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Waterside, P O Box 365  
Harmondsworth, UB7 0GB  
Registered Number: 1777777

  
British Airways Plc

Annual Report and Accounts  
Year ended 31 December 2022

Company registration number: 1777777



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## **Officers and professional advisers**

### **Directors**

Sean Doyle	(Chairman and Chief Executive Officer)
Alison Reed	(Deputy Chairman)
Rebecca Napier	(Chief Financial Officer)
Alison Brittain	
Lynne Embleton	
Carolina Martinoli	

### **Secretary**

Andrew Fleming

### **Registered office**

Waterside  
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Harmondsworth  
UB7 0GB

### **Parent company**

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El Caserio, Iberia Zona Industrial nº 2 (La Muñeza)  
Camino de La Muñeza, s/n,  
28042 Madrid  
Spain

### **Independent auditor**

KPMG LLP  
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E14 5GL

## Strategic report

The Directors present their strategic report for the year ended 31 December 2022.

British Airways Plc ('British Airways', 'BA', 'the airline' or 'the Group') is the UK's flag carrier airline and one of the world's leading global airlines. The Group's principal place of business is London with significant presence at Heathrow, Gatwick and London City airports. As part of IAG, and together with joint business, codeshare and franchise partners, British Airways operates one of the most extensive international scheduled airline networks. British Airways is a founding member of the oneworld alliance, whose member airlines serve more than 900 destinations in more than 170 countries worldwide.

The strategic report is presented in the following four sections:

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

### Management review and outlook

#### Overview

- Total revenue: £11,030 million, up 199% (2021: £3,693 million)
- Operating profit before exceptional items: £303 million (2021: £1,900 million loss)
- Operating profit after exceptional items: £322 million (2021: £1,769 million loss)
- Passengers: 33.0 million, up 220% (2021: 10.3 million)
- Punctuality: 56% (2021: 77%)

For the year ended 31 December 2022, the Group made a profit before tax of £46 million (2021: £2,104 million loss).

#### Our operation

Following two years of turbulence as a result of the COVID-19 pandemic which severely impacted the aviation industry, during 2022 we continued to focus on our recovery and the transformation of our business. This phase was an extremely challenging period as we sought to bring our grounded aircraft back into service, recruit and re-train colleagues, and ramp up our schedule. Working in this unprecedented post-pandemic environment, British Airways' management committee set out three key priorities for the business: to increase operational resilience, support the biggest recruitment drive in the airline's history and deliver for our customers.

The continuing impact of the Omicron variant of COVID-19 in January and February 2022 made for a challenging start to the year, with UK travel restrictions remaining in place until March 2022. In addition, various disruption events throughout the year caused by factors including adverse weather and systems issues, alongside resourcing and capacity restrictions, significantly impacted our operations at these times.

In 2022, we continued with the biggest recruitment drive in our history with approximately 7,400 colleagues joining the business. Positive changes to the referencing process were introduced by HMRC during the year which has speeded up the process of new colleagues entering the business, but it continues to take longer than pre-pandemic for applicants to obtain clearance to work at airports or airside. We understand these issues and our recruitment drive is continuing to ensure we are ready to fly our summer schedule in 2023.

In May, recognising the labour and other issues we and airports around the world were facing as aircraft were brought back into service, we took pre-emptive action to reduce our summer 2022 schedule, providing customers with as much notice as possible about changes to their travel plans. In June, the UK Government launched a slot amnesty consultation, providing airlines with additional flexibility to further review their schedules, enabling us to consolidate some of our quieter daily flights to multi-frequency destinations well in advance, and to protect more of our holiday flights over the busy summer period.

In July, Heathrow Airport imposed a passenger capacity cap until 11 September which resulted in us actioning a small number of additional cancellations to our summer schedule and temporarily limiting the number of seats and fares available on some flights. In August, Heathrow confirmed the cap would be extended until 29 October and therefore we made limited further adjustments to our short-haul schedule until the end of the summer season. Gatwick Airport also imposed a cap on the number of passengers able to travel through the airport, however this was not extended beyond August.

In late August, we made adjustments to our 2022 winter schedule, which was originally published in 2021, by consolidating flights to destinations with multiple services. This allowed us to build further resilience and provide much greater certainty for customers travelling with us during the winter.

We continued to work closely with our partners and suppliers across the aviation ecosystem to understand their capabilities and ensure contingency measures were put in place to limit any disruption so that we could deliver a service our customers expect from us. This included taking into consideration global supply chain issues such as part shortages and also consider airport resourcing. Mitigations included retiming some flights to align with airport resources and consolidating flights and putting on larger aircraft where possible. We also worked with some of our joint business partners including Finnair and other specialist wet lease providers to operate some European flights on our behalf during the summer.

## Strategic report continued

### Management review and outlook continued

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

#### *Our people*

The global pandemic was the toughest period in our more than 100 year history. We emerged from this difficult period, where a large number of our colleagues were furloughed or took voluntary redundancy, with a renewed focus on putting our colleagues at our heart and rebuilding pride and trust with our people, recognising their contribution to the success of our business and empowering them to do the right thing for our customers. We've built more constructive relationships with our trade unions and reached pay deals with them and have enhanced our staff travel and family leave policies. We are pleased that our recent employee survey results show we are making progress.

We're committed to creating a culture where everyone feels that they can be themselves and diversity and inclusion is a key people priority and forms part of our BA Better World strategy, focusing on creating a better world by embedding sustainability across our culture, operations, and the customer experience. In 2022 we outlined new diversity targets, launched a series of reverse mentoring programmes across the airline and introduced updated uniform guidelines, allowing our people to express more of their personalities at work.

As customer demand rebounded very rapidly once restrictions were lifted, we invested significantly in the recruitment of customer facing and operational teams. This involved establishing operational effectiveness to recruit approximately 7,400 colleagues throughout the year. We focused on enhancing the colleague experience from recruitment to onboarding to ensure we are looking after our people.

