

Exceptional items (disclosed in note 4) are those that in management's view need to be disclosed separately by virtue of their size or incidence. The exceptional items recorded in the income statement include significant settlement agreements with the Group's pension schemes; significant restructuring; significant discontinuance of hedge accounting; legal settlements; and significant changes in the long-term fleet plans that result in the impairment of fleet.

#### Leases

The Group leases various aircraft, properties and equipment. The lease terms of these assets are consistent with the determined useful economic life of similar assets within property, plant and equipment.

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

Leases are recognised as a right of use ("ROU") asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.



## 2 Significant accounting policies continued

### Leases continued

#### *Right of use ('ROU') assets*

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

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### *Lease liabilities*

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that are based on an index or a rate; amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor. For aircraft leases these inputs are either observable in the contract or readily available from external market data. The initial direct costs of the lessor are considered to be immaterial. If that rate cannot be determined, the Group's incremental borrowing rate is used.

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

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

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the ROU asset. Extension options are included in a number of aircraft, property and equipment leases across the Group and are reflected in the lease payments where the Group is reasonably certain that it will exercise the option.

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 '*Revenue from contracts with customers*' for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised and a ROU asset and lease liability is recognised. The ROU asset recognised is based on proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Any gains or losses are restricted to the amount that relates to the rights that have been transferred to the counter party to the transaction. Where a sale has not occurred, the asset is retained on the balance sheet within property, plant and equipment, and an asset financed liability recognised equal to the financing proceeds.

Those new financing arrangements with the following features that do not meet the recognition criteria as a sale under IFRS 15 are therefore not eligible for recognition under IFRS 16: the lessor has legal ownership retention as security against repayment and interest obligations; the Group initially acquired the aircraft or took a major share in the acquisition process from the manufacturer; in view of the contractual conditions, it is virtually certain that the aircraft will be purchased at the end of the lease term. Where new financing arrangements do not meet these recognition criteria due to the fact they are 'in substance purchases' and not leases, the related liability is recognised as an asset financed liability and the assets as an owned asset within Property, plant and equipment.

#### *Cash flow presentation*

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

### **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

### Estimates

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

#### a Impairment of non-financial assets

At 31 December 2020 the Group recognised £760 million (2019: £769 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in notes 14 and 15.

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 15.

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

#### b Long-term fleet plans and associated impairment

The Group derives long-term fleet plans from the cash flow forecasts arising from the approved business plan. In deriving the long-term fleet plans, the Group applies judgement with respect to consideration of the period of temporary and permanent grounding of fleet assets and the deferral of the delivery of certain aircraft. Further information is given in note 4.

#### c Employee benefit obligations, employee leaving indemnities and other employee related restructuring

At 31 December 2020 the Group recognised £256 million in respect of employee benefit assets (2019: £266 million) and £651 million in respect of employee benefit obligations (2019: £338 million). Further information on employee benefit obligations is disclosed in note 29.

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 29. The Group determines the assumptions to be adopted in discussion with qualified actuaries. Any difference between these assumptions and the actual outcome will impact future net assets and total comprehensive income. The sensitivity to changes in pension assumptions is disclosed in note 30.

Under the Group's Airways Pension Scheme ('APS') and New Airways Pension Scheme ('NAPS') increases to pensions are based on the annual Government Pension Increase ('Review') Orders, which since 2011 have been based on the Consumer Prices Index ('CPI'). Additionally, in APS there is provision for the Trustee to pay increases up to the level of the Retail Prices Index ('RPI'), subject to certain affordability tests. Historically market expectations for RPI could be derived by comparing the prices of UK government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices.

In February 2019, following the UK House of Lords Economic Affairs Committee report on measuring inflation, the National Statistician concluded that the existing methodology was unsatisfactory and proposed a number of options to the UK Statistics Authority ('UKSA'). In March 2019, the UKSA recommended to the UK Chancellor of the Exchequer that the publication of the RPI cease at a point to be determined in the future and in the intervening period, the RPI be addressed by bringing in the methods of the CPIH (a proposed variant to CPI). In September 2019, the UK Chancellor of the Exchequer announced his intention to consult with the Bank of England and the UKSA on whether to implement these proposed changes to RPI in the period of 2025 to 2030. On 13 January 2020, it was confirmed that the period of consultation will commence on 11 March 2020 for a period of six weeks. Following this consultation, on 25 November 2020 the UK Chancellor of the Exchequer and the UKSA confirmed that from February 2030 onwards CPIH will replace RPI with no compensation to holders of index-linked gilts.

Following the aforementioned announcement in September 2019 and through to 31 December 2020, market-implied break-even RPI inflation forward rates for periods after 2030 have reduced in the investment market. Therefore, in assessing RPI and CPI from investment market data, allowance has been made for alignment between RPI and CPI from 2030 onwards.

On 26 October 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Banking Group plc and others as defendants (collectively referred to as the 'Lloyds Bank case') regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment in the Lloyd's Bank case confirmed that all pension schemes were required to equalise, with immediate application, for the effects of unequal Guaranteed Minimum Pension ('GMP') benefits accrued over the period since 17 May 1990 ('GMP equalisation'). On 20 November 2020 the High Court of Justice of England and Wales issued a further judgment requiring all pension schemes, if requested by their individual members, to revisit individual transfer payments made between 17 May 1990 and 5 April 1997 to assess the shortfall, if any, between the original transfer payments and the impact of GMP equalisation. Where a shortfall exists, the pension scheme is required to make an additional payment to the individual member, including interest accrued at 1.0 per cent above the base rate per annum. The APS and NAPS estimated DBO as at 31 December 2020 and 31 December 2019 includes allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

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.

#### d Passenger revenue recognition

At 31 December 2020 the Group recognised £2,429 million in respect of deferred revenue on ticket sales (2019: £2,934 million) of which £36 million (2019: £43 million) related to customer loyalty programmes, as disclosed in note 20.

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

## 2 Significant accounting policies continued

### Estimates continued

#### e Income taxes

At 31 December 2020 the Group recognised £401 million in respect of deferred tax assets (2019: £184 million deferred tax liabilities). Further information on current and deferred tax liabilities is disclosed in note 9.

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.

#### f Residual values and useful lives of assets

At 31 December 2020 the Group recognised £10,381 million (2019: £10,488 million) in respect of property, plant and equipment. Further information on these assets is included in note 11.

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

### Judgements

#### a Investment in associates

At 31 December 2020 the Group recognised £1,688 million (2019: £1,838 million) in respect of investments in associates. Further information on these assets is included in note 16.

The Group owns 13.55 per cent of the equity of IB Opco Holding S.L. ('Iberia') and 86.26 per cent of the equity of Avios Group (AGL) Limited ('AGL'). The Group uses the equity method of accounting for its investments in these entities because under IFRS it is considered to have significant influence but not control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. The Group has significant influence over Iberia, even though it holds less than 20 per cent of the voting power of Iberia, due to its representation on the IAG Management Committee, the management committee of Iberia's ultimate parent company. The Group has significant influence over AGL due to representation on the AGL board as provided for by the governance agreement, but not control as it does not have the power to direct the activities of AGL even though it holds more than 50 per cent of the voting power of AGL.

#### b Engineering and other aircraft costs

At 31 December 2020, the Group recognised £442 million provisions (2019: £445 million) in respect of maintenance, restoration and handback. Movements on the provisions are disclosed in note 23.

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

#### c Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans, and historic experience regarding the extension of leases. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances and affects the Groups ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 12.

### Critical accounting estimates, assumptions and judgements in the determination of the impact of COVID-19

As a result of COVID-19 the Group has experienced a significant decline in the level of flight activity and does not expect to return to the level of 2019 activity until at least 2023 and accordingly the Group has applied judgement in the evaluation of the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of the approved business plans. The details regarding the inputs and assumptions utilised in the determination of these cash flow forecasts are given in the going concern basis of preparation in this note.

The following critical accounting estimates, assumptions and judgements utilise these cash flow forecasts consistently, which are in some instances materially different from judgements applied in previous years:

#### a Discontinuance of hedge accounting

In determining when a forecast transaction that was previously highly probable, is no longer expected to occur, the Group applies the cash flow forecasts as part of the approved business plans in order to determine the forecast level of fuel consumption over the periods in which hedge accounting has been applied. Further information is given in note 4.

#### b Long-term fleet plans and associated impairment

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

In 2020 the Group recognised an impairment charge of £417 million, represented by a charge of £399 million associated with owned fleet assets and a charge of £18 million associated with engineering inventories. Further information is given in note 4.

## 2 Significant accounting policies continued

### Critical accounting estimates, assumptions and judgements in the determination of the impact of COVID-19 continued

#### c Recoverability of deferred tax assets

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

As at 31 December 2020, the Group had unrecognised deferred assets of £318 million relating to tax losses the Group does not reasonably expect to utilise. Further information is given in note 9.

#### Significant transactions as a result of COVID-19

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

#### d Restructuring cost

As a result of the structural changes to the airline sector, the Group has undertaken significant restructuring activities during 2020 to align the size of the workforce with the expected level of capacity. Further information is given in note 4.

#### e Loans and borrowings

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing initiatives during 2020 and subsequently, which have been fully drawn unless otherwise stated, including:

- On 30 March 2020, British Airways extended its US dollar secured Revolving Credit Facility for one year from 23 June 2020 to 23 June 2021. The amount available under the extended facility is £584 million (\$786 million) at the time of exercising the extension and as at 31 December 2020 remained undrawn;
- On 12 April 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility, issuing commercial paper to the government of the United Kingdom of £298 million and repayable in April 2021 for a principal value of £300 million;
- On 22 February 2021, British Airways entered into a five year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF.

#### f Government assistance

Given the significant reduction in operations that have occurred during 2020, the Group has availed itself of the various employee support mechanisms in the jurisdictions in which it operates. This has led to an amount of £258 million being received in government assistance and savings of £2 million where employees have been paid directly by their respective governments. Those amounts received in the form of government assistance have been recorded net within Employee costs. Further information is given in note 31.

#### g Defined benefit pension scheme contributions

On 18 December 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between 1 October 2020 and 31 January 2021. On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to extend the deferral of deficit contributions previously agreed in October 2019 on the 31 March 2018 valuation, through to 30 September 2021. The deferral of such contributions amounted to £113 million in 2020. Further information is given in note 29.

#### h Sale and repurchase agreements for emission allowances

The Group typically acquires emissions allowances in advance of the associated flight activity. Due to the unprecedented decline in capacity during 2020, the Group has entered into a number of sale and repurchase agreements for emission allowances, where the Group has sold the excess allowances with a commitment to repurchase them in 2021. As at 31 December 2020, the value of such emission sale and repurchase agreements was £33 million. These sale and repurchase transactions give rise to a liability for the repurchase, which is classified as an Other financing liability. Further information is given in note 22.

#### New standards, amendments and interpretations not yet effective

The following amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group:

- Amendments to references to conceptual framework in IFRS standards;
- Definition of a business (amendments to IFRS 3);
- Definition of material (amendments to IAS 1 and IAS 8); and
- Interest Rate Benchmark Reform – Amendments to IFRS 9 'Financial instruments', IAS 39 'Financial instruments: Recognition and measurement' and IFRS 7 'Financial instruments: Disclosures', which conclude on phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

## 2 Significant accounting policies continued

### New standards, amendments and interpretations not yet effective continued

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

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, effective for periods beginning on or after 1 January 2021;
- Classification of Liabilities as Current or Non-current Amendments to IAS 1, effective for periods beginning on or after 1 January 2023; and

## 3 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        |               |
|-------------------|--------------|---------------|
|                   | 2020         | 2019          |
| UK                | 1,872        | 6,575         |
| USA               | 643          | 2,731         |
| Rest of the world | 1,486        | 3,984         |
| <b>Revenue</b>    | <b>4,001</b> | <b>13,290</b> |

Revenues are before exceptional items.

The total of non-current assets excluding equity investments, employee benefit assets, other non-current assets, deferred tax assets and derivative financial instruments located in the UK is £12,984 million (2019: £13,012 million), USA is £124 million (2019: £174 million) and the total of these non-current assets located in other countries is £23 million (2019: £234 million).

## 4 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          |              |
|---|----------------|--------------|
|   | 2020           | 2019         |
| Loss on derecognition of foreign currency passenger revenue hedges <sup>1</sup> | (53)           | -            |
| <b>Recognised in traffic revenue</b>  | <b>(53)</b>    | <b>-</b>     |
| Loss on derecognition of fuel and foreign exchange hedges <sup>1</sup>          | (837)          | -            |
| Impairment of fleet and associated assets <sup>2</sup>                          | (399)          | -            |
| Engineering and other aircraft costs <sup>2</sup>                               | (18)           | -            |
| Restructuring costs <sup>3</sup>  | (226)          | -            |
| Settlement provision <sup>4</sup>   | (20)           | -            |
| APS settlement past service costs <sup>5</sup>                                  | -              | (583)        |
| <b>Recognised in expenditure on operations</b>                                  | <b>(1,500)</b> | <b>(583)</b> |
| <b>Total exceptional charge before tax</b>                                      | <b>(1,553)</b> | <b>(583)</b> |
| Tax on exceptional items  | 291            | -            |
| <b>Total exceptional charge after tax</b>                                       | <b>(1,262)</b> | <b>(583)</b> |

<sup>1</sup>The exceptional charge to Fuel, oil costs and emissions charges of £837 million represented by an expense of £886 million relating to fuel derivatives and a credit of £49 million related to the associated fuel foreign currency derivatives, and the exceptional charge to Passenger revenue of £53 million related to the de-designation of hedge accounting of the associated fuel derivatives and the foreign currency derivatives on revenue and fuel consumption during the year, as well as forecast revenue and fuel consumption. These losses have arisen from the substantial deterioration in demand for air travel caused by the COVID-19 outbreak, which has caused both a reduction in fuel prices during the year, and a significant level of hedged fuel purchases in US dollars and hedged passenger revenue transactions in a variety of foreign currencies to not occur. Further losses have been recognised on open hedge positions on forecast fuel purchases and passenger revenue no longer expected to occur based on the Group's operating forecasts prevailing at the balance sheet date. The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast fuel consumption and passenger revenues were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the losses recognised in the Consolidated income statement. The related tax credit was £169 million, with £10 million being attributable to the charge to passenger revenue and £159 million being attributable to the fuel expense. Further details are given in note 24 'Financial risk management'.

<sup>2</sup>There is a total impairment charge of £417 million presented as a charge of £399 million in Depreciation, amortisation and impairment and £18 million in Engineering and other aircraft costs. The amounts in Depreciation, amortisation and impairment relate to impairment of fleet and rotatable inventory spares relating to the entire B747 fleet and spare engines, two A318 aircraft and four Embraer E170 aircraft. The amounts in Engineering and other aircraft costs relate to expendable engineering inventories. Subsequent to these impairments, all assets are held at their recoverable amounts. The impairment expense has arisen from the substantial deterioration in current and forecast demand for air travel caused by the COVID-19 outbreak, which has led the Group to re-assess the medium and long term capacity and utilisation of the fleet. The related tax credit was £79 million.

<sup>3</sup>The Group has recognised an exceptional charge of £226 million comprising £221 million of employee severance pay and £5 million of legal costs in relation to the Group wide restructuring programme that was announced in March 2020. In response to the devastating impact of the COVID-19 pandemic on the global airline industry, the Group has restructured its cost-base to adapt to being a smaller airline. The related tax credit was £43 million.

<sup>4</sup>The exceptional charge relating to litigation expense of £20 million represents the fine issued by the Information Commissioner's Office ('ICO') in the United Kingdom on 16 October 2020, relating to the theft of customer data at British Airways in 2018. The exceptional charge has been recorded within Property, IT and other costs in the Consolidated income statement, with a corresponding amount recorded in other creditors for liabilities and charges. There is no tax impact on the recognition of this charge.

<sup>5</sup>The exceptional expense of £583 million in 2019 related to the past service cost of the APS settlement agreement. This amount arose from the increase in the IAS 19 defined benefit liability of APS following the settlement agreement between the Trustee Directors of APS which was approved by the High Court in November 2019. The settlement agreement established higher pensions in payment growth assumptions in future years, resulting in a non-cash increase to the IAS 19 defined benefit liability. There is no tax impact on the recognition of this charge.

## 5 Expenses by nature

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

Depreciation, amortisation and impairment of non-current assets:

|  | Group        |              |
|--|--------------|--------------|
| £ million  | 2020         | 2019         |
| Owned assets                                     | 442          | 523          |
| Right of use assets                              | 509          | 488          |
| Other leasehold interests                        | 64           | 40           |
| Amortisation of intangible assets                | 61           | 55           |
| <b>Depreciation, amortisation and impairment</b> | <b>1,076</b> | <b>1,106</b> |

Cost of inventories:

|  | Group      |              |
|--|------------|--------------|
| £ million  | 2020       | 2019         |
| <b>Cost of inventories recognised as an expense, mainly fuel</b> | <b>815</b> | <b>2,138</b> |

## 6 Auditor's remuneration

|  | Group        |              |
|--|--------------|--------------|
| £ '000   | 2020         | 2019         |
| Fees payable to the Group's auditor for the audit of the Group's accounts  | 1,600        | 1,486        |
| Fees payable to the Group's auditor and its associates for other services: |              |              |
| Audit of the Group's subsidiaries pursuant to legislation - UK             | 174          | 181          |
| Audit of the Group's subsidiaries pursuant to legislation - Worldwide      | 37           | 29           |
| Other services pursuant to legislation                                     | 138          | 163          |
| Other assurance services   | -            | 438          |
| Services relating to corporate finance transactions                        | 200          | 139          |
|  | <b>2,149</b> | <b>2,436</b> |

Fees payable to the Group's auditor for the audit of the Group's pension schemes total £38,000 (2019: £50,000).