#### *Our customers*

During 2022, to increase consumer confidence, we continued to offer our flexible "Book with Confidence" policy through to 30 September 2022, providing customers the flexibility to change their destination and/or date of travel or allowing a voucher (valid for redemption before 30 September 2023) to be requested. We also extended the status of Executive Club Members through to the end of the year. In addition, we carried out a comprehensive review of our customer communications during periods of disruption, aiming to proactively deliver timely messaging when a flight is impacted, providing customers with information on their consumer rights and alternative flights with ourselves or another airline to get them to their destination as quickly as possible.

As global travel restrictions eased, we restarted popular routes including Sydney, San Jose (California), Tokyo, and Hong Kong, allowing customers to do business and reconnect with their loved ones once again. We've launched new routes from Heathrow to Nuremberg and Portland and announced new services from Heathrow to Cincinnati and Florence, and Gatwick to Aruba and Georgetown in 2023. BA Cityflyer launched four new routes from London City to Milan Malpensa, Luxembourg, Barcelona and Thessaloniki. Despite a number of countries in the Asia-Pacific region re-opening their borders, mainland China remained effectively closed throughout 2022.

In March 2022, we put our short-haul business at Gatwick into a subsidiary, BA Euroflyer, which operated to 35 destinations in the summer, flying under the British Airways brand and delivering the same premium product our customers know and expect. In December 2022, BA Euroflyer received its Air Operator's Certificate (AOC) and Operating Licence from the UK Civil Aviation Authority (CAA). We completed the expansion of our partnership with Qatar Airways to offer global connectivity between more countries than any other airline joint-business, adding 42 countries to our shared network which now spans 185 destinations across more than 60 countries. We also announced an expansion of our codeshare agreement with Loganair, offering more choice and connectivity for customers travelling across the UK.

We continued to invest in products for our customers, and in 2022 we took delivery of ten new fuel-efficient aircraft and continue to fit our new Club Suite onto our Heathrow based long-haul fleet. We've unveiled new menus across all cabins and reintroduced our full catering proposition in Club World, reinforcing our commitment to delivering a premium customer proposition. In November, we moved out of our base in Terminal 7 at New York's JFK Airport and co-located our entire New York – JFK operations alongside American Airlines in Terminal 8, marking the culmination of a multi-year \$400 million investment designed to enhance the customer proposition with our Atlantic Joint Business and oneworld alliance partner.

We have invested heavily in our contact centres and recruited new colleagues in this area, where we continue to roll out improvements to enhance the customer experience. This includes phasing in a new, modern phone system and a brand-new customer platform which equips our colleagues with the ability to see all the information about each customer across multiple contact channels in one central place.

Our latest brand campaign, a British Original, focuses on the individual reasons customers and colleagues travel, celebrating and recognising every journey and the original reason behind it. British Airways is a British original, underpinned by our pioneering 103-year history and warm, unique British service.

## Strategic report continued

### Management review and outlook continued

#### *Our planet*

Sustainability is a key focus, and we remain fully committed to reducing the impact flying has on our planet. We've continued to lead the industry with our strategy to reach net zero emissions by 2050, and while there is no single solution to this global challenge affecting the entire travel ecosystem, we have a clear roadmap to get us there.

We took delivery of the first batch of sustainable aviation fuel ('SAF') produced by Phillips 66 Limited at their refinery near Immingham in March 2022, making us the first airline to start using SAF produced on a commercial scale in the UK. SAF is produced from sustainable waste feedstock, and it is being added into the existing pipeline infrastructure that directly feeds into London Heathrow, meaning that all British Airways-operated flights departing from Heathrow now fly with a small proportion of SAF. In August, our parent company, IAG, entered into a multi-year agreement with Aemetis to supply SAF which we will use to help power some of our flights out of San Francisco Airport from 2025. We also signed an agreement with LanzaJet and Nova Pangea Technologies that will accelerate our ground-breaking Project Speedbird initiative to develop cost-effective SAF for commercial use in the UK. The integration of SAF into our operation is a significant milestone for us as we deliver a range of initiatives to decarbonise and achieve net zero emissions by 2050.

Towards the end of the year, we launched our new online platform, CO<sub>2</sub>llaborate, to provide both corporate, individual customers and colleagues with even more choice and control in addressing their emissions when they fly.

We launched our new BA Better World Community Fund in April 2022 to support projects in communities across the UK, which has delivered more than £2 million of funding to support more than 74 charities across the UK. Our customers and colleagues raised more than £850,000 on our flights through our flagship programme, Flying Start. As Pakistan battled devastating flooding during the summer, we flew aircraft packed full of critical care equipment and supplies to the country to provide much-needed support.

#### *Government Affairs*

Throughout the year, and as COVID-19 restrictions were finally lifted in March, we closely engaged with the UK Government to promote policy positions that support both aviation and wider economic benefits, in particular the need for government to encourage investment in SAF in the UK. We gave evidence to parliamentary select committees on two occasions and also met with Officials and Ministers to inform them of our approach to maintaining resilience in a summer of disruption for the whole industry and to explain our plans for rebuilding our network following the worst crisis in our history.

#### *Our outlook*

Despite a challenging year we continued to focus on delivering for our customers, while transforming and investing in our future. We are committed to changing our culture to ensure our people are at our heart and delivering innovation across every part of the business, from electric vehicles and biometric technology in our operation to advancements within our selling systems.

#### *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 2022.

## Strategic report continued

### Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2022.

#### Summary financial performance

£ million	2022	2021	Higher/(lower)
<b>CONTINUING OPERATIONS</b>			
Total revenue	11,030	3,693	nm
Total expenditure on operations before exceptional items	(10,727)	(5,593)	91.8%
Operating profit/(loss) before exceptional items	303	(1,900)	nm
Exceptional items	19	131	nm
Operating profit/(loss) after exceptional items	322	(1,769)	nm
Non-operating items	(276)	(335)	(17.6%)
Profit/(loss) before tax	46	(2,104)	nm
Tax	15	456	(96.7%)
Profit/(loss) after tax	61	(1,648)	nm

£ million	2022	2021	Higher/(lower)
<b>CONTINUING OPERATIONS</b>			
Available seat kilometres (ASK) (m)	130,938	52,635	nm
Revenue passenger kilometres (RPK) (m)	104,559	30,700	nm
Passenger load factor (%)	79.9	58.3	37.0%
Passenger revenue per ASK (p)	7.04	4.40	60.0%
Passenger revenue per RPK (p)	8.81	7.54	16.9%
Non-fuel costs per ASK at constant currency* (p)	5.75	9.05	(36.5%)

\*Stated before exceptional items

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

#### Revenue

£ million	2022	2021	Higher/(lower)
<b>CONTINUING OPERATIONS</b>			
Passenger revenue	9,215	2,315	nm
Cargo revenue	1,060	1,097	(3.4%)
Other revenue	755	281	nm
Total revenue	11,030	3,693	nm

Overall capacity for the year reached 70.3 per cent of that operated in 2019. This is significantly higher than the 28.3 per cent of 2019 capacity operated in 2021. This is driven by increased travel arising from greater demand and consumer confidence, with the lifting of COVID-19 travel restrictions in the UK and across key travel destinations. Passenger load factors reached 79.9 per cent, only 3.7 percentage points lower versus 2019. This, together with increased yields, translated to total passenger revenue in 2022 of £9,215 million (2021: £2,315 million), an increase of 298.1 per cent. Passenger unit revenue (passenger revenue per ASK) was 60.0 per cent higher than 2021, and 10.1 per cent higher than 2019.

Cargo carried, measured in cargo tonne kilometres (CTKs), decreased by 2.2 per cent, and Cargo revenue decreased by 3.4 per cent to £1,060 million (2021: £1,097 million). Other revenue increased by £474 million to £755 million (2021: £281 million), the majority of which is driven by BA Holidays.

## Strategic report continued

### Financial review continued

#### Operating costs before exceptional items

	2022	2021	Higher/(lower)
<b>CONTINUING OPERATIONS</b>			
Employee costs	2,100	1,482	41.7%
Fuel, oil costs and emission charges	2,929	938	nm
Handling, catering and other operating costs	1,812	824	nm
Landing fees and en route charges	870	373	nm
Engineering and other aircraft costs	803	377	nm
Property, IT and other costs	635	490	29.6%
Selling cost	385	138	nm
Depreciation, amortisation and impairment	1,084	984	10.2%
Currency differences	109	(13)	nm
Total Group expenditure on operations before exceptional items	<b>10,727</b>	<b>5,593</b>	<b>91.8%</b>
Total Group expenditure excluding fuel before exceptional items	<b>7,798</b>	<b>4,655</b>	<b>67.5%</b>

Employee costs increased by £618 million, or 41.7 per cent, to £2,100 million compared to £1,482 million in the prior year, largely due to the recruitment campaign which started in October 2021. Employee costs in 2021 also included a credit of £190 million relating to amounts received from the UK Government under the COVID Job Retention Scheme which ended on 30 September 2021.

Total operating costs before exceptional items increased by 91.8 per cent to £10,727 million (2021: £5,593 million) in 2022. Fuel costs increased by £1,991 million, or 212.3 per cent, to £2,929 million reflecting the increased flying and higher fuel prices. The increase in fuel costs was partially mitigated by British Airways' fuel price hedging strategy. Operating expenditure excluding fuel, before exceptional items, increased by 67.5 per cent to £7,798 million (2022: £4,655 million), largely reflecting the increased flying. The increase in the remaining operating cost base was also largely due to the increased flying.

#### Exceptional items

The exceptional credit of £19 million relates to the partial reversal of the fine, plus accrued interest, initially issued by the European Commission in 2010 to British Airways regarding its involvement in cartel activity in the air cargo sector which had been recognised as an exceptional charge. There is no resultant tax charge arising. Exceptional items are detailed in note 3.

#### Non-operating items

The Group's net non-operating costs were £276 million in 2022 (2021: £335 million). Non-operating items in 2022 include finance costs of £494 million (2021: £429 million), net losses of £49 million (2021: net gains of £23 million) relating to the revaluation of foreign currency denominated debts and related derivatives, a net gain of £208 million (2021: net gain of £43 million) relating to the share of post-tax results of associates, net financing credits of £22 million (2021: £2 million charge) relating to pensions, finance income of £20m (2021: £3m) and a net gain of £3 million (2021: net gain of £27 million) on the sale of property, plant and equipment.

#### Taxation

The tax credit for the period was £15 million (2021: £456 million credit). The effective rate for the period was (32.6) per cent (2021: 21.7 per cent) being higher (2021: higher) than the tax credit (2021: tax credit) at the standard UK corporation tax rate of 19.0 per cent (2021: 19.0 per cent) mainly due to the share of associates profits, movement in respect of prior years and the impact of the UK tax rate change announced on 3 March 2021 (2021: share of associates losses, non-deductible expenses and tax rate change). Refer to note 8 for further detail on the UK tax rate change.

#### Capital expenditure

Total capital expenditure paid in the period amounted to £1,577 million (2021: £406 million) which included £1,268 million (2021: £313 million) of fleet related spend (aircraft, aircraft progress payments, spares, modifications, heavy maintenance costs and refurbishments) and £309 million (2021: £93 million) on property, equipment and software. During the period the Group took delivery of five A350, three B787-10 and two A320neo, with only one of the B787-10s not having entered service by 31 December 2022.