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

## 7 Employee costs and numbers

### a Employee costs

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

| Number   | Group  |        | Company |        |
|----------|--------|--------|---------|--------|
|          | 2020   | 2019   | 2020    | 2019   |
| UK       | 34,056 | 38,562 | 32,042  | 36,273 |
| Overseas | 3,575  | 3,760  | 2,351   | 2,515  |
|          | 37,631 | 42,322 | 34,393  | 38,788 |

| £ million   | 2020         | 2019         | 2020         | 2019         |
|---|--------------|--------------|--------------|--------------|
| Wages and salaries                                  | 1,171        | 1,657        | 1,127        | 1,551        |
| Social security costs                               | 153          | 206          | 145          | 196          |
| Costs related to pension scheme benefits (note 29b) | 139          | 162          | 133          | 161          |
| Other employee costs                                | 232          | 504          | 225          | 483          |
| <b>Total employee costs</b>                         | <b>1,695</b> | <b>2,529</b> | <b>1,630</b> | <b>2,391</b> |

Included in 'Other employee costs' is a total credit for share-based payments of £1 million (2019: £7 million expense) that arises from transactions accounted for as equity-settled share-based payments (see note 27). Other employee costs also include allowances and accommodation for crew.

Note 4 shows an exceptional charge of £221 million relating to employee severance pay (2019: £583 million relating to the APS litigation settlement past service cost). Including this exceptional item results in total employee costs of £1,916 million (2019: £3,112 million).

### b Directors' emoluments

| £ million               | Group |      |
|-------------------------|-------|------|
|                         | 2020  | 2019 |
| Directors' remuneration | 2     | 2    |

During the year, five Directors (2019: five) of the Company were employed and remunerated by IAG and three (2019: three) were recharged to the Company accordingly.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £1,011,000 (2019: £996,000).

During the year no Directors (2019: none) accrued benefits under a defined benefit pension scheme and two Director (2019: one) accrued benefits under a defined contribution pension scheme. There were total pension contributions of £26,000 made during the year (2019: £27,000).

Five Directors (2019: five) participated in IAG's Long Term Incentive Schemes and five exercised awards during the year (2019: five).

### 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 |          |
|------------------------------|-------------------|----------|
|                              | 2020              | 2019     |
| Short-term employee benefits | 4                 | 6        |
| Share-based payments         | -                 | 2        |
| <b>At 31 December</b>        | <b>4</b>          | <b>8</b> |



## 8 Finance costs and income

### a Finance costs

| £ million                                 | Group        |              |
|---|--------------|--------------|
|   | 2020         | 2019         |
| Interest expenses on:                     |              |              |
| Bank borrowings                           | (17)         | (6)          |
| Asset financed liabilities                | (23)         | (2)          |
| Lease liabilities                         | (204)        | (220)        |
| Provisions unwinding of discount          | (1)          | (1)          |
| Other borrowings                          | (22)         | (5)          |
| Other finance costs                       | (9)          | -            |
| Capitalised interest on progress payments | 7            | 15           |
| <b>Total finance costs</b>                | <b>(269)</b> | <b>(219)</b> |

### b Finance income

| £ million   | Group     |           |
|---|-----------|-----------|
|   | 2020      | 2019      |
| Interest on other investments and interest-bearing deposits | 15        | 36        |
| <b>Total finance income</b>                                 | <b>15</b> | <b>36</b> |

### c Other non-operating credits

| £ million   | Group     |           |
|---|-----------|-----------|
|   | 2020      | 2019      |
| Gain on sale of property, plant and equipment and investments     | 34        | 3         |
| Credit relating to equity investments                             | 2         | 3         |
| Realised gains on derivatives not qualifying for hedge accounting | -         | 4         |
| <b>Total other non-operating credits</b>                          | <b>36</b> | <b>10</b> |

## 9 Tax

### a Tax on ordinary activities

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

| £ million                           | 2020             |                            |                                |            | Restated 2019 <sup>1</sup> |                            |                                |              |
|-------------------------------------|------------------|----------------------------|--------------------------------|------------|----------------------------|----------------------------|--------------------------------|--------------|
|                                     | Income statement | Other comprehensive income | Statement of changes in equity | Total      | Income statement           | Other comprehensive income | Statement of changes in equity | Total        |
| <b>Current tax</b>                  |                  |                            |                                |            |                            |                            |                                |              |
| Movement in respect of prior years  | 3                | -                          | -                              | 3          | 12                         | (7)                        | -                              | 5            |
| Movement in respect of current year | 202              | -                          | -                              | 202        | (341)                      | 141                        | -                              | (200)        |
| <b>Total current tax</b>            | <b>205</b>       | <b>-</b>                   | <b>-</b>                       | <b>205</b> | <b>(329)</b>               | <b>134</b>                 | <b>-</b>                       | <b>(195)</b> |
| <b>Deferred tax</b>                 |                  |                            |                                |            |                            |                            |                                |              |
| Movement in respect of prior years  | -                | -                          | -                              | -          | (7)                        | -                          | -                              | (7)          |
| Movement in respect of current year | 553              | 57                         | (1)                            | 609        | (16)                       | (308)                      | (1)                            | (325)        |
| Rate change                         | (63)             | 39                         | -                              | (24)       | 2                          | 2                          | -                              | 4            |
| <b>Total deferred tax</b>           | <b>490</b>       | <b>96</b>                  | <b>(1)</b>                     | <b>585</b> | <b>(21)</b>                | <b>(306)</b>               | <b>(1)</b>                     | <b>(328)</b> |
| <b>Total tax</b>                    | <b>695</b>       | <b>96</b>                  | <b>(1)</b>                     | <b>790</b> | <b>(350)</b>               | <b>(172)</b>               | <b>(1)</b>                     | <b>(523)</b> |

<sup>1</sup>To conform to the current period presentation, the defined benefit schemes reclassification referred to in note 9c had the effect of increasing the comparative deferred tax "movement in respect of current year" in Other comprehensive income by £214 million from £94 million.

The tax credit on continuing operations for 2020 includes £291 million tax credit in relation to exceptional items (2019: Enil).

### b Current tax liability

| £ million                     | 2020        | 2019         |
|-------------------------------|-------------|--------------|
| Balance at 1 January          | (142)       | (144)        |
| Income statement              | 205         | (329)        |
| Other comprehensive income    | -           | 134          |
| Cash payments                 | 51          | 195          |
| Offset against other taxes    | (135)       | -            |
| Exchange movements and other  | (16)        | 2            |
| <b>Balance at 31 December</b> | <b>(37)</b> | <b>(142)</b> |

The Company has a current tax liability of £40 million as at 31 December 2020 (2019: £146 million).

## 9 Tax continued

### C Deferred tax

#### Deferred tax asset/(liability)

| £ million   | Tax loss carried forward | Fixed assets | Right of use assets | Deferred tax deductions on IFRS 16 transition | Employee leaving indemnities and others | Employee benefit plans <sup>1</sup> | Fair value gain/losses | Share-based payment schemes | Other temporary differences | Total        |
|---|--------------------------|--------------|---------------------|---|---|-------------------------------------|------------------------|-----------------------------|-----------------------------|--------------|
| Balance at 1 January 2020 <sup>1</sup>                    | -                        | (324)        | (251)               | 20  | 10                                      | 273                                 | 84                     | 3                           | 1                           | (184)        |
| Income statement  | 330                      | 113          | 1                   | (1)   | 1                                       | (1)                                 | 51                     | (1)                         | (3)                         | 490          |
| Other comprehensive income                                | 51                       | -            | -                   | -   | -                                       | (6)                                 | 51                     | -                           | -                           | 96           |
| Statement of changes in equity                            | -                        | -            | -                   | -   | -                                       | -                                   | -                      | (1)                         | -                           | (1)          |
| <b>Balance at 31 December 2020</b>                        | <b>381</b>               | <b>(211)</b> | <b>(250)</b>        | <b>19</b>                                     | <b>11</b>                               | <b>266</b>                          | <b>186</b>             | <b>1</b>                    | <b>(2)</b>                  | <b>401</b>   |
| Balance at 1 January 2019 (Restated) <sup>1</sup>         | -                        | (568)        | -                   | -   | 21                                      | 485                                 | 178                    | 3                           | (1)                         | 118          |
| Adjustments arising on adoption of IFRS 16                | -                        | 235          | (235)               | 26  | -                                       | -                                   | -                      | -                           | -                           | 26           |
| Income statement  | -                        | 8            | (16)                | (6)   | (9)                                     | 1                                   | -                      | -                           | 1                           | (21)         |
| Other comprehensive income                                | -                        | -            | -                   | -   | -                                       | (212)                               | (94)                   | -                           | -                           | (306)        |
| Statement of changes in equity                            | -                        | -            | -                   | -   | -                                       | -                                   | -                      | (1)                         | -                           | (1)          |
| Exchange movements and other                              | -                        | 1            | -                   | -   | (2)                                     | (1)                                 | -                      | 1                           | 1                           | -            |
| <b>Balance at 31 December 2019 (Restated)<sup>1</sup></b> | <b>-</b>                 | <b>(324)</b> | <b>(251)</b>        | <b>20</b>                                     | <b>10</b>                               | <b>273</b>                          | <b>84</b>              | <b>3</b>                    | <b>1</b>                    | <b>(184)</b> |

<sup>1</sup> Deferred tax assets arising on the restriction of surpluses to reflect minimum funding requirements of the British Airways APS and NAPS defined benefit schemes, as detailed in note 29, previously recognised within Employee benefit assets in the Balance sheet at 31 December 2019, have been reclassified to be presented net within Deferred tax liabilities at both 31 December 2019 and 1 January 2019 to conform to the current period presentation. At 1 January 2019, the reclassification had the effect of increasing Deferred tax assets relating to Employee benefit plans by £453 million to £485 million. At 31 December 2019, the reclassification had the effect of increasing Deferred tax assets relating to Employee benefit plans by £239 million to £273 million.

The Company has a deferred tax asset of £478 million as at 31 December 2020 (2019: £105 million deferred tax liability).

Within tax in other comprehensive income is a tax credit of £54 million (2019: tax charge of £102 million) that may be reclassified to the income statement and a tax credit of £42 million (2019: tax credit of £144 million) that may not.

#### d Reconciliation of the total tax charge in the income statement

In accordance with bilateral tax treaties the Group's profit and losses are mainly taxed in the UK. Therefore, the tax credit (2019: charge) is calculated at the standard rate of UK corporation tax. The tax credit on the loss (2019: profit) for the year ended 31 December 2020 is lower (2019: higher) than the expected tax credit (2019: charge) at the UK rate. The Group's effective tax rate is 16.6% (2019: 24.0%) and the differences to the UK rate are explained below:

| £ million   | 2020       | 2019         |
|---|------------|--------------|
| Accounting (loss)/profit before tax   | (4,184)    | 1,459        |
| Tax calculated at the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%) | 795        | (277)        |
| Effect of tax rate changes  | (63)       | 2            |
| Employee benefit plans accounted for net of withholding tax - non-recurring               | -          | (111)        |
| Employee benefit plans accounted for net of withholding tax - recurring                   | 2          | 5            |
| Movement in respect of prior years  | 3          | 5            |
| Non-deductible expenses - recurring items   | (4)        | (7)          |
| Non-deductible expenses - non-recurring items   | (6)        | -            |
| Prior year tax asset not recognised   | (6)        | -            |
| Other items   | 2          | 1            |
| Tax on associates' (losses)/profits   | (28)       | 32           |
| <b>Tax credit/(charge) in the income statement</b>  | <b>695</b> | <b>(350)</b> |

#### e Other taxes

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

| £ million             | 2020       | 2019       |
|-----------------------|------------|------------|
| Payroll related taxes | 153        | 206        |
| UK Air Passenger Duty | 256        | 783        |
|                       | <b>409</b> | <b>989</b> |

## 9 Tax continued

### f Factors that may affect future tax charges

#### Unrecognised temporary differences - losses

| £ million         | 2020 | 2019 |
|-------------------|------|------|
| UK capital losses | 318  | 284  |

#### Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of £819 million (2019: £990 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.

#### Tax rate changes

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

### g Tax contingent liabilities

The Group has certain contingent tax liabilities which at 31 December 2020 amounted to £84 million (2019: £69 million), including estimated interest and penalties. The Group files income and other tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

## 10 Dividends

| £ million  | Company |      |
|--|---------|------|
|  | 2020    | 2019 |
| <i>First interim dividend:</i>                     |         |      |
| A1 Ordinary shares: £nil per share (2019: £113.64) | -       | 102  |
| A2 Ordinary shares: £nil per share (2019: £113.64) | -       | 11   |
| C Ordinary shares: £nil per share (2019: £113.64)  | -       | 17   |
| <i>Second interim dividend:</i>                    |         |      |
| A1 Ordinary shares: £nil per share (2019: £113.64) | -       | 102  |
| A2 Ordinary shares: £nil per share (2019: £113.64) | -       | 11   |
| C Ordinary shares: £nil per share (2019: £113.64)  | -       | 17   |
| <i>Third interim dividend:</i>                     |         |      |
| A1 Ordinary shares: £nil per share (2019: £87.41)  | -       | 78   |
| A2 Ordinary shares: £nil per share (2019: £87.41)  | -       | 9    |
| C Ordinary shares: £nil per share (2019: £87.41)   | -       | 13   |
| <i>Fourth interim dividend:</i>                    |         |      |
| A1 Ordinary shares: £nil per share (2019: £196.68) | -       | 176  |
| A2 Ordinary shares: £nil per share (2019: £196.68) | -       | 20   |
| C Ordinary shares: £nil per share (2019: £196.68)  | -       | 29   |
|  | -       | 585  |

## 11 Property, plant and equipment

### a Group

| £ million                              | Group         |              |            |               |
|--|---------------|--------------|------------|---------------|
|  | Fleet         | Property     | Equipment  | Total         |
| <b>Cost</b>                            |               |              |            |               |
| Balance at 1 January 2019              | 17,318        | 2,284        | 942        | 20,544        |
| Additions                              | 1,772         | 54           | 52         | 1,878         |
| Modification of leases                 | 97            | 82           | -          | 179           |
| Disposals                              | (825)         | (31)         | (10)       | (866)         |
| Balance as at 31 December 2019         | 18,362        | 2,389        | 984        | 21,735        |
| Additions                              | 1,394         | 72           | 9          | 1,475         |
| Modification of leases                 | 38            | 8            | -          | 46            |
| Disposals                              | (2,643)       | (82)         | (31)       | (2,756)       |
| Reclassification                       | -             | 7            | (7)        | -             |
| <b>As at 31 December 2020</b>          | <b>17,151</b> | <b>2,394</b> | <b>955</b> | <b>20,500</b> |
| <b>Depreciation and impairment</b>     |               |              |            |               |
| Balance at 1 January 2019              | 9,013         | 891          | 706        | 10,610        |
| Charge for the year                    | 884           | 124          | 43         | 1,051         |
| Disposals                              | (373)         | (32)         | (9)        | (414)         |
| Balance as at 31 December 2019         | 9,524         | 983          | 740        | 11,247        |
| Charge for the year                    | 847           | 127          | 41         | 1,015         |
| Impairment <sup>1</sup>                | 399           | -            | -          | 399           |
| Disposals                              | (2,468)       | (45)         | (29)       | (2,542)       |
| <b>As at 31 December 2020</b>          | <b>8,302</b>  | <b>1,065</b> | <b>752</b> | <b>10,119</b> |
| <b>Net book amounts</b>                |               |              |            |               |
| <b>31 December 2020</b>                | <b>8,849</b>  | <b>1,329</b> | <b>203</b> | <b>10,381</b> |
| 31 December 2019                       | 8,838         | 1,406        | 244        | 10,488        |
| <b>Analysis as at 31 December 2020</b> |               |              |            |               |
| Owned                                  | 2,192         | 679          | 158        | 3,029         |
| Right of use assets <sup>2</sup>       | 4,855         | 573          | 20         | 5,448         |
| Asset financed                         | 1,434         | -            | -          | 1,434         |
| Progress payments                      | 368           | 77           | 25         | 470           |
|  | 8,849         | 1,329        | 203        | 10,381        |
| <b>Analysis as at 31 December 2019</b> |               |              |            |               |
| Owned                                  | 2,716         | 718          | 172        | 3,606         |
| Right of use assets <sup>2</sup>       | 4,912         | 594          | 28         | 5,534         |
| Asset financed                         | 402           | -            | -          | 402           |
| Progress payments                      | 808           | 94           | 44         | 946           |
|  | 8,838         | 1,406        | 244        | 10,488        |

| £ million   | Group        |              |
|---|--------------|--------------|
|   | 2020         | 2019         |
| <b>The net book amount of property comprises:</b> |              |              |
| Freehold  | 286          | 325          |
| Right of use assets <sup>2</sup>                  | 573          | 594          |
| Long-leasehold improvements                       | 270          | 272          |
| Short-leasehold improvements <sup>3</sup>         | 200          | 215          |
| <b>As at 31 December</b>                          | <b>1,329</b> | <b>1,406</b> |

<sup>1</sup> Refer to note 4 for impairment.

<sup>2</sup> Refer to note 12 for right of use assets.

<sup>3</sup> Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2020, long-term borrowings of the Group are secured on owned fleet assets with a net book amount of £1,774 million (2019: £677 million).