#### Liquidity

At 31 December 2022, the Group had total liquidity of £5.5 billion (31 December 2021: total liquidity of £4.5 billion), comprising cash, cash equivalents and interest-bearing deposits of £2.5 billion (2021: £1.7 billion), £2.1 billion of committed and undrawn general facilities (2021: £2.0 billion) and a further £0.9 billion of committed and undrawn aircraft specific facilities (2021: £0.8 billion).

## Strategic report continued

### Financial review continued

#### Liquidity (continued)

In 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 UK Export Finance ('UKEF'). The annual rate of interest associated with the UKEF loan is consistent with the prevailing market rate of interest plus a margin. This facility was fully drawn down in March 2021, and is due to be repaid in February 2026. In November 2021, British Airways agreed a further £1.0 billion UKEF guaranteed five-year committed credit facility. As at 31 December 2022 and the date of this report, the Group had not drawn down on this facility.

In March 2021, British Airways entered into a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is \$1,346 million and will be available for a period of three years plus two one-year extension periods at the discretion of the lenders, one of which has been agreed and exercised in August 2022 taking the current maturing of the facility to March 2025. The facility is undrawn at the date of this report. In addition, at 31 December 2022 the Group had undrawn long-term committed aircraft financing facilities totalling £0.3 billion (2021: £0.3 billion).

In November 2022, British Airways entered into a sustainability linked asset-financing structure, raising a total of \$827 million to finance aircraft deliveries. As at 31 December 2022, the total financing remaining to be drawn was \$658 million.

In July 2021, British Airways entered into a sustainability linked asset-financing structure, raising a total of \$785 million to finance aircraft deliveries. As at 31 December 2022, this was fully drawn down.

#### 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 valuation discussions have concluded for APS and NAPS in 2022, both valuations with effective dates of 31 March 2021 – APS was signed in June 2022, and NAPS was concluded in December 2022.

British Airways and the Trustee of NAPS agreed upon on a technical provisions deficit of £1.65 billion, a reduction from the deficit of £2.4 billion agreed in the previous valuation as at 31 March 2018. The improvement in funding since the previous valuation was due to £1.3 billion of British Airways contributions to NAPS and outperformance of asset returns above the liability discount rate, partly offset by the impact of the UK Government's decision to reform its RPI inflation measure, aligning it with CPIH from 2030.

Since 31 March 2021, the funding level of the scheme has considerably improved to the extent that NAPS was in a surplus on the same basis as the 2021 valuation as at 31 December 2022. This improvement in funding has arisen in large part due to the increase in UK government bond yields, which has increased the discount rate applied to pension liabilities, combined with positive relative returns from the scheme's asset portfolio. Due to an updated overfunding protection mechanism that remains in place, British Airways is not expecting to be required to make contributions to NAPS for the foreseeable future, however the position is monitored monthly and deficit contributions would restart automatically under the funding agreement if the NAPS scheme were to move into a deficit position.

As part of the wider agreement with the NAPS Trustee, British Airways will not pay a dividend in 2022 or 2023, and will make a 50% matching contribution to NAPS if any dividend is paid in 2024. From 2025, dividends will be limited to 50% of pre-exceptional profit after tax and any dividend exceeding this amount would require additional payment to NAPS if the scheme is not at least 100% funded. British Airways has also agreed to provide property assets as security in favour of the NAPS Trustee, which will remain in place until 30 September 2028.

APS remained in a surplus as at 31 March 2021, with a surplus of £295 million recorded based on its own technical provisions basis. This was reduced from a surplus of £599 million in the previous valuation dated 31 March 2018, with the reduction in surplus due to the UK government's decision to reform its RPI inflation measure, as described above.

During October 2022 there was significant volatility in financial markets caused by the UK's mini-budget announcement on 30 September 2022, leading to a large increase in the yield on government bonds ('gilts'). Pension schemes commonly use complex financial instruments to manage economic risks of gilt yield changes, without having to physically purchase gilts. Many schemes that held such instruments required significant additional liquidity at short notice reflecting the significant volatility. British Airways' schemes have little leverage and therefore did not suffer from the collateral calls that other pension schemes experienced at the time. The NAPS Trustee did take additional steps to bolster the schemes available liquidity to provide additional protection in the event of further yield rises or an extended period of volatility.

Strategic report continued

Principal risks and uncertainties

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

With the return to operations as markets have re-opened, BA has reviewed macro-economic and geopolitical events to identify emerging risks and implications for existing principal risks.

BA has also considered operational resilience, competition and market risk changes, the status of the financial markets and access to finance, people and culture across BA and customer satisfaction and trust. BA management remains focused on mitigating its risks at all levels in the business and investing to increase resilience whilst recognising that risk events may not be so easily planned for and that some mitigations are more responsive in nature.

Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in BA's latest business plan ("the plan") and related risk scenarios. The BA Management Committee and the IAG Head of Enterprise Risk Management review the risk heatmap twice yearly to ensure that risks are appropriately evaluated, and any further actions identified. This is then reported to the BA Board to assist in the management of risk. BA escalates risks that have an IAG group-wide impact or require IAG consideration in line with the IAG Enterprise Risk Management (ERM) framework.

No new principal risks were identified through the risk management assessment discussions in the year. One risk has been reconsidered as part of the reviews in the year and has been reframed as 'Operational resilience' from 'Event causing significant network disruption' to recognise that the risk to the operational resilience of the business may be challenged by multiple combining events with significant network and customer impact and these may be more significant to BA where they persist over a longer time frame compared to one-off events.

Risks are grouped into four categories: strategic, business and operational, financial including tax and treasury, compliance and regulatory risks. Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below. Additional key business responses implemented by management are also set out.

The list is not intended to be exhaustive but does reflect those risks that the BA Board and BA Management Committee believe to be the most likely to have a potential material impact on BA.

<b>Strategic</b>
<b>Brand and customer trust</b>
<b>Status</b> BA's ability to attract and secure bookings, and generate revenue depends on customers' perception and affinity with the BA brand and its associated reputation for customer service and value. The BA brand is and will continue to be vulnerable to adverse publicity regarding events impacting service and operations. Reliability, including on-time performance, is a key element of the brand and of each customer's experience. Where customers have been impacted as a result of operational resilience issues in the year, BA has worked directly with its customers to resolve the issues and ensure, where possible, that customers have been able to complete their travel plans. BA remains focused on strengthening its customer-centricity to ensure that BA continues to adapt and focus its business model to meet changing customer expectations and needs. Customer sentiment to travel and their expectations when they travel are intrinsic to brand health. The resilience and engagement of our people as customer service ambassadors to deliver excellent customer service is critical to retaining brand and customer trust.

## Strategic report continued

### Principal risks and uncertainties continued

<i>Strategic continued</i>	
Brand and customer trust continued	
Risk description	Mitigation
<p>Erosion of the brand and customer trust through poor customer service or lack of reliability in operations may adversely impact BA's leadership position with customers and ultimately affect future revenue and profitability.</p> <p>If BA is unable to meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then BA may face brand erosion and loss of market share.</p> <p>Failure to meet customer expectations on sustainability and BA's impact on stakeholders and society could impact the group and its brands.</p>	<p>Brand initiatives have been identified and are aligned to the plan.</p> <p>Product investment to enhance the customer experience supports the brand proposition and is provided for in the plan.</p> <p>BA tracks and reports internally on its Net Promoter Score (NPS) to measure customer satisfaction.</p> <p>BA continued to offer the flexible 'Book with Confidence' policy, allowing a change of destination and/or date of travel or allowing a voucher (valid until September 2023) to be requested, for customers who no longer wished to travel.</p> <p>Enhanced flexibility in booking policies.</p> <p>Hygiene and travel protocols have been implemented across BA to address regulatory requirements resulting from the COVID-19 pandemic.</p> <p>Enhanced disruption management tools to allow customers to manage their travel preferences.</p> <p>Increased focus on end-to-end customer journey from flight search through to arrival and baggage reclaim.</p> <p>BA are investing in ba.com functionality and telephony solutions to allow customers to contact us more effectively.</p> <p>The IAG Group's global loyalty strategy builds customer loyalty.</p> <p>BA's focus on sustainability and sustainable aviation including the IAG Climate Change strategy to meet the target of net zero carbon emissions by 2050.</p>
Competitive landscape	
<p><b>Status</b> BA has strong global market positioning, leadership in strategic markets, alliances and a diverse customer base. The recovery of demand in the year has seen a significant return of capacity into the market. The distortionary effects of the governmental support and aviation-specific state aid measures on the competitive landscape, continue to be assessed. BA is investing in new fleet and products to maintain its competitive position in the markets in which it operates.</p> <p>BA and IAG Group continues to lobby over the negative impacts of government policies on aviation or policy asymmetry, such as increases in Air Passenger Duty ('APD').</p>	
Risk description	Mitigation
<p>Competitor capacity growth in excess of demand growth could materially impact margins.</p> <p>Any failure of a joint business or a joint business partner could adversely impact BA's business operations and financial performance.</p> <p>Some of the markets in which BA operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.</p>	<p>BA's Management Committee and BA Board have met regularly to discuss strategic issues and plans throughout the year, with additional meetings convened as required to address emerging issues.</p> <p>BA's revenue management departments 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 to respond to the rapidly changing environment resulting from government actions.</p> <p>BA maintains rigorous cost control and targeted investment to remain competitive. IAG's procurement function reviews all critical contracts.</p> <p>BA is focussed on customer centricity and operational resilience.</p> <p>BA's Management Committee regularly reviews the commercial performance of joint business agreements and business partner relationships, supported where appropriate by the IAG Group strategy function.</p> <p>The IAG Group's Government Affairs function, in conjunction with BA's Corporate Affairs team, monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</p>