## 11 Property, plant and equipment continued

### b Company

| £ million                              | Company       |              |            |               |
|--|---------------|--------------|------------|---------------|
|  | Fleet         | Property     | Equipment  | Total         |
| <b>Cost</b>                            |               |              |            |               |
| Balance at 1 January 2019              | 16,706        | 2,196        | 916        | 19,818        |
| Additions                              | 1,756         | 48           | 43         | 1,847         |
| Modification of leases                 | 97            | 82           | -          | 179           |
| Disposals                              | (820)         | (31)         | (10)       | (861)         |
| Balance as at 31 December 2019         | 17,739        | 2,295        | 949        | 20,983        |
| Additions                              | 1,360         | 71           | 8          | 1,439         |
| Modification of leases                 | 42            | 9            | -          | 51            |
| Disposals                              | (2,604)       | (82)         | (35)       | (2,721)       |
| <b>As at 31 December 2020</b>          | <b>16,537</b> | <b>2,293</b> | <b>922</b> | <b>19,752</b> |
| <b>Depreciation and impairment</b>     |               |              |            |               |
| Balance at 1 January 2019              | 8,625         | 840          | 687        | 10,152        |
| Charge for the year                    | 849           | 121          | 41         | 1,011         |
| Disposals                              | (371)         | (30)         | (10)       | (411)         |
| Balance as at 31 December 2019         | 9,103         | 931          | 718        | 10,752        |
| Charge for the year                    | 804           | 121          | 40         | 965           |
| Impairment <sup>1</sup>                | 381           | -            | -          | 381           |
| Disposals                              | (2,430)       | (45)         | (33)       | (2,508)       |
| <b>As at 31 December 2020</b>          | <b>7,858</b>  | <b>1,007</b> | <b>725</b> | <b>9,590</b>  |
| <b>Net book amounts</b>                |               |              |            |               |
| <b>31 December 2020</b>                | <b>8,679</b>  | <b>1,286</b> | <b>197</b> | <b>10,162</b> |
| 31 December 2019                       | 8,636         | 1,364        | 231        | 10,231        |
| <b>Analysis as at 31 December 2020</b> |               |              |            |               |
| Owned                                  | 2,061         | 641          | 152        | 2,854         |
| Right of use assets <sup>2</sup>       | 4,816         | 568          | 20         | 5,404         |
| Asset financed                         | 1,434         | -            | -          | 1,434         |
| Progress payments                      | 368           | 77           | 25         | 470           |
|  | 8,679         | 1,286        | 197        | 10,162        |
| <b>Analysis as at 31 December 2019</b> |               |              |            |               |
| Owned                                  | 2,538         | 685          | 158        | 3,381         |
| Right of use assets <sup>2</sup>       | 4,889         | 585          | 27         | 5,501         |
| Asset financed                         | 402           | -            | -          | 402           |
| Progress payments                      | 807           | 94           | 46         | 947           |
|  | 8,636         | 1,364        | 231        | 10,231        |

| £ million   | Company      |              |
|---|--------------|--------------|
|   | 2020         | 2019         |
| <b>The net book amount of property comprises:</b> |              |              |
| Freehold  | 248          | 292          |
| Right of use assets <sup>2</sup>                  | 568          | 585          |
| Long-leasehold improvements                       | 270          | 272          |
| Short-leasehold improvements <sup>3</sup>         | 200          | 215          |
| <b>As at 31 December</b>                          | <b>1,286</b> | <b>1,364</b> |

<sup>1</sup> This is included within exceptional impairment charges in note 4

<sup>2</sup> Refer to note 12 for right of use assets.

<sup>3</sup> Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2020, long-term borrowings of the Company are secured on owned fleet assets with a net book amount of £1,774 million (2019: £603 million).

## 12 Leases

### a Group

#### (i) Amounts recognised in the Consolidated balance sheet

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

| £ million                      | Group        |            |           |              |
|--------------------------------|--------------|------------|-----------|--------------|
|                                | Fleet        | Property   | Equipment | Total        |
| <b>Cost</b>                    |              |            |           |              |
| Balance as at 1 January 2019   | 7,051        | 583        | 49        | 7,683        |
| Additions                      | 384          | 7          | 6         | 397          |
| Modification of leases         | 97           | 82         | -         | 179          |
| Disposals                      | (4)          | -          | -         | (4)          |
| Reclassifications <sup>1</sup> | (201)        | -          | -         | (201)        |
| Balance as at 31 December 2019 | 7,327        | 672        | 55        | 8,054        |
| Additions                      | 530          | 48         | -         | 578          |
| Modification of leases         | 38           | 8          | -         | 46           |
| Disposals                      | (13)         | (5)        | (20)      | (38)         |
| Reclassifications <sup>1</sup> | (347)        | -          | -         | (347)        |
| <b>As at 31 December 2020</b>  | <b>7,535</b> | <b>723</b> | <b>35</b> | <b>8,293</b> |
| <b>Depreciation</b>            |              |            |           |              |
| Balance as at 1 January 2019   | 2,126        | -          | 18        | 2,144        |
| Charge for the year            | 401          | 78         | 9         | 488          |
| Disposals                      | (4)          | -          | -         | (4)          |
| Reclassifications <sup>1</sup> | (108)        | -          | -         | (108)        |
| Balance as at 31 December 2019 | 2,415        | 78         | 27        | 2,520        |
| Charge for the year            | 425          | 76         | 8         | 509          |
| Disposals                      | (13)         | (4)        | (20)      | (37)         |
| Reclassifications <sup>1</sup> | (147)        | -          | -         | (147)        |
| <b>As at 31 December 2020</b>  | <b>2,680</b> | <b>150</b> | <b>15</b> | <b>2,845</b> |
| <b>Net book value</b>          |              |            |           |              |
| <b>31 December 2020</b>        | <b>4,855</b> | <b>573</b> | <b>20</b> | <b>5,448</b> |
| 31 December 2019               | 4,912        | 594        | 28        | 5,534        |

<sup>1</sup>Amounts with a net book value of £200 million (2019: £93 million) were reclassified from right of use assets to Owned Property, plant and equipment at the cessation of the respective leases.

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

| £ million                            | Group        |              |
|--------------------------------------|--------------|--------------|
|                                      | 2020         | 2019         |
| Lease liability 1 January            | 5,647        | 5,999        |
| Additions                            | 543          | 378          |
| Modification of leases               | 41           | 146          |
| Repayments                           | (948)        | (850)        |
| Interest expense                     | 198          | 220          |
| Exchange movements                   | 10           | (246)        |
| <b>Lease liabilities 31 December</b> | <b>5,491</b> | <b>5,647</b> |
| <b>Current</b>                       | <b>845</b>   | <b>869</b>   |
| <b>Non-current</b>                   | <b>4,646</b> | <b>4,778</b> |

## 12 Leases continued

### a Group continued

#### (ii) Amounts recognised in the Consolidated income statement

| £ million  | Group |      |
|--|-------|------|
|  | 2020  | 2019 |
| Variable lease payments                            | 1     | 4    |
| Short-term leases                                  | 26    | 36   |
| Interest on lease liabilities                      | 198   | 220  |
| Gains arising from sale and leaseback transactions | (3)   | (3)  |
| Depreciation                                       | 509   | 488  |

#### (iii) Amounts recognised in the Consolidated cash flow statements

The Group had total cash outflows for lease liabilities of £807 million (2019: £669 million) in 2020.

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2020, for which no amount has been recognised, in relation to leases not yet commenced to which the Group is committed of £8 million (2019: £448 million).

#### (iv) Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 24.

#### (v) Extensions and terminations

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

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2020, for which no amount has been recognised, for potential extension options of £642 million (2019: £635 million) due to it not being reasonably certain that these leases will be extended.

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



**12 Leases**  
**b Company**  
**(i) Amounts recognised in the balance sheet**

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

| £ million                      | Company      |            |           |              |
|--------------------------------|--------------|------------|-----------|--------------|
|                                | Fleet        | Property   | Equipment | Total        |
| <b>Cost</b>                    |              |            |           |              |
| Balance as at 1 January 2019   | 6,893        | 579        | 48        | 7,520        |
| Additions                      | 373          | 1          | 6         | 380          |
| Modification of leases         | 97           | 82         | -         | 179          |
| Disposals                      | (4)          | -          | -         | (4)          |
| Reclassifications <sup>1</sup> | (201)        | -          | -         | (201)        |
| Balance as at 31 December 2019 | 7,158        | 662        | 54        | 7,874        |
| Additions                      | 495          | 48         | -         | 543          |
| Modification of leases         | 42           | 9          | -         | 51           |
| Disposals                      | (13)         | (4)        | (20)      | (37)         |
| Reclassifications <sup>1</sup> | (347)        | -          | -         | (347)        |
| <b>As at 31 December 2020</b>  | <b>7,335</b> | <b>715</b> | <b>34</b> | <b>8,084</b> |
| <b>Depreciation</b>            |              |            |           |              |
| Balance as at 1 January 2019   | 1,996        | -          | 18        | 2,014        |
| Charge for the year            | 385          | 77         | 9         | 471          |
| Disposals                      | (4)          | -          | -         | (4)          |
| Reclassifications <sup>1</sup> | (108)        | -          | -         | (108)        |
| Balance as at 31 December 2019 | 2,269        | 77         | 27        | 2,373        |
| Charge for the year            | 410          | 74         | 7         | 491          |
| Disposals                      | (13)         | (4)        | (20)      | (37)         |
| Reclassifications <sup>1</sup> | (147)        | -          | -         | (147)        |
| <b>As at 31 December 2020</b>  | <b>2,519</b> | <b>147</b> | <b>14</b> | <b>2,680</b> |
| <b>Net book value</b>          |              |            |           |              |
| <b>31 December 2020</b>        | <b>4,816</b> | <b>568</b> | <b>20</b> | <b>5,404</b> |
| 31 December 2019               | 4,889        | 585        | 27        | 5,501        |

<sup>1</sup>Amounts with a net book value of £200 million (2019: £93 million) were reclassified from right of use assets to Owned Property, plant and equipment at the cessation of the respective leases.

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

| £ million                            | Company      |              |
|--------------------------------------|--------------|--------------|
|                                      | 2020         | 2019         |
| Lease liability 1 January            | 5,615        | 5,975        |
| Additions                            | 507          | 361          |
| Modification of leases               | 46           | 146          |
| Repayments                           | (934)        | (842)        |
| Interest expense                     | 197          | 219          |
| Exchange movements                   | 11           | (244)        |
| <b>Lease liabilities 31 December</b> | <b>5,442</b> | <b>5,615</b> |
| <b>Current</b>                       | <b>829</b>   | <b>855</b>   |
| <b>Non-current</b>                   | <b>4,613</b> | <b>4,760</b> |

**12 Leases continued**  
**b Company continued**  
**(ii) Amounts recognised in the income statement**

| £ million  | Company |      |
|--|---------|------|
|  | 2020    | 2019 |
| Short-term leases                                  | 25      | 28   |
| Interest on lease liabilities                      | 197     | 219  |
| Gains arising from sale and leaseback transactions | (3)     | (3)  |
| Depreciation                                       | 491     | 471  |

**(iii) Amounts recognised in the company cash flow statements**

The Company had total cash outflows for lease liabilities of £794 million (2019: £661 million) in 2020.

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2020, for which no amount has been recognised, in relation to leases not yet commenced to which the Company is committed of £nil million (2019: £423 million).

**(iv) Maturity profile of the lease liabilities**

The maturity profile of the lease liabilities are disclosed in note 24.

**(v) Extensions and terminations**

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

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2020, for which no amount has been recognised, for potential extension options of £464 million (2019: £635 million) due to it not being reasonably certain that these leases will be extended.

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

**13 Capital expenditure commitments**

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £5,937 million for the Group (2019: £6,497 million) and £5,936 million for the Company (2019: £6,484 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 £5,883 million for the acquisition of 12 Airbus A320s and A321 neos (from 2021 to 2023), 10 Airbus A350s (from 2021 to 2023), 10 Boeing B787s (from 2021 to 2024) and 18 Boeing B777s (from 2021 to 2027).

## 14 Intangible assets

### a Group

| £ million                      |           |                |                      |            | Group        |
|--------------------------------|-----------|----------------|----------------------|------------|--------------|
|                                | Goodwill  | Landing rights | Emissions allowances | Software   | Total        |
| <b>Cost</b>                    |           |                |                      |            |              |
| Balance at 1 January 2019      | 40        | 742            | 34                   | 647        | 1,463        |
| Additions                      | -         | -              | 36                   | 80         | 116          |
| Disposals                      | -         | -              | (34)                 | (4)        | (38)         |
| Balance as at 31 December 2019 | 40        | 742            | 36                   | 723        | 1,541        |
| Additions                      | -         | -              | -                    | 49         | 49           |
| Disposals                      | -         | -              | (9)                  | (11)       | (20)         |
| <b>As at 31 December 2020</b>  | <b>40</b> | <b>742</b>     | <b>27</b>            | <b>761</b> | <b>1,570</b> |
| <b>Amortisation</b>            |           |                |                      |            |              |
| Balance at 1 January 2019      | -         | 49             | -                    | 347        | 396          |
| Charge for the year            | -         | -              | -                    | 55         | 55           |
| Disposals                      | -         | -              | -                    | (4)        | (4)          |
| Balance as at 31 December 2019 | -         | 49             | -                    | 398        | 447          |
| Charge for the year            | -         | -              | -                    | 61         | 61           |
| <b>As at 31 December 2020</b>  | <b>-</b>  | <b>49</b>      | <b>-</b>             | <b>459</b> | <b>508</b>   |
| <b>Net book amounts</b>        |           |                |                      |            |              |
| <b>31 December 2020</b>        | <b>40</b> | <b>693</b>     | <b>27</b>            | <b>302</b> | <b>1,062</b> |
| <b>31 December 2019</b>        | <b>40</b> | <b>693</b>     | <b>36</b>            | <b>325</b> | <b>1,094</b> |

## 14 Intangible assets continued

### b Company

| £ million                      | Company        |                      |            |              |
|--------------------------------|----------------|----------------------|------------|--------------|
|                                | Landing rights | Emissions allowances | Software   | Total        |
| <b>Cost</b>                    |                |                      |            |              |
| Balance at 1 January 2019      | 742            | 34                   | 618        | 1,394        |
| Additions                      | -              | 36                   | 74         | 110          |
| Disposals                      | -              | (34)                 | (4)        | (38)         |
| Balance as at 31 December 2019 | 742            | 36                   | 688        | 1,466        |
| Additions                      | -              | -                    | 46         | 46           |
| Disposals                      | -              | (9)                  | (11)       | (20)         |
| <b>As at 31 December 2020</b>  | <b>742</b>     | <b>27</b>            | <b>723</b> | <b>1,492</b> |
| <b>Amortisation</b>            |                |                      |            |              |
| Balance at 1 January 2019      | 49             | -                    | 329        | 378          |
| Charge for the year            | -              | -                    | 51         | 51           |
| Disposals                      | -              | -                    | (4)        | (4)          |
| Balance as at 31 December 2019 | 49             | -                    | 376        | 425          |
| Charge for the year            | -              | -                    | 57         | 57           |
| <b>As at 31 December 2020</b>  | <b>49</b>      | <b>-</b>             | <b>433</b> | <b>482</b>   |
| <b>Net book amounts</b>        |                |                      |            |              |
| <b>31 December 2020</b>        | <b>693</b>     | <b>27</b>            | <b>290</b> | <b>1,010</b> |
| <b>31 December 2019</b>        | <b>693</b>     | <b>36</b>            | <b>312</b> | <b>1,041</b> |

## 15 Impairment review

### a Network airline operations

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate the carrying value may be impaired. During the year ended 31 December 2020, the disruption caused by COVID-19 has led to a decrease in demand for aviation travel and economic uncertainty over the short and medium term. The impairment test included assessment of the carrying value of all non-current assets including property, plant and equipment.

| £ million                  | 2020                 |                |          |       | 2019                 |                |          |       |
|----------------------------|----------------------|----------------|----------|-------|----------------------|----------------|----------|-------|
|                            | Emissions allowances | Landing rights | Goodwill | Total | Emissions allowances | Landing rights | Goodwill | Total |
| Network airline operations | 27                   | 693            | 40       | 760   | 36                   | 693            | 40       | 769   |

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 CGU (2019: one). An impairment review was performed on the network airline operations CGU, including passenger and cargo operations out of all operated airports, as well as all related ancillary operations.

An impairment review involves the comparison of the carrying value of the CGU to the recoverable amount. The recoverable amount of the CGU is measured based on the value-in-use which, at 31 December 2020, was based on a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 2, with a weighting of 70 per cent to the Base Case and 30 per cent to the Downside Case.

### Key assumptions

The value-in-use calculations for the CGU at 31 December 2020 reflected the increased risks arising from COVID-19, including updated projected cash flows for the decreased activity from 2021 through to the end of 2023, an increase in the pre-tax discount rates to incorporate increased equity market volatility. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

## 15 Impairment review (continued)

### Key assumptions (continued)

| Per cent                                       | 2020        | 2019     |
|--|-------------|----------|
| Operating margin                               | -20% to 16% | 15%      |
| Average ASK growth rate per annum <sup>1</sup> | 45% to 95%  | 2% to 4% |
| Long-term growth rate                          | 2.1%        | 2.2%     |
| Pre-tax discount rate                          | 11.2%       | 8.0%     |

<sup>1</sup>Given the impact of COVID-19, the Group has presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation. In prior periods the Group applied the average ASK growth per annum as a key assumption.

| Jet fuel price (\$ per M1) | Within 12 months | 1-2 years | 2-3 years | 3 years and thereafter |
|----------------------------|------------------|-----------|-----------|------------------------|
| 2020                       | 373              | 420       | 449       | 449                    |
| 2019                       | 639              | 612       | 598       | 598                    |

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

The long-term growth rate is calculated for each CGU based on the forecast weighted average exposure in each primary market using gross domestic product ('GDP') (source: Oxford Economics). The airlines' network plans are reviewed annually as part of the business plan and reflect management's plans in response to specific market risk or opportunity.