## Strategic report continued

### Principal risks and uncertainties continued

<b>Strategic continued</b>	
<b>Critical third parties in the supply chain</b>	
<p><b>Status</b> The aviation sector has been affected by the global supply chain disruptions which has impacted aircraft delivery, component availability, resource availability in our third parties and airport services such as Border Force. It has also seen the impact of a high inflationary environment.</p> <p>Operational staffing shortages at hubs and airports have required capacity adjustments, including managing the impact on BA customers and operations of the decision by Heathrow airport to cap passenger numbers during the summer of 2022. BA pro-actively assessed its schedules to ensure that our customers had sufficient notice of any changes to their flight plans wherever possible and within its control. Learnings from the summer disruptions were identified and actions to improve resilience have been implemented. BA continues to work with all critical suppliers to understand any potential disruption within their supply chains from either a shortage of available resource or production delays which could delay the availability of new fleet, engines or critical goods or services. This has led to increased costs to secure such services. Additional focus has been placed on key suppliers given the inflationary environment impacting wages and cost of goods, to ensure that the business and operations are not impacted.</p> <p>BA and the IAG Group continues to lobby and raise awareness of the negative impacts of air traffic control airspace restrictions and performance issues on the aviation sector and economies across Europe, particularly with the capacity recovery and continued closure of Russian airspace. BA relies on the provision of airport infrastructure and is dependent on the timely delivery of appropriate facilities.</p> <p>The IAG Group continues to challenge unreasonable levels of increases in airport charges, especially at London Heathrow.</p>	
<b>Risk Description</b>	<b>Mitigation</b>
BA is dependent on the timely entry of new aircraft and the engine performance of aircraft to improve operational efficiency and resilience and meet the commitments of the Group's sustainability programme.	BA mitigates engine and fleet performance risks, including delays to delivery, 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. BA and IAG 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 ATC services to ensure that its flight operations are delivered as scheduled.	The IAG Group is active at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
BA is dependent on the performance and costs of critical third-party suppliers that provide services to our customers such as airport operators, border control and caterers. Increases in costs or where suppliers face ongoing financial stress or restructuring where they exit the market for supply of services may impact the Group's operations.	BA pro-actively works with suppliers to ensure operations are maintained and the impact to their business understood, with mitigations implemented where necessary and inflation increases minimised.
BA is dependent on the availability and production of alternative fuels to meet its carbon commitments. This may require investments in infrastructure in the markets in which BA operates.	The IAG Group's procurement function has oversight of all critical BA contracts. Alternative suppliers are identified where feasible.
<b>Economic, political and regulatory environment</b>	
<p><b>Status</b> The economic impact of energy shortages and increases in commodity and wage costs has driven significant inflation and uncertainty over the economic outlook. BA is closely reviewing the impacts of wage and supplier inflation on margins and customer demand. BA will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required and where possible.</p> <p>BA has utilised the slot alleviation waivers granted by regulatory bodies in 2022. Impacts of the pandemic have continued in 2022 with restrictions remaining in countries, e.g. gradual opening of China, with varying degrees of passenger and airline operational complexity to comply with.</p> <p>Wider macroeconomic trends are being monitored such as tone of dialogue between the US, Russia, China and the UK which can influence markets and result in imposition of misaligned policies or tariffs. The trend of increased nationalism and the potential impact to BA is also kept under review. Recent supply chain disruptions have occurred in many markets and the level of disruption and potential impacts are considered. BA also considers changes in government in key markets and the implications for trade, respective economic health and how it views the aviation industry, with elections expected in the UK and the US over the next two years.</p> <p>Developments in relevant international relationships, in particular as they affect air services agreements to which the UK is party, are monitored throughout the year and BA's position advocated with national governments. Any further macro-economic trends or potential requirements arising from Brexit are monitored by IAG government affairs specialists.</p>	

## Strategic report continued

### Principal risks and uncertainties continued

<i>Strategic continued</i>	
<b>Economic, political and regulatory environment continued</b>	
<b>Risk description</b>	<b>Mitigation</b>
<p>Economic deterioration in either a domestic market or the global economy may have a material impact on BA's financial position, while foreign exchange, fuel price and interest rate movements create volatility.</p> <p>Uncertainty or failure to plan and respond to economic change or downturn impacts the operations of BA.</p> <p>Changes in government may result in a change in sentiment to aviation and access to markets.</p> <p>Government policy asymmetry impacting a domestic market could increase the burden of regulation and cost to our passengers.</p>	<p>The BA Board and BA's Management Committee review the financial outlook and business performance through the monthly trading results, financial planning process and the reforecasting process.</p> <p>Reviews are used to drive BA's financial performance through the management of capacity, together with appropriate cost control measures including the balance between fixed and variable costs, management of capital expenditure, and actions to improve liquidity.</p> <p>External economic outlook, fuel prices and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the BA Board and BA's Management Committee as part of business performance monitoring.</p> <p>IAG Government Affairs function, in conjunction with BA's Corporate Affairs team, monitors governments' initiatives, represents BA's interest and gives BA early sight of likely changes to laws and regulations eg any review of slot alleviation policy in the UK.</p> <p>BA and the IAG Group engages with its regulators, governments and other political representatives and trade associations to help represent the views and contribution of BA and aviation to society and economies.</p>
<b>Sustainable aviation</b>	
<p><b>Status</b> BA is committed to the IAG Group target of net zero carbon emissions across its operations and supply chain by 2050 along with 2025 and 2030 targets. The Group Business Services (GBS) procurement function will have a key role to play in ensuring its delivery of the Scope 3 commitment for the Group with supplier sustainability ratings and sustainability clauses in supplier contracts key considerations for future contract negotiations and renewals. IAG has also committed to 10% SAF usage on average across its fleet by 2030.</p> <p>BA has agreed new deals for the production of SAF to meet IAG's target on the path to decarbonisation. Overall aviation industry requirements will require infrastructure investments across markets to support the production of SAF to meet demand expectations. Availability of SAF may be restricted at airports served by BA in the medium to longer term, where markets may not have such strict eco targets or government set policy.</p> <p>IAG was an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD) guidelines for climate-related scenario analysis and climate-specific risk assessments. IAG continues with its assessment of climate-related risks, by testing and revising the assumptions on updated forecasts for future business growth and the regulatory context and future carbon price. BA has also embedded forecasting of its climate impacts into its strategic, business and financial planning processes and is resilient to material climate-related impacts.</p>	