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

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

### Summary of results

As at 31 December 2020, management reviewed the recoverable amount of the CGU and concluded the recoverable amount exceeded the carrying value.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered, which include reducing operating margin by two per cent, ASKs by five per cent, long-term growth rates to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the Base Case and the Downside Case to be 100 per cent weighted towards the downside case, and increasing the fuel price by 40 per cent. These sensitivities, in part, incorporate the potential impact that climate related risks would have on the Group.

While the recoverable amounts are estimated to exceed the carrying amounts by £7,902 million, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes in assumptions in each of the following scenarios:

- (i) If ASKs had been five per cent lower combined with a fuel price increase of 19 per cent; and
- (ii) If the fuel price had been 36 per cent higher.

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

For impairment charges recognised in relation to fleet assets stood down permanently 31 December 2020, refer to note 4.

### b Company

In 2020, the Company recognised an impairment charge of £427 million (2019: £nil) in respect of its investment in subsidiaries. For investments where an indicator of impairment existed, an impairment test was performed to determine the recoverable amount, and where necessary, impair the carrying value to the recoverable value. The recoverable amounts of the relevant investments have been determined based on their value in use, using a discounted cash flow model. Cash flows for the next five years have been projected in line with the business plan to 31 December 2023 and expected growth rates.

## 16 Investments

### a Group

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

| £ million  | Group        |              |
|--|--------------|--------------|
|  | 2020         | 2019         |
| Balance at 1 January                                     | 1,838        | 1,701        |
| Exchange differences                                     | 7            | (13)         |
| Share of attributable results                            | (144)        | 170          |
| Share of movements in comprehensive income of associates | (12)         | 6            |
| Dividends received <sup>1</sup>                          | (1)          | (26)         |
| <b>As at 31 December</b>                                 | <b>1,688</b> | <b>1,838</b> |

<sup>1</sup>The Group received dividends, net of withholding tax, of £1 million (2019: £26 million) from Dunwoody (2019: Iberia and Dunwoody).

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

## 16 Investments continued

At 31 December 2020 there are no restrictions on the ability of associates or joint ventures to transfer funds to the Company and there are no related contingent liabilities.

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

| £ million  | Group     |              |              |              |
|--|-----------|--------------|--------------|--------------|
|  | 2020      |              | 2019         |              |
|  | Iberia    | AGL          | Iberia       | AGL          |
| Non-current assets                                 | 4,889     | 36           | 4,851        | 229          |
| Current assets                                     | 1,537     | 2,623        | 2,542        | 1,675        |
| Current liabilities                                | (2,310)   | (2,143)      | (2,529)      | (1,871)      |
| Non-current liabilities                            | (4,065)   | (433)        | (3,346)      | (5)          |
| <b>Net equity</b>                                  | <b>51</b> | <b>83</b>    | <b>1,518</b> | <b>28</b>    |
| Group's share of net equity                        | 7         | 72           | 206          | 24           |
| Goodwill attributable to investments in associates | 9         | 1,598        | 8            | 1,598        |
| <b>Total investment in associates</b>              | <b>16</b> | <b>1,670</b> | <b>214</b>   | <b>1,622</b> |

The Group's carrying amount of investments in other associates was £2 million (2019: £2 million).

|   |                |           |            |            |
|---|----------------|-----------|------------|------------|
| Revenues  | 2,032          | 290       | 5,083      | 817        |
| Operating costs   | (3,333)        | (223)     | (4,660)    | (641)      |
| Other income and costs (including tax)                                | (101)          | (18)      | (92)       | (32)       |
| <b>Net (loss)/profit after tax</b>                                    | <b>(1,402)</b> | <b>49</b> | <b>331</b> | <b>144</b> |
| Other comprehensive (expense)/income                                  | (116)          | 2         | 92         | (1)        |
| <b>Total comprehensive (expense)/income for the year (net of tax)</b> | <b>(1,518)</b> | <b>51</b> | <b>423</b> | <b>143</b> |

The Group's share of total comprehensive income of other associates was £2 million (2019: £1 million)

### b Company

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

| £ million                | Cost         | Provisions   | Company    |              |
|--------------------------|--------------|--------------|------------|--------------|
|                          |              |              | 2020       | 2019         |
| Balance at 1 January     | 1,652        | (374)        | 1,278      | 1,278        |
| Disposals <sup>1</sup>   | (7)          | 3            | (4)        | -            |
| Provision <sup>2</sup>   | -            | (427)        | (427)      | -            |
| <b>As at 31 December</b> | <b>1,645</b> | <b>(798)</b> | <b>847</b> | <b>1,278</b> |

<sup>1</sup>The Company de-recognised investments in two subsidiaries during the year following liquidation. The net carrying value of the investments at the date of liquidation was £4 million.

<sup>2</sup>The Company recognised a £427 million impairment charge in respect of its subsidiaries, see note 15 for further details.

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 94 and 95.

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

| £ million                | Company      |              |
|--------------------------|--------------|--------------|
|                          | Total        | Total        |
|                          | 2020         | 2019         |
| <b>As at 31 December</b> | <b>1,563</b> | <b>1,563</b> |

## 17 Equity investments

| £ million                          | Group    |           | Company  |           |
|------------------------------------|----------|-----------|----------|-----------|
|                                    | 2020     | 2019      | 2020     | 2019      |
| <b>Listed securities</b>           |          |           |          |           |
| Comair Limited                     | -        | 9         | -        | -         |
| Unlisted securities (see note 25b) | 2        | 40        | 2        | 40        |
| <b>Equity investments</b>          | <b>2</b> | <b>49</b> | <b>2</b> | <b>40</b> |

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

## 18 Trade receivables and other assets

Trade receivables and other current assets are set out below:

| £ million   | Group      |              | Company    |              |
|---|------------|--------------|------------|--------------|
|   | 2020       | 2019         | 2020       | 2019         |
| Trade receivables                                 | 390        | 1,232        | 376        | 1,216        |
| Provision for expected credit losses              | (34)       | (30)         | (34)       | (30)         |
| Net trade receivables                             | 356        | 1,202        | 342        | 1,186        |
| Prepayments and accrued income                    | 265        | 538          | 246        | 511          |
| Other non-trade receivables                       | 86         | 145          | 127        | 205          |
| <b>Trade receivables and other current assets</b> | <b>707</b> | <b>1,885</b> | <b>715</b> | <b>1,902</b> |

Other non-current assets are set out below:

| £ million                       | Group      |            | Company    |            |
|---------------------------------|------------|------------|------------|------------|
|                                 | 2020       | 2019       | 2020       | 2019       |
| Prepayments and accrued income  | 80         | 84         | 76         | 84         |
| Other non-trade receivables     | 94         | 107        | 94         | 106        |
| <b>Other non-current assets</b> | <b>174</b> | <b>191</b> | <b>170</b> | <b>190</b> |

Movements in provision for expected credit loss were as follows:

| £ million                               | 2020      | 2019      |
|---|-----------|-----------|
| At the beginning of year                | 30        | 22        |
| Provided during the year                | 4         | 14        |
| Receivables written off during the year | -         | (6)       |
|   | <b>34</b> | <b>30</b> |

The credit risk exposure on the Group and Company's trade receivables is set out below. Trade receivables are generally non-interest bearing and on 30 day terms (2019: 30 days).

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

| Group                     |         |          |            |            |             |              |           |       |
|---------------------------|---------|----------|------------|------------|-------------|--------------|-----------|-------|
| 2019                      | Current | <30 days | 30-60 days | 60-90 days | 90-180 days | 180-365 days | >365 days | Total |
| Trade receivables         | 741     | 251      | 25         | 18         | 37          | 132          | 28        | 1,232 |
| Expected credit loss rate | 0.1%    | 0.1%     | 1.2%       | 2.6%       | 3.2%        | 3.3%         | 90.8%     | 2.4%  |
| Net trade receivables     | 741     | 251      | 25         | 18         | 36          | 128          | 3         | 1,202 |



## 18 Trade receivables and other assets (continued)

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

| 2019                      | Company |          |            |            |             |              |           |
|---------------------------|---------|----------|------------|------------|-------------|--------------|-----------|
|                           | Current | <30 days | 30-60 days | 60-90 days | 90-180 days | 180-365 days | >365 days |
| Trade receivables         | 727     | 250      | 25         | 18         | 37          | 131          | 28        |
| Expected credit loss rate | 0.1%    | 0.1%     | 1.2%       | 2.6%       | 3.2%        | 3.3%         | 90.8%     |
| Net trade receivables     | 727     | 250      | 25         | 18         | 36          | 127          | 3         |

## 19 Cash, cash equivalents and other current interest-bearing deposits

### a Cash and cash equivalents

| £ million   | Group |       | Company |       |
|---|-------|-------|---------|-------|
|   | 2020  | 2019  | 2020    | 2019  |
| Cash at bank and in hand  | 1,261 | 1,243 | 1,195   | 1,143 |
| Short-term deposits falling due within three months                 | -     | 15    | -       | 15    |
| Cash and cash equivalents   | 1,261 | 1,258 | 1,195   | 1,158 |
| Other current interest-bearing deposits maturing after three months | -     | 1,330 | -       | 1,330 |

Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the money market rates at the time the deposits are made. The fair value of cash and cash equivalents is £1,261 million for the Group (2019: £1,258 million) and £1,195 million for the Company (2019: £1,158 million).

At 31 December 2020, the Group and Company had no outstanding bank overdrafts (2019: £nil).

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

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

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

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

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

|  | Group                     |                            |            |                    |                              |                             |
|--|---------------------------|----------------------------|------------|--------------------|------------------------------|-----------------------------|
|  | Balance at 1 January 2019 | IFRS16 Opening adjustments | Cash flows | Exchange movements | New leases and modifications | Balance at 31 December 2019 |
| Bank, other loans and asset financed liabilities | (318)                     | -                          | (355)      | 42                 | -                            | (663)                       |
| Lease liabilities                                | (4,108)                   | (1,891)                    | 669        | 246                | (556)                        | (5,647)                     |
| Liabilities from financing activities            | (4,426)                   | (1,891)                    | 314        | 288                | (556)                        | (6,310)                     |
| Cash and cash equivalents                        | 1,327                     | -                          | (76)       | 7                  | -                            | 1,258                       |
| Other current-interest bearing deposits          | 1,175                     | -                          | 155        | -                  | -                            | 1,330                       |
| Net debt   | (1,924)                   | (1,891)                    | 393        | 295                | (556)                        | (3,722)                     |

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

|  | Company                   |                            |            |                    |                              |                             |
|--|---------------------------|----------------------------|------------|--------------------|------------------------------|-----------------------------|
|  | Balance at 1 January 2019 | IFRS16 Opening adjustments | Cash flows | Exchange movements | New leases and modifications | Balance at 31 December 2019 |
| Bank, other loans and asset financed liabilities | (314)                     | -                          | (359)      | 42                 | -                            | (663)                       |
| Lease liabilities                                | (4,115)                   | (1,860)                    | 661        | 244                | (539)                        | (5,615)                     |
| Liabilities from financing activities            | (4,429)                   | (1,860)                    | 302        | 286                | (539)                        | (6,278)                     |
| Cash and cash equivalents                        | 1,249                     | -                          | (97)       | 6                  | -                            | 1,158                       |
| Other current-interest bearing deposits          | 1,175                     | -                          | 155        | -                  | -                            | 1,330                       |
| Net debt   | (2,005)                   | (1,860)                    | 360        | 292                | (539)                        | (3,790)                     |

Net debt is calculated as total cash and cash equivalents and current interest bearing deposits less total interest bearing borrowings. Proceeds from and repayment of bank, other loans and asset financed liabilities are shown net under Cash flows.

## 20 Trade and other payables and deferred revenue on ticket sales

### a Trade and other payables

| £ million                            | Group        |              | Company      |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | 2020         | 2019         | 2020         | 2019         |
| Trade creditors                      | 871          | 1,396        | 833          | 1,332        |
| Amounts owed to subsidiary companies | -            | -            | 430          | 423          |
| Other creditors                      | 314          | 580          | 314          | 579          |
| Other taxation and social security   | 31           | 33           | 25           | 33           |
| Accruals and deferred income         | 27           | 95           | 14           | 78           |
| <b>As at 31 December</b>             | <b>1,243</b> | <b>2,104</b> | <b>1,616</b> | <b>2,445</b> |

### b Deferred revenue on ticket sales

| £ million   | Group            |                              |              | Company          |                              |              |
|---|------------------|------------------------------|--------------|------------------|------------------------------|--------------|
|   | Customer loyalty | Sales in advance of carriage | 2020         | Customer loyalty | Sales in advance of carriage | 2020         |
| As at 1 January                                     | 43               | 2,891                        | 2,934        | 43               | 2,926                        | 2,969        |
| Revenue recognised in income statement <sup>1</sup> | (25)             | (3,079)                      | (3,104)      | (25)             | (2,927)                      | (2,952)      |
| Loyalty points issued to customers                  | 18               | -                            | 18           | 18               | -                            | 18           |
| Cash received from customers <sup>2</sup>           | -                | 2,581                        | 2,581        | -                | 2,403                        | 2,403        |
| <b>As at 31 December</b>                            | <b>36</b>        | <b>2,393</b>                 | <b>2,429</b> | <b>36</b>        | <b>2,402</b>                 | <b>2,438</b> |

| £ million   | Group            |                              |              | Company          |                              |              |
|---|------------------|------------------------------|--------------|------------------|------------------------------|--------------|
|   | Customer loyalty | Sales in advance of carriage | 2019         | Customer loyalty | Sales in advance of carriage | 2019         |
| As at 1 January                                       | 61               | 2,746                        | 2,807        | 57               | 2,767                        | 2,824        |
| Revenue recognised in income statement <sup>1,2</sup> | (49)             | (11,965)                     | (12,014)     | (45)             | (11,008)                     | (11,053)     |
| Loyalty points issued to customers                    | 31               | -                            | 31           | 31               | -                            | 31           |
| Cash received from customers                          | -                | 12,110                       | 12,110       | -                | 11,167                       | 11,167       |
| <b>As at 31 December</b>                              | <b>43</b>        | <b>2,891</b>                 | <b>2,934</b> | <b>43</b>        | <b>2,926</b>                 | <b>2,969</b> |

<sup>1</sup>Where the Group acts as an agent in the provision of redemption products and services to customers through loyalty programmes, or in the provision of interline flights to passengers, revenue is recognised in the income statement net of the related costs. Included within revenue recognised in the income statement is an amount of £1,009 million (2019: £2,787 million) previously held as deferred revenue at the end of the comparative reporting period.

<sup>2</sup>Cash received from customers is net of refunds.

## 21 Other non-current liabilities

| £ million                 | Group     |           | Company   |           |
|---------------------------|-----------|-----------|-----------|-----------|
|                           | 2020      | 2019      | 2020      | 2019      |
| Accruals                  | 14        | 5         | 14        | 5         |
| Deferred income           | 15        | 24        | 13        | 13        |
| Other non-trade creditors | 40        | -         | 40        | -         |
| <b>As at 31 December</b>  | <b>69</b> | <b>29</b> | <b>67</b> | <b>18</b> |

## 22 Long-term borrowings

| £ million                                | Group        |              | Company      |              |
|--|--------------|--------------|--------------|--------------|
|  | 2020         | 2019         | 2020         | 2019         |
| <b>a Current</b>                         |              |              |              |              |
| Bank and other loans                     | 358          | 46           | 358          | 46           |
| Other financing liabilities <sup>1</sup> | 33           | -            | 33           | -            |
| Asset financed liabilities               | 74           | 17           | 74           | 17           |
| Lease liabilities                        | 845          | 869          | 829          | 855          |
| <b>As at 31 December</b>                 | <b>1,310</b> | <b>932</b>   | <b>1,294</b> | <b>918</b>   |
| <b>b Non-current</b>                     |              |              |              |              |
| Bank and other loans                     | 1,714        | 239          | 1,714        | 239          |
| Asset financed liabilities               | 1,117        | 361          | 1,117        | 361          |
| Lease liabilities                        | 4,646        | 4,778        | 4,613        | 4,760        |
| <b>As at 31 December</b>                 | <b>7,477</b> | <b>5,378</b> | <b>7,444</b> | <b>5,360</b> |

<sup>1</sup>Other financing liabilities include sale and repurchase agreements entered into during the course of 2020 with regard to emission allowances and represents the amount the Group is expected to repurchase during the course of 2021.

Bank and other loans are repayable up to 2027. Long-term borrowings of the Group and Company amounting to £1,394 million (2019: £603 million) are secured on fleet assets with a net book value of £1,774 million (2019: £677 million) (note 11). Asset financed liabilities are all secured on the associated aircraft.

On 30 March 2020, the secured US dollar Revolving Credit Facility was extended for one year from 23 June 2020 to 23 June 2021. The amount available under the extended facility was £584 million (\$786 million) as at 31 December 2020.

In April 2020 British Airways issued commercial paper to the government of the United Kingdom under the Coronavirus Corporate Finance Facility ('CCFF') of which £300 million is repayable in April 2021.

In May 2020, British Airways entered into a syndicated mortgage loan of £606 million (\$750 million), secured on specific aircraft. The loan was repaid in December 2020.

In September 2020, British Airways entered into a floating rate sterling loan agreement with Avios Group (AGL) Limited, a fellow group undertaking, for £250 million. The loan was repaid in December 2020.

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

In November 2020, British Airways entered into an asset-financing structure, under which nine aircraft were sold and leased back by 31 December 2020, with a further five aircraft expected to be sold and leased backed in 2021. These transactions mature between 2028 and 2032. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2020-1, commonly referred to as Enhanced Equipment Trust Certificates ('EETCs'). A total of \$1,005 million was raised to finance all 14 aircraft.

In the third quarter of 2019, British Airways entered into an asset-financing structure, under which eight aircraft were sold and leased back, with the transactions maturing between 2029 and 2034. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2019-1. Three of the aircraft were sold and leased back in 2019 and the remaining five aircraft were sold and leased back in 2020. A total of \$1,120 million was raised to finance all eight aircraft.

As at 31 December 2020, the cumulative Asset financed liabilities associated with transactions with unconsolidated structured entities having issued EETCs was £1,191 million (2019: £378 million).

## 22 Long-term borrowings continued

### c Bank and other loans

Bank and other loans comprise the following:

| £ million   | Group        |            | Company      |            |
|---|--------------|------------|--------------|------------|
|   | 2020         | 2019       | 2020         | 2019       |
| Floating rate euro mortgage loans secured on aircraft (i)       | 180          | 191        | 180          | 191        |
| Floating rate unsecured euro loans (ii)                         | 1,482        | -          | 1,482        | -          |
| Fixed rate pound sterling unsecured loans (iii)                 | 299          | -          | 299          | -          |
| Fixed rate Chinese yuan mortgage loans secured on aircraft (iv) | 23           | 34         | 23           | 34         |
| Fixed rate unsecured US dollar loans (v)                        | 88           | 60         | 88           | 60         |
|   | 2,072        | 285        | 2,072        | 285        |
| Less: current instalments due on bank and other loans           | 358          | 46         | 358          | 46         |
| <b>Non-current bank and other loans as at 31 December</b>       | <b>1,714</b> | <b>239</b> | <b>1,714</b> | <b>239</b> |

(i) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.04 per cent and 1.01 per cent. The loans are repayable between 2024 and 2027.

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

(iii) Fixed rate unsecured pound sterling bearing interest of 0.70 per cent and is repayable in April 2021.

(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 unsecured US dollar loans bearing interest between 1.38 per cent and 2.86 per cent. The loans are repayable between 2023 and 2026.

### d Total loans, lease liabilities and asset financed liabilities

| Million                           | Group        |              | Company      |              |
|-----------------------------------|--------------|--------------|--------------|--------------|
|                                   | 2020         | 2019         | 2020         | 2019         |
| <b>Loans:</b>                     |              |              |              |              |
| Bank:                             |              |              |              |              |
| US dollar                         | \$121        | \$79         | \$121        | \$79         |
| Euro                              | €1,867       | €225         | €1,867       | €225         |
| Chinese yuan                      | ¥201         | ¥314         | ¥201         | ¥314         |
| Pound sterling                    | £299         | -            | £299         | -            |
| Pound sterling                    | 2,072        | 285          | 2,072        | 285          |
| <b>Lease liabilities</b>          |              |              |              |              |
| US dollar                         | \$4,557      | \$4,528      | \$4,499      | \$4,498      |
| Euro                              | €1,146       | €1,326       | €1,146       | €1,326       |
| Japanese yen                      | ¥71,807      | ¥75,093      | ¥71,807      | ¥75,093      |
| Pound sterling                    | £604         | £593         | £600         | £584         |
| Pound sterling                    | 5,491        | 5,647        | 5,442        | 5,615        |
| <b>Asset financed liabilities</b> |              |              |              |              |
| US dollar                         | \$1,630      | \$498        | \$1,630      | \$498        |
| Pound sterling                    | 1,191        | 378          | 1,191        | 378          |
| <b>As at 31 December</b>          | <b>8,754</b> | <b>6,310</b> | <b>8,705</b> | <b>6,278</b> |

## 23 Provisions

|                                     |                          |               |              |           | Group      |
|-------------------------------------|--------------------------|---------------|--------------|-----------|------------|
| £ million                           | Restoration and handback | Restructuring | Legal claims | Other     | Total      |
| Balance as at 1 January 2020        | 445                      | 62            | 37           | 52        | 596        |
| Provisions recorded during the year | 111                      | 235           | 21           | 14        | 381        |
| Reclassifications                   | -                        | -             | (20)         | -         | (20)       |
| Utilised during the year            | (5)                      | (229)         | (6)          | (16)      | (256)      |
| Release of unused amounts           | (105)                    | (16)          | -            | (2)       | (123)      |
| Exchange differences                | (5)                      | -             | -            | -         | (5)        |
| Unwinding of discount               | 1                        | -             | -            | -         | 1          |
| <b>As at 31 December 2020</b>       | <b>442</b>               | <b>52</b>     | <b>32</b>    | <b>48</b> | <b>574</b> |
| Analysis:                           |                          |               |              |           |            |
| Current                             | 119                      | 52            | 27           | 32        | 230        |
| Non-current                         | 323                      | -             | 5            | 16        | 344        |
|                                     | <b>442</b>               | <b>52</b>     | <b>32</b>    | <b>48</b> | <b>574</b> |

|                                     |                          |               |              |           | Company    |
|-------------------------------------|--------------------------|---------------|--------------|-----------|------------|
| £ million                           | Restoration and handback | Restructuring | Legal claims | Other     | Total      |
| Balance as at 1 January 2020        | 409                      | 62            | 37           | 46        | 554        |
| Provisions recorded during the year | 107                      | 227           | 21           | 14        | 369        |
| Reclassifications                   | -                        | -             | (20)         | -         | (20)       |
| Utilised during the year            | (2)                      | (222)         | (6)          | (14)      | (244)      |
| Release of unused amounts           | (100)                    | (15)          | -            | -         | (115)      |
| Exchange differences                | (4)                      | -             | -            | -         | (4)        |
| Unwinding of discount               | 1                        | -             | -            | -         | 1          |
| <b>As at 31 December 2020</b>       | <b>411</b>               | <b>52</b>     | <b>32</b>    | <b>46</b> | <b>541</b> |
| Analysis:                           |                          |               |              |           |            |
| Current                             | 117                      | 52            | 26           | 30        | 225        |
| Non-current                         | 294                      | -             | 6            | 16        | 316        |
|                                     | <b>411</b>               | <b>52</b>     | <b>32</b>    | <b>46</b> | <b>541</b> |

Reclassifications from Legal claims provisions include an amount of £20 million related to the theft of customer data in 2018, which following the issue of the fine by the ICO on 16 October 2020 has been reclassified to Other creditors.

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft, including those of right of use. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provisions relate to leases up to 2032.

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans. The costs associated with these programmes were incurred from 2016 to 2020 and the payments will be made over the next 12 months.

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 and the Cargo claims concluded in 2019.

Other provisions include a provision for the EU Emissions Trading Scheme that represents the excess of BA's CO<sub>2</sub> emitted on a flight within the EU in excess of the EU Emission Allowances granted. The provision also consists of staff leaving indemnities that were set up based on Collective Labour Agreements or local jurisdiction regulations.

## 24 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 Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial market movements.

The IAG Treasury department is responsible for the oversight of financial risk management. Fuel price fluctuations, sterling-euro and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other foreign exchange currencies and interest rate risks are also the subject of the Financial Risk Management. The IAG Audit and Compliance Committee approves the Group hedging profile and delegates to the British Airways' Risk Committee to agree on the degree of flexibility in applying the approved hedging levels. The British Airways Risk Committee meets at least once a month to review and approve a mandate to place hedging cover in the market including the instruments to be used.

The IAG Treasury department provides a bi-annual report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee.

### 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 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                          |   |                               |  |   |                               |
|--|---|-------------------------------|--|---|-------------------------------|
| 2020                                       |   |                               | 2019                                       |   |                               |
| Increase/(decrease) in fuel price per cent | Effect on (loss)/profit before tax<br>£ million | Effect on equity<br>£ million | Increase/(decrease) in fuel price per cent | Effect on (loss)/profit before tax<br>£ million | Effect on equity<br>£ million |
|  | Increase/(decrease)                             | Increase/(decrease)           |  | Increase/(decrease)                             | Increase/(decrease)           |
| 30   | 90  | 253                           | 30   | -   | 918                           |
| (30)                                       | (107)   | (317)                         | (30)                                       | -   | (943)                         |

During the year ended 31 December 2020, following a substantial fall in the global price of crude oil and associated products, the fair value of such fuel derivative instruments was a £381 million liability at 31 December 2020, representing an adverse movement from 1 January 2020 of £328 million. In addition, with the substantial decline in demand for air travel and the grounding of the majority of the fleet from the second quarter of 2020, a significant proportion of the associated hedge relationships were no longer expected to occur and subsequently fuel hedge relationships were discontinued. As a result of this discontinuance, £886 million of the losses were recorded in the Consolidated income statement and recognised within Fuel, oil costs and emission costs.

The loss arising from the de-designation of fuel hedge relationships has been recorded as an exceptional item. Refer to note 4 for further details.

### b Foreign currency risk

The Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than sterling. The currencies in which these transactions are primarily denominated are US dollar and euro. The Group 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, US dollar capital expenditure commitment, US dollar denominated debt 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 strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years of the operating exposures, a proportion of the committed US dollar capital expenditure and the translation risk on US dollar denominated debt, within certain defined limits.

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

## 24 Financial risk management objectives and policies continued

### b Foreign currency risk continued

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

| Group and Company | Strengthening/<br>(weakening)<br>in US dollar rate<br>per cent | Effect on<br>(loss)/profit<br>before tax<br>£ million | Effect on<br>equity<br>£ million | Strengthening/<br>(weakening)<br>in euro rate<br>per cent | Effect on<br>(loss)/profit<br>before tax<br>£ million | Effect on<br>equity<br>£ million | Strengthening/<br>(weakening)<br>in yen rate<br>per cent | Effect on<br>(loss)/profit<br>before tax<br>£ million | Effect on<br>equity<br>£ million |
|-------------------|--|---|----------------------------------|---|---|----------------------------------|--|---|----------------------------------|
|                   | Increase<br>/(decrease)  | Increase<br>/(decrease)                               | Increase<br>/(decrease)          | Increase<br>/(decrease)                                   | Increase<br>/(decrease)                               | (Decrease)<br>/increase          | Increase<br>/(decrease)                                  | (Decrease)/<br>increase                               | (Decrease)<br>/increase          |
| 2020              | 10<br>(10)   | 55<br>(63)  | 125<br>(173)                     | 10<br>(10)  | 8<br>(8)  | (138)<br>138                     | 10<br>(10)   | (14)<br>14  | (38)<br>38                       |
| 2019              | 10<br>(10)   | -<br>-  | 274<br>(322)                     | 10<br>(10)  | 15<br>(15)  | (152)<br>152                     | 10<br>(10)   | (3)<br>3  | (49)<br>49                       |

At 31 December 2020, the fair value of foreign currency derivatives instruments was a £245 million net liability, representing an adverse movement of £217 million, since 1 January 2020. As per the fuel price risk above, a significant proportion of the hedge relationships associated with foreign currency derivatives designated against fuel and revenue were no longer expected to occur and subsequently discontinued. As a result of this discontinuance, £49 million of the gains associated with the fuel foreign currency derivatives and £53 million of the losses associated with the revenue foreign currency derivatives were recorded in the Consolidated income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue, respectively.

The amounts arising from the de-designation of foreign currency hedge accounting has been recorded as an exceptional item. Refer to note 4 for further details.

### c Interest rate risk

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

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

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

| Group and Company | Strengthening/(weakening) in<br>USD LIBOR | Effect on profit before tax | Effect on equity    | Strengthening/(weakening) in<br>EURIBOR | Effect on profit before tax | Effect on equity    |
|-------------------|---|-----------------------------|---------------------|---|-----------------------------|---------------------|
|                   | Basis points                              | £ million                   | £ million           | Basis points                            | £ million                   | £ million           |
|                   | Increase/(decrease)                       | Increase/(decrease)         | Increase/(decrease) | Increase/(decrease)                     | (Decrease)/increase         | Increase/(decrease) |
| 2020              | 50  | -                           | -                   | 50                                      | (1)                         | 9                   |
|                   | (50)                                      | -                           | -                   | (50)                                    | 1                           | (7)                 |
| 2019              | 50  | -                           | 7                   | 50                                      | (2)                         | 12                  |
|                   | (50)                                      | -                           | (7)                 | (50)                                    | 2                           | (10)                |



## 24 Financial risk management objectives and policies continued

### d Counterparty risk

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

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

Credit risks arising from the Company acting as guarantor are disclosed in note 30.

### e Liquidity risk

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

At 31 December 2020 the Group and Company had unused overdraft facilities of £11 million (2019: £12 million).

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

| Million   | 31 December 2020 |              |
|---|------------------|--------------|
|   | Currency         | £ equivalent |
| US dollar facility expiring July 2023 <sup>1</sup>  | \$658            | 489          |
| US dollar facility expiring June 2021 <sup>2</sup>  | \$786            | 584          |
| US dollar facility expiring March 2021 <sup>3</sup> | \$428            | 318          |

<sup>1</sup>The aircraft facilities maturing in 2023 (2019: maturing in 2021) are available for specific committed aircraft deliveries.

<sup>2</sup>The secured US dollar Revolving Credit Facility can be drawn at any time at the discretion of the Group subject to the provision of three business days notice of the intended utilisation.

<sup>3</sup>The undrawn part of the EETC aircraft financing facility raised in November 2020 to finance 14 aircraft. Refer to note 22b for further information.

| Million                                   | 31 December 2019 |              |
|---|------------------|--------------|
|   | Currency         | £ equivalent |
| US dollar facility expiring December 2021 | \$652            | 496          |
| US dollar facility expiring June 2020     | \$1,330          | 1,013        |

## 24 Financial risk management objectives and policies continued

### e Liquidity risk continued

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

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

|   | Group             |                               |                           |                            |                      |            |
|---|-------------------|-------------------------------|---------------------------|----------------------------|----------------------|------------|
| £ million                                       | Within six months | Between six and twelve months | Between one and two years | Between two and five years | More than five years | Total 2019 |
| Interest-bearing loans and borrowings:          |                   |                               |                           |                            |                      |            |
| Asset financing liabilities                     | (14)              | (14)                          | (29)                      | (87)                       | (323)                | (467)      |
| Lease liabilities                               | (534)             | (437)                         | (829)                     | (2,302)                    | (3,804)              | (7,906)    |
| Fixed rate borrowings                           | (13)              | (13)                          | (26)                      | (36)                       | (14)                 | (102)      |
| Floating rate borrowings                        | (11)              | (14)                          | (25)                      | (93)                       | (57)                 | (200)      |
| Trade and other payables                        | (2,057)           | -                             | (5)                       | -                          | -                    | (2,062)    |
| Derivative financial instruments (assets):      |                   |                               |                           |                            |                      |            |
| Foreign exchange contracts (asset)              | 31                | 23                            | 35                        | 19                         | -                    | 108        |
| Fuel derivatives (asset)                        | 29                | 8                             | 5                         | 1                          | -                    | 43         |
| Interest rate swap (asset)                      | -                 | -                             | -                         | 1                          | -                    | 1          |
| Derivative financial instruments (liabilities): |                   |                               |                           |                            |                      |            |
| Forward currency contracts (liability)          | (18)              | (20)                          | (32)                      | (68)                       | -                    | (138)      |
| Fuel derivatives (liability)                    | (22)              | (31)                          | (39)                      | (4)                        | -                    | (96)       |
| Interest rate swap (liability)                  | (4)               | (11)                          | (6)                       | (9)                        | (1)                  | (31)       |
| As at 31 December                               | (2,613)           | (509)                         | (951)                     | (2,578)                    | (4,199)              | (10,850)   |

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

| £ million                                       |                   |                               |                           |                            |                      | Total 2019      |
|---|-------------------|-------------------------------|---------------------------|----------------------------|----------------------|-----------------|
|   | 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:          |                   |                               |                           |                            |                      |                 |
| Asset financed liabilities                      | (14)              | (14)                          | (29)                      | (87)                       | (323)                | (467)           |
| Lease liabilities                               | (525)             | (436)                         | (820)                     | (2,346)                    | (3,746)              | (7,873)         |
| Fixed rate borrowings                           | (13)              | (13)                          | (26)                      | (35)                       | (14)                 | (101)           |
| Floating rate borrowings                        | (11)              | (14)                          | (25)                      | (94)                       | (57)                 | (201)           |
| Trade and other payables                        | (2,400)           | -                             | (5)                       | -                          | -                    | (2,405)         |
| Derivative financial instruments (assets):      |                   |                               |                           |                            |                      |                 |
| Foreign exchange contracts (asset)              | 34                | 25                            | 35                        | 20                         | -                    | 114             |
| Fuel derivatives (asset)                        | 29                | 8                             | 5                         | 1                          | -                    | 43              |
| Interest rate swap (asset)                      | -                 | -                             | -                         | 1                          | -                    | 1               |
| Derivative financial instruments (liabilities): |                   |                               |                           |                            |                      |                 |
| Forward currency contracts (liability)          | (18)              | (21)                          | (33)                      | (68)                       | -                    | (140)           |
| Fuel derivatives (liability)                    | (22)              | (31)                          | (39)                      | (4)                        | -                    | (96)            |
| Interest rate swap (liability)                  | (4)               | (11)                          | (6)                       | (9)                        | (1)                  | (31)            |
| <b>As at 31 December</b>                        | <b>(2,944)</b>    | <b>(507)</b>                  | <b>(943)</b>              | <b>(2,621)</b>             | <b>(4,141)</b>       | <b>(11,156)</b> |

## 24 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 <sup>1</sup> | Net amounts of financial instruments in the balance sheet | Related financial instruments that are not offset | Net amount |
| <b>31 December 2020</b>          |                                      |   |   |   |            |
| <b>Financial assets</b>          |                                      |   |   |   |            |
| Derivative financial assets      | 73                                   | (1)   | 72  | (9)   | 63         |
| <b>Financial liabilities</b>     |                                      |   |   |   |            |
| Derivative financial liabilities | (746)                                | 26  | (720)   | 9   | (711)      |

<sup>1</sup>The Group has pledged cash and cash equivalents as collateral against certain of its derivative financial liabilities. As at 31 December 2020, the Group recognised £25 million of collateral (2019: nil) offset under netting arrangements.