## Strategic report continued

### Principal risks and uncertainties continued

<i>Strategic continued</i>	
<b>Sustainable aviation continued</b>	
<b>Risk description</b>	<b>Mitigation</b>
<p>Increasing global concern about climate change and the impact of carbon affects BA's performance as customers seek alternative methods of transport or reduce their levels of travel.</p> <p>New taxes, the potential removal of aviation jet fuel tax exemptions and increasing price of carbon offsets impact on demand for air travel. Customers may choose to reduce the amount they fly.</p> <p>The airline industry sector is subject to increased regulatory requirements, driving costs and operational complexity, particularly with policy asymmetry in key markets.</p> <p>Sustainable fuel mandates are implemented and demand exceeds supply or infrastructure and production is not available in the markets BA serves.</p>	<p>IAG climate change strategy to meet target of net zero carbon emissions by 2050.</p> <p>BA's platforms to offset or mitigate passenger flight emissions.</p> <p>BA has loans linked to 2025 carbon intensity targets.</p> <p>BA customer proposition for carbon renewal credits on BA.com which uniquely offers offsets, removals or SAF.</p> <p>IAG investment in Sustainable Aviation Fuels (SAF) with BA securing deals in 2022.</p> <p>Fleet replacement plan is introducing aircraft into the fleet that are more carbon efficient.</p> <p>EcoVadis partnership with IAG GBS to better track sustainability performance in the IAG supply chain and mitigate supply chain-related sustainability risks.</p> <p>Partnering with ZeroAvia to explore hydrogen-powered aircraft technology.</p> <p>Participating in CORSIA, the ICAO global aviation carbon offsetting scheme and UK-ETS emission trading schemes.</p> <p>Horizon scanning of potential partners and technology.</p> <p>Engagement across UK and global trade associations to shape effective climate policy and drive support for low-carbon solutions.</p>
<i>Business and operational</i>	
<b>Cyber attack and data security</b>	
<p><b>Status</b> The risks from cyber threats continue as threat actors seek to exploit any weaknesses in defences particularly through social engineering and human behaviours. The threat of ransomware attacks on critical infrastructure and services has increased as a result of the war in Ukraine and the potential for state sponsored cyber attacks. BA continues to focus its efforts on appropriate monitoring to mitigate the risk.</p> <p>The regulatory regimes associated with data and infrastructure security are also becoming more complex with different regulators applying different framework approaches and guidance for reporting. BA is subject to the requirements of privacy legislation such as GDPR and the National Information Security Directive (NISD).</p> <p>Investment in cyber security systems and controls continue as planned, although addressing the risk is also dependent on business capacity and the delivery of solutions to address technical obsolescence within IAG Tech. All planned investment is linked to an IAG Group-wide maturity assessment based on a leading industry standard benchmark. Data centre migration activity to the Cloud at BA will further help to improve the security controls environment. As BA improves its security posture and maturity, it better understands the rapid nature of potential attack vectors and how to detect them.</p>	

## Strategic report continued

### Principal risks and uncertainties continued

<i>Business and operational continued</i>	
<b>Cyber attack and data security continued</b>	
<b>Risk description</b>	<b>Mitigation</b>
<p>BA could face financial loss, disruption or damage to brand reputation arising from an attack on BA's systems by criminals, foreign governments or hacktivists.</p> <p>If BA does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p> <p>Changes in working practices and environments for BA's employees and third-party suppliers could result in new weaknesses in the cyber and data security control environment.</p>	<p>The IAG Group has a Board approved cyber strategy that drives investment and operational planning.</p> <p>BA operates under the IAG cyber risk management framework.</p> <p>BA's Cyber Governance Board assesses the portfolio of cyber projects quarterly.</p> <p>The IAG Chief Information Security Office provides assurance and expertise around strategy, policy, training and security operations for BA</p> <p>Detection tools and monitoring are in place. The IAG security engineering and operations teams proactively seek to identify and respond to threats and vulnerabilities, including ongoing testing of the BA's defences.</p> <p>External attack surface monitoring and threat Intelligence is used to analyse cyber risks to BA.</p> <p>There is oversight of critical systems and suppliers to ensure that BA understands the data it holds, that it is secure, and regulations are adhered to.</p> <p>BA has a Data Protection Officer in place and they coordinate activities through the IAG Privacy Steering Group.</p> <p>Working practices are reviewed to ensure the integrity of cyber and data security.</p> <p>All third-party suppliers have confirmed their adherence to IAG security requirements within any revised security protocols.</p> <p>Security architecture team embedded into the Datacentre migration programmes.</p>
<b>IT systems and IT infrastructure</b>	
<p><b>Status</b> BA recognises the importance of technology to business transformation and growth and all its digital and IT resources are managed together in IAG Tech, reporting to the IAG Chief Information Officer (CIO). BA has a Chief Digital and Information Officer (CDIO) who represents the business within IAG Tech. This has strengthened IAG Tech's focus on understanding business requirements, helping to transform the BA business and deliver a digital customer experience.</p> <p>BA is reliant upon the resilience of its systems and networks for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. BA is currently engaged in a number of major programmes to modernise and upgrade its IT systems, digital capability, customer propositions and core IT infrastructure and network where required. Mitigating actions that prioritise operational stability and resilience have been built into all cutover plans. Operational outages are tracked and root causes identified to help minimise any impact to our customers and operations.</p>	
<b>Risk description</b>	<b>Mitigation</b>
<p>The dependency on IT systems and networks 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 BA may result in disruption to operations as the legacy environment is addressed.</p> <p>Obsolescence within the BA tech estate could result in service outages and/or operational disruption or delays in implementation of BA's transformation.</p> <p>Technology disruptors may use tools to position themselves between our brands and our customers.</p>	<p>IAG Tech works with BA to deliver digital and IT change initiatives to enhance security and stability.</p> <p>Robust portfolio process to determine the right investments across the IAG Group.</p> <p>BA's IT Board reviews delivery timelines.</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> <p>The IAG Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.</p> <p>IAG Tech continues to create early engagement and leverages new opportunities with start-ups and technology disruptors.</p>