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

| £ 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 |
| <b>31 December 2019</b>          |                                      |  |   |   |            |
| <b>Financial assets</b>          |                                      |  |   |   |            |
| Derivative financial assets      | 186                                  | (36)   | 150   | (7)   | 143        |
| <b>Financial liabilities</b>     |                                      |  |   |   |            |
| Derivative financial liabilities | (297)                                | 36   | (261)   | 7   | (254)      |

Within the Company the gross value of derivative financial assets was £192 million and the net value was £156 million. The gross value of derivative financial liabilities was £299 million and the net value was £264 million. The value of related financial instruments that are not offset was £8 million.

### g Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the net debt/total capital ratio which was 82.8 per cent (2019: 39.1 per cent). Net debt is defined as the total borrowings, asset financing liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts and total capital is defined as the total of share capital and share premium (see note 26), reserves (see note 28a) and net debt (see note 19b).

## 25 Financial instruments

### a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2020 and 31 December 2019 by nature and classification for measurement purposes was as follows:

| At 31 December 2020                           | Financial assets |                        |                                     | Group                |                       |
|---|------------------|------------------------|-------------------------------------|----------------------|-----------------------|
|   | Amortised cost   | Fair value through OCI | Fair value through income statement | Non-financial assets | Total carrying amount |
| £ million                                     |                  |                        |                                     |                      |                       |
| <b>Non-current financial assets</b>           |                  |                        |                                     |                      |                       |
| Equity investments                            | -                | 2                      | -                                   | -                    | 2                     |
| Derivative financial instruments <sup>1</sup> | -                | -                      | 20                                  | -                    | 20                    |
| Other non-current assets <sup>2</sup>         | 94               | -                      | -                                   | 80                   | 174                   |
| <b>Current financial assets</b>               |                  |                        |                                     |                      |                       |
| Trade receivables                             | 356              | -                      | -                                   | -                    | 356                   |
| Derivative financial instruments <sup>1</sup> | -                | -                      | 52                                  | -                    | 52                    |
| Other current assets <sup>2</sup>             | 86               | -                      | -                                   | 265                  | 351                   |
| Cash and cash equivalents                     | 1,261            | -                      | -                                   | -                    | 1,261                 |

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

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

|   | Financial liabilities |                        |                                     | Group                     |                       |
|---|-----------------------|------------------------|-------------------------------------|---------------------------|-----------------------|
|   | Amortised cost        | Fair value through OCI | Fair value through income statement | Non-financial liabilities | Total carrying amount |
| £ million                                     |                       |                        |                                     |                           |                       |
| <b>Non-current financial liabilities</b>      |                       |                        |                                     |                           |                       |
| Borrowings                                    | 2,831                 | -                      | -                                   | -                         | 2,831                 |
| Lease liabilities                             | 4,646                 | -                      | -                                   | -                         | 4,646                 |
| Derivative financial instruments <sup>1</sup> | -                     | -                      | 168                                 | -                         | 168                   |
| Other long-term liabilities <sup>2</sup>      | 54                    | -                      | -                                   | 15                        | 69                    |
| <b>Current financial liabilities</b>          |                       |                        |                                     |                           |                       |
| Borrowings                                    | 465                   | -                      | -                                   | -                         | 465                   |
| Lease liabilities                             | 845                   | -                      | -                                   | -                         | 845                   |
| Trade and other payables <sup>2</sup>         | 1,206                 | -                      | -                                   | 37                        | 1,243                 |
| Derivative financial instruments <sup>1</sup> | -                     | -                      | 552                                 | -                         | 552                   |

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

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

## 25 Financial instruments continued

### a Financial assets and liabilities by category continued

| At 31 December 2019                           | Financial assets |                        |                                     | Group                |                       |
|---|------------------|------------------------|-------------------------------------|----------------------|-----------------------|
|   | Amortised cost   | Fair value through OCI | Fair value through income statement | Non-financial assets | Total carrying amount |
| £ million                                     |                  |                        |                                     |                      |                       |
| <b>Non-current financial assets</b>           |                  |                        |                                     |                      |                       |
| Equity investments                            | -                | 49                     | -                                   | -                    | 49                    |
| Derivative financial instruments <sup>1</sup> | -                | -                      | 59                                  | -                    | 59                    |
| Other non-current assets <sup>2</sup>         | 95               | -                      | -                                   | 96                   | 191                   |
| <b>Current financial assets</b>               |                  |                        |                                     |                      |                       |
| Trade receivables                             | 1,202            | -                      | -                                   | -                    | 1,202                 |
| Derivative financial instruments <sup>1</sup> | -                | -                      | 91                                  | -                    | 91                    |
| Other current assets <sup>2</sup>             | 201              | -                      | -                                   | 482                  | 683                   |
| Other current interest-bearing deposits       | 1,330            | -                      | -                                   | -                    | 1,330                 |
| Cash and cash equivalents                     | 1,258            | -                      | -                                   | -                    | 1,258                 |

<sup>1</sup>Within the Company, non-current derivative financial instrument assets are £60 million and current derivative financial instrument assets are £96 million.

<sup>2</sup>Within the Company, total other non-current assets are £190 million, of which loans and receivables (amortised cost) are £94 million and non-financial assets are £96 million. Total other current assets in the Company are £716 million, of which loans and receivables (amortised cost) are £254 million and non-financial assets are £462 million.

|  | Financial liabilities |                        |                                     | Group                     |                       |
|--|-----------------------|------------------------|-------------------------------------|---------------------------|-----------------------|
|  | Amortised cost        | Fair value through OCI | Fair value through income statement | Non-financial liabilities | Total carrying amount |
| £ million                                |                       |                        |                                     |                           |                       |
| <b>Non-current financial liabilities</b> |                       |                        |                                     |                           |                       |
| Interest-bearing long-term borrowings    | 600                   | -                      | -                                   | -                         | 600                   |
| Lease liabilities                        | 4,778                 | -                      | -                                   | -                         | 4,778                 |
| Derivative financial instruments         | -                     | -                      | 156                                 | -                         | 156                   |
| Other long-term liabilities <sup>1</sup> | 5                     | -                      | -                                   | 24                        | 29                    |
| <b>Current financial liabilities</b>     |                       |                        |                                     |                           |                       |
| Current portion of long-term borrowings  | 63                    | -                      | -                                   | -                         | 63                    |
| Lease liabilities                        | 869                   | -                      | -                                   | -                         | 869                   |
| Trade and other payables <sup>1</sup>    | 2,057                 | -                      | -                                   | 47                        | 2,104                 |
| Derivative financial instruments         | -                     | -                      | 105                                 | -                         | 105                   |

<sup>1</sup>Within the Company, non-current derivative financial instrument liabilities are £157 million and current derivative financial instrument liabilities are £107 million.

<sup>2</sup>Within the Company, total other long-term liabilities are £18 million, of which loans and payables (amortised cost) are £5 million and non-financial liabilities are £13 million. Total trade and other payables in the Company are £2,445 million, of which loans and payables (amortised cost) are £2,400 million and non-financial liabilities are £45 million.

## 25 Financial instruments continued

### b Fair values of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values and using the following methods and assumptions:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis. Level 1 methodologies (market values at balance sheet date) were used to determine the fair value of listed asset investments classified as equity investments and listed interest-bearing borrowings.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Derivative instruments are measured based on market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. The fair value of the Group's interest-bearing borrowings including leases is determined in discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date; and

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

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

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

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

## 25 Financial instruments continued

### b Fair values of financial assets and financial liabilities continued

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2019 are set out below:

| £ million                                     |         |         |         | Group      |                |
|---|---------|---------|---------|------------|----------------|
|   |         |         |         | Fair value | Carrying value |
|   | Level 1 | Level 2 | Level 3 | Total      | Total          |
| <b>Financial assets:</b>                      |         |         |         |            |                |
| Equity investment <sup>1</sup>                | 9       | -       | 40      | 49         | 49             |
| Amounts owed by associated group undertakings | -       | 112     | -       | 112        | 104            |
| Forward currency contracts                    | -       | 107     | -       | 107        | 107            |
| Fuel derivatives                              | -       | 42      | -       | 42         | 42             |
| Interest rate swaps                           | -       | 1       | -       | 1          | 1              |
| <b>Financial liabilities:</b>                 |         |         |         |            |                |
| Interest-bearing loans and borrowings:        |         |         |         |            |                |
| Finance leases                                | -       | 402     | -       | 402        | 378            |
| Fixed rate borrowings                         | -       | 98      | -       | 98         | 94             |
| Floating rate borrowings                      | -       | 191     | -       | 191        | 191            |
| Forward currency contracts                    | -       | 135     | -       | 135        | 135            |
| Fuel derivatives                              | -       | -       | -       | 95         | 95             |
| Interest rate swaps                           | -       | 31      | -       | 31         | 31             |

<sup>1</sup>Within the Company, equity investments of £40 million are fair valued at £40 million (Level 3).

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

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

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

#### Equity investments

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

#### Amounts owed by parent and associated group undertakings

The fair value of the amounts owed by related parties are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2020.

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

These derivatives are entered into with various counterparties, 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.

#### Interest-bearing long term borrowings

The fair value of the Group's interest-bearing borrowings is determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2020 (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.



## 25 Financial instruments continued

### c Level 3 financial assets reconciliation

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

| £ million                          | Group    |           | Company  |           |
|------------------------------------|----------|-----------|----------|-----------|
|                                    | 2020     | 2019      | 2020     | 2019      |
| Balance at 1 January               | 40       | 40        | 40       | 40        |
| Fair value adjustment <sup>1</sup> | (38)     | -         | (38)     | -         |
| <b>As at 31 December</b>           | <b>2</b> | <b>40</b> | <b>2</b> | <b>40</b> |

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

### d Cash flow hedges

At 31 December 2020 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayment instalments in foreign currency, hedging foreign exchange risk on revenue cash inflows. Remeasurement gains and losses on the loans are recognised in equity and transferred to the income statement within revenue when the loan is repaid (generally in instalments over the life of the loan);
- Forward jet fuel and jet fuel component derivative contracts, hedging price risk on fuel cash outflows. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement within fuel, oil costs and emissions charges to match against the related fuel cash outflow. *Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the income statement within fuel, oil costs and emissions charges when the future transaction is no longer expected to occur;*
- Foreign exchange contracts; hedging foreign exchange risk on revenue cash inflows and certain operational receipts and payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement or balance sheet to match against the related cash inflow or outflow. *Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the income statement within revenue and fuel, oil costs and emissions charges when the future transaction is no longer expected to occur; and*
- Interest rate contracts; hedging interest rate risk on floating rate debt and certain operational payments.

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

| £ million  | Group         |               |
|--|---------------|---------------|
|  | Total<br>2020 | Total<br>2019 |
| Debt repayments to hedge future revenue                            | 203           | 128           |
| Foreign exchange contracts to hedge future revenue and expenditure | 116           | 32            |
| Hedges of future fuel purchases                                    | 152           | 46            |
| Interest rate hedges   | 23            | 32            |
| Instruments for which hedge accounting no longer applies           | 256           | 311           |
|  | <b>750</b>    | <b>549</b>    |
| Related deferred tax credit  | (143)         | (84)          |
| <b>Total amount included within equity</b>                         | <b>607</b>    | <b>465</b>    |

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

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

| Notional principal amounts<br>£ million                            | Hedge range | Group and Company |           |           |                   | Total<br>2019 |
|--|-------------|-------------------|-----------|-----------|-------------------|---------------|
|  |             | Within 1 year     | 1-2 years | 2-5 years | More than 5 years |               |
| Foreign exchange contracts to hedge future revenue and expenditure |             |                   |           |           |                   |               |
| USD  | 1.17-1.51   | 2,957             | 1,532     | 1,151     | -                 | 5,640         |
| EUR  | 1.08-1.16   | 231               | 86        | 39        | -                 | 356           |

## 25 Financial instruments continued

### d Cash flow hedges continued

Derivative contracts are used to hedge fuel purchases over a period of up to three years. Notional quantities associated with these contracts at 31 December 2020 amounted to 4 million tonnes (2019: 8 million tonnes) with a hedge price range of USD 584 - 941 (2019: USD 575 - 785).

The Group's loan repayment instalments used to hedge foreign currency risk on future revenue inflows were predominantly in euros and Japanese yen. The total notional amounts at 31 December 2020 were €1,327 million (2019: €1,530 million) and ¥52,994 million (2019: ¥69,754 million).

The notional amount of the Group's interest rate contracts to hedge the floating interest rate on euro-denominated debt at 31 December 2020 was €943 million (2019: €1,088 million).

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

#### As at 31 December 2020

| £ million  | Amounts recognised in other comprehensive income <sup>1</sup> | Amounts associated with ineffectiveness recognised in the income statement <sup>2</sup> | Discontinuance of hedge reclassified to the income statement | Total recognised losses | Other amounts reclassified to the income statement | Amounts reclassified to the balance sheet |
|--|---|---|--|-------------------------|--|---|
| Debt repayments to hedge future revenue                            | 110   | -   | (19)   | 91                      | (17)   | -   |
| Foreign exchange contracts to hedge future revenue and expenditure | 23  | -   | 41   | 64                      | 16   | 4   |
| Hedges of future fuel purchases                                    | 1,304   | -   | (940)  | 364                     | (258)  | -   |
| Interest rate hedges   | 27  | -   | -  | 27                      | (7)  | (29)                                      |
| Instruments for which hedge accounting no longer applies           | -   | -   | -  | -                       | (56)   | -   |
|  | 1,464   | -   | (918)  | 546                     | (322)  | (25)                                      |

<sup>1</sup>Amounts recognised in other comprehensive income represent losses on the hedging instruments.

<sup>2</sup>Ineffectiveness recognised in the income statement is presented within exceptional items.

#### As at 31 December 2019

| £ million  | (Gains)/losses recognised in other comprehensive income <sup>1</sup> | (Gains) associated with ineffectiveness recognised in the income statement <sup>2</sup> | Total recognised (gains)/losses | Gains/(losses) reclassified to the income statement | Gains reclassified to the balance sheet |
|--|--|---|---------------------------------|---|---|
| Debt repayments to hedge future revenue                            | (93)   | -   | (93)                            | (18)  | -                                       |
| Foreign exchange contracts to hedge future revenue and expenditure | 111  | -   | 111                             | 29  | 7                                       |
| Hedges of future fuel purchases                                    | (365)  | (4)   | (369)                           | (75)  | -                                       |
| Interest rate hedges   | 22   | -   | 22                              | (7)   | -                                       |
| Instruments for which hedge accounting no longer applies           | (33)   | -   | (33)                            | (48)  | -                                       |
|  | (358)  | (4)   | (362)                           | (119)   | 7                                       |

<sup>1</sup>Gains and losses recognised in other comprehensive income represent (gains) and losses on the hedging instruments.

<sup>2</sup>Ineffectiveness recognised in the income statement is presented as Realised gains on derivatives not qualifying for hedge accounting within non-operating items.

The losses/(gains) associated with the discontinuance of hedge accounting recognised in the income statement and the subsequent fair value movements of those derivative instruments recorded in the income statement as an exceptional item (see note 4) through to the earlier balance sheet date and the maturity date of the derivatives are set out below:

| £ million  | 2020       | 2019     |
|--|------------|----------|
| Losses associated with the discontinuance of hedge accounting recognised in the income statement | 927        | -        |
| Fair value movements subsequently recorded in the income statement                               | (37)       | -        |
| <b>Total effect of discontinuance of hedge accounting in the income statement</b>                | <b>890</b> | <b>-</b> |

The Group has no significant fair value hedges at 31 December 2020 and 2019.

### 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.

## 26 Share capital and share premium

|   | Group and Company        |            |                          |            |
|---|--------------------------|------------|--------------------------|------------|
|   | 2020                     |            | 2019                     |            |
|   | Number of<br>shares 000s | £ million  | Number of<br>shares 000s | £ million  |
| <b>Share capital allotted, called up and fully paid</b> |                          |            |                          |            |
| 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                      | -          |
| <b>As at 31 December</b>                                | <b>2,144</b>             | <b>290</b> | <b>2,144</b>             | <b>290</b> |

| £ million                       | Group and Company |       |
|---------------------------------|-------------------|-------|
|                                 | 2020              | 2019  |
| 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.

## 27 Share options

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

| £ million  | 2020       | 2019     |
|--|------------|----------|
| IPSP and IADP schemes (credited)/recharged from IAG                          | (1)        | 7        |
| <b>Total share-based payments (credit)/charge recorded in employee costs</b> | <b>(1)</b> | <b>7</b> |

### IPSP and IADP schemes recharged from IAG

BA participates in two IAG share-based payment schemes, with awards to BA employees being made in plans operated by IAG that represent rights over its ordinary shares. The costs of these awards are recharged from IAG based on its determination of award fair values. The amount outstanding at the year end is included in the amounts owed to IAG and disclosed in note 32 ('Related party transactions'). A brief description of the schemes is set out below:

#### i) IAG Performance Share Plan

The IAG Performance Share Plan ('PSP') is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. Since 2015, awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options can be exercised. All awards since 2015 have three independent performance measures with equal weighting: Total Shareholder Return ('TSR') relative to the STOXX Europe 600 Travel and Leisure Index (for 2020 awards) or MSCI European Transportation Index (for prior to 2020 awards), earnings per share, and Return on Invested Capital.

#### ii) IAG Incentive Award Deferral Plan

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

## 28 Other reserves

### a Group

|   | Group             |                             |                         |                      |         |
|---|-------------------|-----------------------------|-------------------------|----------------------|---------|
| £ million   | Retained earnings | Unrealised gains and losses | Cost of hedging reserve | Currency translation | Total   |
| Balance at 1 January 2019   | 4,621             | (794)                       | 17                      | 22                   | 3,865   |
| IFRS 16 transition adjustment   | (127)             | 7                           | (4)                     | -                    | (124)   |
| Balance at 1 January 2019   | 4,494             | (787)                       | 13                      | 22                   | 3,741   |
| Profit for the year   | 1,109             | -                           | -                       | -                    | 1,109   |
| Exchange loss   | -                 | -                           | -                       | (22)                 | (22)    |
| Fair value of cash flow hedges transferred to passenger revenue         | -                 | 54                          | 6                       | -                    | 60      |
| Fair value of cash flow hedges transferred to fuel and oil costs        | -                 | 36                          | (16)                    | -                    | 20      |
| Fair value of cash flow hedges transferred to finance costs             | -                 | 6                           | -                       | -                    | 6       |
| Net change in fair value of cash flow hedges                            | -                 | 293                         | 42                      | -                    | 335     |
| Share of movement in reserves of associates                             | 6                 | -                           | -                       | -                    | 6       |
| Equity investments - fair value movements in equity                     | -                 | (6)                         | -                       | -                    | (6)     |
| Capex hedges reclassified and reported in property, plant and equipment | -                 | (6)                         | (3)                     | -                    | (9)     |
| Pension remeasurements  | (651)             | -                           | -                       | -                    | (651)   |
| Dividends   | (585)             | -                           | -                       | -                    | (585)   |
| Total income and expense for the year                                   | (121)             | 377                         | 29                      | (22)                 | 264     |
| Balance at 1 January 2020   | 4,373             | (410)                       | 42                      | -                    | 4,005   |
| Loss for the year   | (3,489)           | -                           | -                       | -                    | (3,489) |
| Exchange gains  | -                 | -                           | -                       | 15                   | 15      |
| Fair value of cash flow hedges transferred to passenger revenue         | -                 | 51                          | 3                       | -                    | 54      |
| Fair value of cash flow hedges transferred to fuel and oil costs        | -                 | 204                         | (14)                    | -                    | 190     |
| Fair value of cash flow hedges transferred to finance costs             | -                 | 29                          | -                       | -                    | 29      |
| Derecognition of fuel hedges  | -                 | 743                         | 8                       | -                    | 751     |
| Net change in fair value of cash flow hedges                            | -                 | (1,174)                     | 12                      | -                    | (1,162) |
| Share of movement in reserves of associates                             | (12)              | -                           | -                       | -                    | (12)    |
| Equity investments - fair value movements in equity                     | -                 | (47)                        | -                       | -                    | (47)    |
| Capex hedges reclassified and reported in property, plant and equipment | -                 | (3)                         | (11)                    | -                    | (14)    |
| Pension remeasurements  | (554)             | -                           | -                       | -                    | (554)   |
| Cost of share based payments  | (1)               | -                           | -                       | -                    | (1)     |
| Total income and expense for the year                                   | (4,056)           | (197)                       | (2)                     | 15                   | (4,240) |
| As at 31 December 2020  | 317               | (607)                       | 40                      | 15                   | (235)   |

In 2020 the Group reviewed and amended the reporting of individual line items in other reserves to better reflect the nature of underlying transactions and improve comparability between reporting periods. As a result, for the year ended 31 December 2019, components of equity previously reported gross of tax have been reclassified to be reported net of tax. These reclassifications have not affected reported total other reserves for 2019.

#### Retained earnings

The retained earnings reserve represents the accumulated retained profits of the Group.

#### Unrealised gains and losses

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

#### 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.

## 28 Other reserves continued

### b Company

|   | Company           |                             |                         |             |
|---|-------------------|-----------------------------|-------------------------|-------------|
| £ million   | Retained earnings | Unrealised gains and losses | Cost of hedging reserve | Total       |
| Balance at 1 January 2019   | 5,282             | (813)                       | 17                      | 4,486       |
| IFRS 16 transition adjustment   | (128)             | 7                           | (4)                     | (125)       |
| Balance at 1 January 2019   | 5,154             | (806)                       | 13                      | 4,361       |
| Profit for the year   | 870               | -                           | -                       | 870         |
| Fair value of cash flow hedges transferred to passenger revenue         | -                 | 54                          | 6                       | 60          |
| Fair value of cash flow hedges transferred to fuel and oil costs        | -                 | 36                          | (16)                    | 20          |
| Fair value of cash flow hedges transferred to finance costs             | -                 | 6                           | -                       | 6           |
| Net change in fair value of cash flow hedges                            | -                 | 293                         | 42                      | 335         |
| Capex hedges reclassified and reported in property, plant and equipment | -                 | (6)                         | (3)                     | (9)         |
| Pension remeasurements  | (643)             | -                           | -                       | (643)       |
| Dividends   | (585)             | -                           | -                       | (585)       |
| Total income and expense for the year                                   | (358)             | 383                         | 29                      | 55          |
| Balance at 1 January 2020   | 4,796             | (423)                       | 42                      | 4,416       |
| Loss for the year   | (3,706)           | -                           | -                       | (3,706)     |
| Fair value of cash flow hedges transferred to passenger revenue         | -                 | 51                          | 3                       | 54          |
| Fair value of cash flow hedges transferred to fuel and oil costs        | -                 | 204                         | (14)                    | 190         |
| Fair value of cash flow hedges transferred to finance costs             | -                 | 29                          | -                       | 29          |
| Derecognition of fuel hedges  | -                 | 743                         | 8                       | 751         |
| Net change in fair value of cash flow hedges                            | -                 | (1,174)                     | 12                      | (1,162)     |
| Equity investments - fair value movements in equity                     | -                 | (39)                        | -                       | (39)        |
| Capex hedges reclassified and reported in property, plant and equipment | -                 | (3)                         | (11)                    | (14)        |
| Pension remeasurements  | (548)             | -                           | -                       | (548)       |
| Cost of share based payments  | (1)               | -                           | -                       | (1)         |
| Total income and expense for the year                                   | (4,255)           | (189)                       | (2)                     | (4,446)     |
| <b>As at 31 December 2020</b>   | <b>541</b>        | <b>(612)</b>                | <b>40</b>               | <b>(30)</b> |

See note 28a for a description of the reserves.

In 2020 the Company reviewed and amended the reporting of individual line items in other reserves to better reflect the nature of underlying transactions and improve comparability between reporting periods. As a result, for the year ended 31 December 2019, components of equity previously reported gross of tax have been reclassified to be reported net of tax. These reclassifications have not affected reported total other reserves for 2019.

## 29 Employee benefits

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

NAPS has been closed to new members since 2004 and was closed to future accrual from 31 March 2018. Members' deferred pensions are increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments following the 2021 valuation has been made in the valuation of the defined benefit obligation.

APS has been closed to new members since 1984. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment.

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

## 29 Employee benefits continued

Deficit payment plans (where required) are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. In October 2019, the latest deficit recovery plan was agreed as at 31 March 2018 with respect to NAPS (see note 29i below).

The actuarial valuations performed as at 31 March 2018 for APS and NAPS are different to the valuation performed as at 31 December 2020 under 'IAS 19: Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Company of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

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

The main defined contribution scheme is the British Airways Pension Plan ('BAPP'). It offers a choice of contribution rates and the ability to opt for cash instead of a pension.

On 18 December 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between 1 October 2020 and 31 January 2021. On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to extend the deferral of deficit contributions previously agreed in October 2019 on the 31 March 2018 valuation, through to 30 September 2021. Under this deferral agreement, the deferred payments will be incorporated into the future deficit payment plan and associated deficit contributions arising from the triennial valuation of the NAPS scheme as at 31 March 2021. If the future deficit payment plan has not been agreed by 30 September 2021, the default position is that British Airways will return to making payments of £38 million per month from October 2021.

### a Employee benefit schemes recognised on the balance sheet

| £ million  | As at 31 December 2020 |          |                    |          |
|--|------------------------|----------|--------------------|----------|
|  | APS                    | NAPS     | Other <sup>1</sup> | Total    |
| Scheme assets at fair value                      | 7,752                  | 20,196   | 369                | 28,317   |
| Present value of scheme liabilities <sup>1</sup> | (7,395)                | (20,115) | (646)              | (28,156) |
| Net pension asset/(liability)                    | 357                    | 81       | (277)              | 161      |
| Effect of the asset ceiling <sup>2</sup>         | (113)                  | (434)    | -                  | (547)    |
| Other employee benefit liabilities               | -                      | -        | (9)                | (9)      |
|  | 244                    | (353)    | (286)              | (395)    |
| Represented by                                   |                        |          |                    |          |
| Employee benefit assets                          |                        |          |                    | 256      |
| Employee benefit liabilities                     |                        |          |                    | (651)    |
|  |                        |          |                    | (395)    |

## 29 Employee benefits continued

### a Employee benefit schemes recognised on the balance sheet continued

| £ million  | As at 31 December 2019 <sup>3</sup> |          |                    |          |
|--|-------------------------------------|----------|--------------------|----------|
|  | APS                                 | NAPS     | Other <sup>1</sup> | Total    |
| Scheme assets at fair value                      | 7,475                               | 18,982   | 361                | 26,818   |
| Present value of scheme liabilities <sup>1</sup> | (7,112)                             | (18,327) | (617)              | (26,056) |
| Net pension asset/(liability)                    | 363                                 | 655      | (256)              | 762      |
| Effect of the asset ceiling <sup>2</sup>         | (108)                               | (717)    | -                  | (825)    |
| Other employee benefit liabilities               | -                                   | -        | (9)                | (9)      |
|  | 255                                 | (62)     | (265)              | (72)     |
| Represented by                                   |                                     |          |                    |          |
| Employee benefit assets                          |                                     |          |                    | 266      |
| Employee benefit liabilities                     |                                     |          |                    | (338)    |
|  |                                     |          |                    | (72)     |

<sup>1</sup>The present value of scheme liabilities for the US PRMB was £11 million at 31 December 2020 (£13 million as at 31 December 2019).

<sup>2</sup>APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

<sup>3</sup>Refer to note 2 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at 31 December 2019.

### b Pension costs charged to the consolidated income statement

Pension costs charged/(credited) to operating (loss)/profit before exceptional items:

| £ million                                       | 2020       | 2019       |
|---|------------|------------|
| Defined benefit plans current service cost      | 3          | 5          |
| Past service charge/(credit) <sup>1</sup>       | 6          | (6)        |
| Defined contribution plans                      | 136        | 163        |
| <b>Pension costs recorded as employee costs</b> | <b>145</b> | <b>162</b> |

<sup>1</sup>There was a £6m charge in 2020 due to GMP equalisation, £1m related to APS and £5m to NAPS. In 2019, there was a past service credit of £6m in the BA Holidays scheme.

Pension costs charged as exceptional items:

| £ million  | 2020     | 2019         |
|--|----------|--------------|
| APS discretionary pension increase settlement agreement <sup>1</sup> | -        | (583)        |
| <b>Net past service charge in exceptional items</b>                  | <b>-</b> | <b>(583)</b> |

<sup>1</sup>Please refer to note 4 for amounts recorded in exceptional items in 2019.

Pension costs credited as finance costs:

| £ million  | 2020     | 2019      |
|--|----------|-----------|
| Interest income on scheme assets                 | 530      | 681       |
| Interest expense on scheme liabilities           | (514)    | (624)     |
| Interest expense on asset ceiling                | (12)     | (34)      |
| <b>Net financing credit relating to pensions</b> | <b>4</b> | <b>23</b> |

## 29 Employee benefits continued

### c Remeasurements recognised in the statement of other comprehensive income

| £ million  | 2020         | 2019 <sup>1</sup> |
|--|--------------|-------------------|
| Return on plan assets excluding interest income gains                          | 2,071        | 1,662             |
| Remeasurement of plan liabilities from changes in financial assumptions losses | (3,289)      | (2,969)           |
| Remeasurement of experience gains/(losses)                                     | 321          | (168)             |
| Remeasurement of the APS and NAPS asset ceiling (note 29f)                     | 290          | 891               |
| Exchange differences gains   | 6            | 11                |
| <b>Pension remeasurements</b>  | <b>(601)</b> | <b>(573)</b>      |

<sup>1</sup>Refer to note 2 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at 31 December 2019.

### 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                                       | 2020          | 2019          |
|---|---------------|---------------|
| As at 1 January                                 | 26,818        | 24,843        |
| Interest income                                 | 530           | 681           |
| Return on plan assets excluding interest income | 2,071         | 1,662         |
| Employer contributions <sup>1</sup>             | 283           | 754           |
| Employee contributions                          | 12            | 5             |
| Benefits paid                                   | (1,395)       | (1,115)       |
| Exchange differences                            | (2)           | (12)          |
| <b>Fair value of scheme assets</b>              | <b>28,317</b> | <b>26,818</b> |

<sup>1</sup>Includes employer contributions to APS of £2 million (2019: £4 million) and to NAPS of £269 million (2019: £718 million), of which deficit funding payments represented £nil million for APS (2019: £nil million) and £263 million for NAPS (2019: £701 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 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.



## 29 Employee benefits continued

### d Fair value of scheme assets continued

Total scheme assets as at 31 December comprise:

| £ million                                    | 2020   | 2019   |
|--|--------|--------|
| <b>Return seeking investments – equities</b> |        |        |
| UK   | 1,330  | 1,955  |
| Overseas                                     | 4,273  | 4,041  |
|  | 5,603  | 5,996  |
| <b>Return seeking investments – other</b>    |        |        |
| Private equity                               | 964    | 876    |
| Property                                     | 1,633  | 1,807  |
| Alternative investments                      | 799    | 916    |
|  | 3,396  | 3,599  |
| <b>Liability matching investments</b>        |        |        |
| UK Fixed bonds                               | 6,237  | 5,380  |
| Overseas Fixed bonds                         | 84     | 79     |
| UK Index-Linked bonds                        | 5,914  | 5,305  |
| Overseas Index-Linked bonds                  | 10     | 101    |
|  | 12,245 | 10,865 |
| <b>Other</b>                                 |        |        |
| Cash and cash equivalents                    | 860    | 583    |
| Derivatives                                  | (207)  | (291)  |
| Insurance contract                           | 1,508  | 1,473  |
| Longevity swap                               | 4,017  | 3,849  |
| Other  | 895    | 744    |
|  | 28,317 | 26,818 |

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 2020 |        | As at 31 December 2019 |        |
|---|------------------------|--------|------------------------|--------|
|   | APS                    | NAPS   | APS                    | NAPS   |
| Return seeking investments                    | 125                    | 8,696  | 294                    | 9,180  |
| Liability matching investments                | 2,076                  | 10,073 | 1,606                  | 9,166  |
|   | 2,201                  | 18,769 | 1,900                  | 18,346 |
| Insurance contract and related longevity swap | 5,501                  | -      | 5,299                  | -      |
| Other   | 50                     | 1,427  | 276                    | 636    |
| Fair value of scheme assets                   | 7,752                  | 20,196 | 7,475                  | 18,982 |

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At 31 December 2020 the benchmark for NAPS was 42.3 per cent (2019: 46.0 per cent) in return seeking assets and 57.7 per cent (2019: 54.0 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and their investment managers to work within. APS no longer has a "strategic benchmark" as instead, APS now runs off its liquidation portfolio to a liability matching portfolio of bonds and cash. The actual asset allocation for APS at 31 December 2020 was 1.4 per cent (2019: 3.7 per cent) in return seeking assets and 98.6 per cent (2019: 96.3 per cent) in liability matching investments.

APS has an insurance contract with Rothesay Life which covers 24 per cent (2019: 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 (2019: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the premiums (including fees) payable by the scheme under the contract. The fees are linked to LIBOR, and an assumed future LIBOR rate has been derived based on swap prices as at 31 December 2020.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pension from APS at 31 March 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who were alive on 1 October 2018. Benefits coming into payment for retirements after 31 March 2018 are not covered. The contract covers benefits payable from 1 October 2018 onwards.

## 29 Employee benefits continued

### d Fair value of scheme assets continued

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

### e Present value of scheme liabilities

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

| £ million                                  | 2020          | 2019          |
|--|---------------|---------------|
| As at 1 January                            | 26,056        | 22,846        |
| Current service cost                       | 3             | 5             |
| Past service credit                        | -             | (6)           |
| Past service cost - plan amendments        | 6             | -             |
| Past service cost - curtailments           | -             | 583           |
| Interest expense                           | 514           | 624           |
| Remeasurements - financial assumptions     | 3,289         | 2,969         |
| Remeasurement of experience (gains)/losses | (321)         | 168           |
| Benefits paid                              | (1,395)       | (1,115)       |
| Employee contributions                     | 12            | 5             |
| Exchange differences                       | (8)           | (23)          |
| <b>At 31 December</b>                      | <b>28,156</b> | <b>26,056</b> |

The defined benefit obligation comprises £21 million (2019: £24 million) arising from unfunded plans and £28,135 million (2019: £26,032 million) from plans that are wholly or partly funded.

### f Effect of the asset ceiling

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

| £ million                   | 2020       | 2019 <sup>1</sup> |
|-----------------------------|------------|-------------------|
| As at 1 January             | 825        | 1,682             |
| Interest expense            | 12         | 34                |
| Remeasurements <sup>1</sup> | (290)      | (891)             |
| <b>As at 31 December</b>    | <b>547</b> | <b>825</b>        |

<sup>1</sup>Refer to note 2 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at 31 December 2019. As at 1 January 2019 the reclassification had the effect of increasing the asset ceiling by £453 million to £1,682 million. As at 31 December 2019, the reclassification had the effect of increasing the remeasurements by £214 million to £891 million.

### g Actuarial assumptions

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

| Per cent per annum                                   | 2020 |      |               | 2019 |      |               |
|--|------|------|---------------|------|------|---------------|
|  | APS  | NAPS | Other schemes | APS  | NAPS | Other schemes |
| Discount rate <sup>1</sup>                           | 1.20 | 1.40 | 1.4 - 2.4     | 1.85 | 2.05 | 2.0 - 3.20    |
| Rate of increase in pensionable pay <sup>2</sup>     | 2.95 | N/A  | 2.50          | 2.90 | N/A  | 2.50          |
| Rate of increase of pensions in payment <sup>3</sup> | 2.95 | 2.25 | 2.0 - 3.5     | 2.90 | 2.15 | 2.0 - 3.5     |
| RPI rate of inflation <sup>2</sup>                   | 2.95 | N/A  | 2.5 - 2.7     | 2.90 | N/A  | 2.5 - 2.8     |
| CPI rate of inflation <sup>2</sup>                   | N/A  | 2.25 | 2.2 - 3.0     | N/A  | 2.15 | 2.1 - 3.0     |

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

<sup>2</sup>Rate of increase in pensionable pay is assumed to be in line with increases in RPI.

<sup>3</sup>It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and RPI for APS as at 31 December 2020

For US PRMB the rate of increase in healthcare costs is based on medical trend rates of 6.25 per cent grading down to 5.0 per cent over five years (2019: 6.50 per cent to 5.0 per cent over seven years).

## 29 Employee benefits continued

### g Actuarial assumptions continued

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

| Mortality Assumptions            | UK   |      |
|----------------------------------|------|------|
|                                  | 2020 | 2019 |
| Life expectancy at age 60 for a: |      |      |
| - male currently aged 60         | 28.2 | 28.2 |
| - male currently aged 40         | 29.9 | 29.9 |
| - female currently aged 60       | 29.3 | 29.0 |
| - female currently aged 40       | 31.8 | 31.6 |

As at 31 December 2020, the weighted-average duration of the defined benefit obligation was 12 years for APS (2019: 12 years) and 20 years for NAPS (2019: 19 years). In the US, mortality rates were based on the MP-2020 mortality tables.

### h Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown.

| £ million  | Increase in net pension liability |       |               |
|--|-----------------------------------|-------|---------------|
|  | APS                               | NAPS  | Other schemes |
| Discount rate (decrease of 10 basis points)                  | (20)                              | (390) | 13            |
| Future salary growth (increase of 10 basis points)           | n/a                               | n/a   | 5             |
| Future pension growth (increase of 10 basis points)          | (30)                              | (340) | 2             |
| Future mortality rate - one year increase in life expectancy | (30)                              | (750) | 3             |

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. The effect on the APS service cost of making the changes in assumptions described above is minimal.

### i Funding

Pension contributions for NAPS were determined by actuarial valuations made as at 31 March 2018 using assumptions and methodologies agreed between the Company and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to £2,399 million. In order to address the deficit in the scheme, BA has committed to the following undiscounted deficit payments:

| £ million                                       | NAPS         |
|---|--------------|
| Within twelve months                            | -            |
| Two to five years                               | 1,163        |
| <b>Total expected deficit payments for NAPS</b> | <b>1,163</b> |

The Group has determined that the minimum funding requirements set out above for NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund after they are paid into the scheme, subject to withholding taxes that would be payable by the Trustee. 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.

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

## 30 Contingent liabilities and guarantees

### a Contingent liabilities

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

Contingent liabilities associated with income and deferred taxes are presented note 9. For information pertaining to previously reported contingent liabilities associated with the Airways Pension Scheme, refer to note 29. For information pertaining to previous contingent liabilities associated with the theft of customer data at British Airways that have been recognised as legal claims provisions in note 23.

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at 31 December 2020 amounted to £15 million (2019: £11 million).

### b Guarantees

The Group has guarantees and indemnities entered into as part of the normal course of business, which at 31 December 2020 are not expected to result in material losses for the Group.

#### *Audit exemptions*

The Company has issued guarantees in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 34 in respect of audit exemptions.

## 31 Government grants and assistance

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

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

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

From 1 September 2020 to 30 September 2020, the level eligibility reduced to 70 per cent of wage costs and up to a maximum of £2,197.50 per month. From 1 October 2020 to 31 October 2020, the level of eligibility reduced to 60 per cent of wage costs and up to a maximum of £1,875 per month. Following the introduction of further lockdown restrictions in the United Kingdom in November 2020, the CJRS was extended from 1 November 2020 to 31 December 2020 with the level of eligibility increased to 80 per cent of wage costs and a maximum of £2,500 per month.

Such costs are paid by the government to the Group in arrears. The government of the United Kingdom also paid associated social security cost until 31 July 2020. Since 1 August 2020, the Group is obliged to continue to pay the associated social security costs and employer pension contributions.

British Airways received £258 million from the CJRS in the year ended 31 December 2020. This amount is recorded in Employee costs in the Group consolidated income statement.

At 31 December 2020, £21 million was receivable from the government of the United Kingdom.

### b The Coronavirus Corporate Finance Facility ('CCFF') – recognised within borrowings

On 12 April 2020, British Airways availed itself of the CCFF implemented by the government of the United Kingdom. Under the CCFF, British Airways received £298 million, with interest incurred at the prevailing market rate. Refer to note 22 for further details.

### c The UK Export Finance ('UKEF') – not recognised as at 31 December 2020

On 22 February 2021, British Airways entered into a five year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF.

## 32 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2020 with related parties.

| £ million  | Group |      | Company |      |
|--|-------|------|---------|------|
|  | 2020  | 2019 | 2020    | 2019 |
| <b>Parent<sup>1</sup>:</b>                                   |       |      |         |      |
| Sales to/purchases on behalf of IAG                          | 7     | 53   | 7       | 53   |
| Purchases from IAG   | 27    | 43   | 27      | 43   |
| Amounts owed by IAG  | 105   | 179  | 105     | 179  |
| Amounts owed to IAG  | 1,483 | 44   | 1,483   | 44   |
| <b>Subsidiary undertakings of the parent:</b>                |       |      |         |      |
| Sales to subsidiary undertakings of the parent               | 147   | 233  | 147     | 233  |
| Purchases on behalf of subsidiary undertakings of the parent | 233   | 397  | 233     | 397  |
| Amounts owed by subsidiary undertakings of the parent        | 64    | 220  | 64      | 220  |
| Amounts owed to subsidiary undertakings of the parent        | 21    | 153  | 21      | 153  |
| <b>Associates<sup>2</sup>:</b>                               |       |      |         |      |
| Sales to associates  | 138   | 627  | 138     | 627  |
| Purchases from associates                                    | 80    | 454  | 79      | 450  |
| Amounts owed by associates                                   | 19    | 40   | 19      | 36   |
| Amounts owed to associates                                   | 1,082 | 927  | 1,082   | 927  |
| <b>Subsidiaries<sup>3</sup>:</b>                             |       |      |         |      |
| Sales to subsidiaries  | -     | -    | 108     | 449  |
| Purchases from subsidiaries                                  | -     | -    | 89      | 148  |
| Amounts owed by subsidiaries                                 | -     | -    | 42      | 65   |
| Amounts owed to subsidiaries                                 | -     | -    | 430     | 423  |

<sup>1</sup> The transactions between the Group and IAG principally comprise mainly of a long-term loan, management fee in respect of services provided by IAG and recharges between the entities in respect of invoices settled on behalf of the other party. Transactions with IAG are carried out on an arm's length basis. The long-term loans owed to and from the Group bear market rates of interest.

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

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

In addition, payments made by the Company on behalf of the Group's retirement benefit plans amounted to £6 million in relation to the Pension Protection Fund levy (2019: £8 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 2020 the Group has not made any provision for expected credit losses relating to amounts owed by related parties (2019: £nil).

In September 2020, British Airways entered into a floating rate sterling loan agreement with Avios Group (AGL) Limited, a fellow group undertaking, for £250 million. The loan was repaid in December 2020.

In November 2020, British Airways entered into a floating rate fixed term loan agreement with International Consolidated Airlines Group S.A., the ultimate parent undertaking, for £1,453 million (€1,645 million). The loan is repayable in January 2024. Refer to note 22 for further details.

### Directors' and Officers' loans and transactions

There were no loans or credit transactions with Directors or Officers of the Company at 31 December 2020 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.

## 33 Post balance sheet events

On 22 February 2021, British Airways entered into a five year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, partially guaranteed by UK Export Finance ('UKEF').

UKEF is the UK's export credit agency and provides the Export Development Guarantee to support the working capital and capital expenditure needs of UK exporters that meet certain criteria. The proceeds from the UKEF facility will be used to enhance liquidity and provide British Airways with the operational and strategic flexibility to take advantage of a partial recovery in demand for air travel in 2021 as COVID-19 vaccines are distributed worldwide.

On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to extend the deferral of deficit contributions through to 30 September 2021. The deferral of such contributions will amount to £300 million. Under the contribution deferral agreement between British Airways and the Trustee of NAPS, in the period up to 31 December 2023, no dividend payment is permitted from British Airways to IAG. From 2024 onwards, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. Any such payments to NAPS will reduce the outstanding repayment balance and are capped at that level. The requirement to make such payments to NAPS ceases after deferred contributions have been repaid.

### **34      Subsidiary audit exemption**

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2020 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), BA Excepted Group Life Scheme Limited (11283644) and BA HoldCo Limited (12278609).

### **35      Ultimate parent undertaking**

The Company's immediate and ultimate parent undertaking as at 31 December 2020 was International Consolidated Airlines Group S.A. (IAG), which is incorporated in Spain.

The Company is included within the consolidated financial statements of IAG which are publicly available on the website [www.iagshares.com](http://www.iagshares.com).

## Subsidiary undertakings at 31 December 2020

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

| Name of company  | Country of incorporation and principal operations | Principal activities | Registered address                                   |
|--|---|----------------------|--|
| BA and AA Holdings Limited                                 | England   | Holding company      | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| BA Call Centre India Private Limited (CallBA) <sup>1</sup> | 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 <sup>1</sup>                         | Jersey  | Holding company      | IFC 5, St Helier, Jersey, JE1 1ST                    |
| Bealine plc  | England   | Holding company      | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| BritAir Holdings Limited                                   | England   | Holding company      | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Airways (BA) Limited <sup>1</sup>                  | 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  | Aircraft financing   | Queensway House, Hilgrove Street, St Helier, JE1 1ES |
| British Airways Holdings BV <sup>1</sup>                   | Netherlands                                       | Holding company      | Strawinskylaan 3105, Atrium 1077ZX Amsterdam         |
| British Airways Holidays Limited                           | England   | Tour operator        | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Airways Interior Engineering Limited               | England   | Engineering          | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Airways Leasing Limited                            | England   | Aircraft Leasing     | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Airways Maintenance Cardiff Limited                | England   | Engineering          | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Airways Pension Trustees (No 2) Limited            | England   | Trustee company      | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Airways Plc Employee Share Ownership Trust         | Jersey  | Trust                | Queensway House, Hilgrove Street, St Helier, JE1 1ES |
| British Mediterranean Airways Limited <sup>1 2</sup>       | England   | Former airline       | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| British Midland Airways Limited <sup>1</sup>               | 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 <sup>1</sup>             | 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        |
| Overseas Air Travel Limited <sup>1</sup>                   | England   | Transport            | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| Speedbird Insurance Company Limited                        | Bermuda   | Insurance            | Canon's Court, 22 Victoria Street, Hamilton, HM 12   |
| BA Excepted Group Life Scheme Limited                      | England   | Life Insurance       | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |
| BA Holdco Limited  | England   | Holding Company      | Waterside, PO Box 365, Harmondsworth, UB7 0GB        |

<sup>1</sup>Not directly owned by British Airways Plc

<sup>2</sup>99.0% holding

## Associated undertakings at 31 December 2020

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. <sup>1</sup> | 13.55                | Spain   | Airline operations   | Calle Velazquez 130, 28006 Madrid                                     |
| Dunwoody Airline Services Limited | 40.00                | England   | Airline operations   | Building 552, Shoreham Road East, Heathrow Airport, TW6 3UA           |
| Avios Group (AGL) Limited         | 86.26                | England   | Airline marketing    | Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY |

<sup>1</sup>Not directly owned by British Airways Plc

## Equity investments at 31 December 2020

The holdings disclosed concern ordinary shares unless otherwise stated.

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

<sup>1</sup>Not 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   |      | 2020                   | 2019    | 2018    |
| <b>Traffic and capacity</b>   |      |                        |         |         |
| Revenue passenger kilometre ('km') ('RPK')  | m    | 39,118                 | 155,580 | 152,177 |
| Available seat km ('ASK')   | m    | 63,725                 | 186,170 | 184,547 |
| Passenger load factor   | %    | 61.4                   | 83.6    | 82.5    |
| Cargo tonne km ('CTK')  | m    | 2,721                  | 4,211   | 4,395   |
| Passengers carried  | '000 | 12,282                 | 47,710  | 46,952  |
| Tonnes of cargo carried   | '000 | 341                    | 480     | 505     |
| <b>Operations</b>   |      |                        |         |         |
| Average manpower equivalent ('MPE')   |      | 33,898                 | 38,230  | 38,202  |
| ASKs per MPE  |      | 1,880                  | 4,870   | 4,831   |
| Aircraft in service at year end   |      | 277                    | 305     | 294     |
| Aircraft utilisation (average hours per aircraft per day)                         |      | 4.37                   | 10.81   | 10.92   |
| Punctuality - within 15 minutes   | %    | 85                     | 76      | 76      |
| Regularity  | %    | 82                     | 98.4    | 99.0    |
| <b>Financial</b>  |      |                        |         |         |
| Passenger revenue per RPK   | p    | 7.40                   | 7.65    | 7.60    |
| Passenger revenue per ASK   | p    | 4.54                   | 6.39    | 6.27    |
| Cargo revenue per CTK   | p    | 32.71                  | 16.88   | 17.50   |
| Average fuel price (US cents/US gallon)   |      | 160.17                 | 207.65  | 224.72  |
| Operating margin  | %    | (98)%                  | 10.1%   | 18.1%   |
| Operating margin before exceptional items   | %    | (58)%                  | 14.5%   | 15.1%   |
| Earnings before interest, tax, depreciation, amortisation and rentals ('EBITDAR') | £m   | (1,252)                | 3,030   | 2,971   |
| Net debt/total capital ratio  | %    | 82.8                   | 39.1    | 25.2    |
| Total traffic revenue per ASK   | p    | 6.3                    | 7.1     | 7.0     |
| Total expenditure before exceptional items on operations per ASK                  | p    | 9.93                   | 6.11    | 5.97    |
| Total expenditure before exceptional items on operations excluding fuel per ASK   | p    | 8.11                   | 4.37    | 4.38    |

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 2020

|                                    | Owned      | Asset<br>financed | Right of<br>use | Total<br>December<br>2020 | Total<br>December<br>2019 | Changes since<br>December 2019<br>(Note 2) | Future<br>deliveries | Options   |
|------------------------------------|------------|-------------------|-----------------|---------------------------|---------------------------|--|----------------------|-----------|
| <b>Airline Operations (Note 1)</b> |            |                   |                 |                           |                           |  |                      |           |
| Airbus A318                        |            |                   |                 |                           | 1                         | (1)  |                      |           |
| Airbus A319                        | 13         |                   | 22              | 35                        | 39                        | (4)  |                      |           |
| Airbus A320                        | 25         | 7                 | 48              | 80                        | 77                        | 3  | 9                    | 10        |
| Airbus A321                        | 13         |                   | 15              | 28                        | 27                        | 1  | 3                    |           |
| Airbus A330                        |            |                   |                 |                           | 1                         | (1)  |                      |           |
| Airbus A350                        |            | 8                 |                 | 8                         | 3                         | 5  | 10                   | 36        |
| Airbus A380                        | 2          |                   | 10              | 12                        | 12                        |  |                      |           |
| Boeing 747-400                     |            |                   |                 |                           | 32                        | (32)                                       |                      |           |
| Boeing 777-200                     | 36         |                   | 7               | 43                        | 46                        | (3)  |                      |           |
| Boeing 777-300                     | 2          |                   | 14              | 16                        | 12                        | 4  |                      |           |
| Boeing 777-900                     |            |                   |                 |                           |                           |  | 18                   | 24        |
| Boeing 787-8                       |            |                   | 12              | 12                        | 12                        |  |                      |           |
| Boeing 787-9                       | 1          |                   | 17              | 18                        | 18                        |  |                      |           |
| Boeing 787-10                      |            | 2                 |                 | 2                         |                           | 2  | 10                   |           |
| Embraer E170                       | 1          |                   |                 | 1                         | 6                         | (5)  |                      |           |
| Embraer E190                       | 9          |                   | 13              | 22                        | 18                        | 4  |                      |           |
| SAAB 2000                          |            |                   |                 |                           | 1                         | (1)  |                      |           |
| <b>Total Operations</b>            | <b>102</b> | <b>17</b>         | <b>158</b>      | <b>277</b>                | <b>305</b>                | <b>(28)</b>                                | <b>50</b>            | <b>70</b> |

#### Notes:

1. Includes aircraft operated by British Airways Plc and BA Cityflyer Limited.

2. Five Airbus A350, two Boeing 787-10, four Boeing 777-300, two Airbus A321neo and three Airbus A320neo entered service during the year

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