## Strategic report continued

### Principal risks and uncertainties continued

<b>Business and operational continued</b>	
<b>Operational resilience</b>	
<p><b>Status</b> The COVID-19 pandemic resulted in an unprecedented level of disruption to the aviation sector and changed BA's perspective on how resilient it needed to be to withstand severe unexpected stresses. Potential high-impact, low-likelihood events have been considered that could have the potential to disrupt BA and/or the aviation sector. Many of these events remain outside of BA's control such as adverse weather, another pandemic, civil unrest or terrorist event seen in cities served by BA.</p> <p>The Group is reliant on critical third parties for services and goods, many of whom have been impacted by resourcing challenges, inflation and supply chain disruption. Ongoing labour shortages, threat of strike action and staff sickness infections have impacted BA's operational environment as well as the operations of the businesses on which BA relies. Many of these events can occur within a close timeframe and challenge operational resilience. In addition, BA has significant IT infrastructure changes to complete which could impact operations. BA is focussed on minimising any unplanned outages or disruption to customers with additional resilience built into the airline's networks.</p>	
<b>Risk description</b>	<b>Mitigation</b>
<p>An event causing significant network disruption or the inability to promptly recover from short term disruptions may result in lost revenue, customer disruption and additional costs to BA.</p> <p>Public health concerns impacting populations at scale could see an adverse effect on BA where governments choose to impose restrictions, as would any future pandemic outbreak or other material event impacting operations or customers' ability to travel.</p> <p>BA may not be able to resource its operations sufficiently resulting in impacts to customers and brand.</p> <p>BA is reliant on critical third parties to deliver services and any failure of the level of service in its third parties may impact operational resilience and BA customers.</p>	<p>Management has business continuity plans to mitigate this risk to the extent feasible with focus on operational and financial resilience and customer and colleague safety and recovery.</p> <p>Resilience to minimise the impact of ATC airspace restrictions and strike action on the Group's customers and operations are in place.</p> <p>BA focussed on developing customer disruption management tools to help our customers in times of disruption</p>
<b>People, culture and employee relations</b>	
<p><b>Status</b> The resilience and engagement of our people and leaders are critical to achieving BA's transformation plans. Our people are a critical enabler to BA's future success. BA recognises the efforts of our staff and their resilience and commitment supporting the ramp up of operations. Resource shortages and the timelines to secure resource, particularly in UK, impacted operational readiness and resilience. BA is focussed on measures to attract and secure flight and ground staff to enable it to fulfil its schedule and maintain competitiveness.</p> <p>BA is focused on staff wellbeing and people morale and motivation, including supporting agile and hybrid working models. Welfare support schemes are in place to support BA's staff and initiatives to build trust and engagement continue across BA. BA has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the IAG Group's diversity and inclusion plans. BA recognises the critical role that employees will play in its recovery and transformation and is focusing on improving organisational health and employee engagement.</p>	
<b>Risk description</b>	<b>Mitigation</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 and customer perceptions.</p> <p>Our people are not engaged, or they do not display the required leadership behaviours.</p> <p>BA fails to attract, motivate, retain or develop our people to deliver service and brand experience.</p> <p>Critical skillsets are not in place to execute on the required transformation and drive the business forward.</p> <p>If BA cannot recruit to respond to the demand environment, given wider recruitment challenges across sectors of the economy, manpower shortages may impact operational capabilities.</p>	<p>Ongoing information sharing, consultation and collective bargaining with unions across BA takes place on a regular basis led by human resources specialists, who have a strong skillset in industrial relations.</p> <p>Ensuring that remuneration is aligned to local markets in terms of productivity and pay.</p> <p>BA people strategy in place, with succession plans developed.</p> <p>Focus on recruiting and developing skills to run and transform our business.</p> <p>Engagement and organisational health surveys have been conducted with subsequent action plans developed to create a positive and inclusive culture.</p> <p>Access to support individuals' wellbeing</p> <p>IAG Code of Conduct is supported by an annual training requirement for all our staff.</p>

## Strategic report continued

### Principal risks and uncertainties continued

<b>Business and operational continued</b>	
<b>Safety or security incident</b>	
<p><b>Status</b> BA was focused on a safe return to operations in the year. As capacity increased BA focussed on recruiting, onboarding training new cabin crew and ground colleagues, with appropriate training to build their skills and knowledge.</p> <p>The BA Safety Board continued to monitor the safety performance of BA. 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>	
<b>Risk description</b>	<b>Mitigation</b>
A failure to prevent or respond effectively to a major safety or security incident or intelligence may adversely impact BA's brand, operations and financial performance.	<p>BA's safety committee satisfies itself that BA has the appropriate resources and procedures which include compliance with Air Operator Certificate requirements.</p> <p>The Group's airlines have comprehensive training and maintenance programmes in place, supported by a just culture environment.</p> <p>There is ongoing security engagement with airports, regulators and public authorities across BA's network.</p> <p>Incident centres respond in a structured way in the event of a safety or security incident or intelligence.</p>
<b>Transformation and change</b>	
<p><b>Status</b> BA has established a Transformation Programme Management Office which has oversight of an agreed portfolio of initiatives. Many of the programmes are multi year and all are subject to the ongoing review and investment approvals that include the BA Board as per the governance structure.</p>	
<b>Risk description</b>	<b>Mitigation</b>
<p>Failure to transform the business to effectively deliver cost efficiency initiatives, maintain or grow share in the new competitive environment, fully implement all programmes across BA and realise the benefits of the change initiatives to deliver BA's digital platforms and customer propositions.</p> <p>The pace of change may expose BA to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers.</p> <p>The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact NPS, revenue and efficiency benefits.</p> <p>Competitors, or new entrants, may invest to deploy digital technologies, sustainability initiatives and/or platforms ahead of BA.</p> <p>BA's focus on cash preservation, debt and debt repayment could limit the investment available to deliver initiatives.</p>	<p>The Chief Digital &amp; Transformation Officer has clear oversight of all programmes under the transformation agenda.</p> <p>Consistent core metrics and dashboard reporting is used to assess performance against plan.</p> <p>The dashboard and progress against delivery is assessed regularly.</p> <p>BA's transformation agenda is subject to BA Board approval.</p> <p>BA communicates to employees on change initiatives and changes that may affect them.</p> <p>Consideration is given to the Group's sustainability commitments and agenda for all programmes.</p> <p>Any potential changes that could impact the brand are reviewed to mitigate against brand damage.</p>
<b>Financial including Tax and Treasury</b>	
<b>Debt funding</b>	
<p><b>Status</b> Access to the unsecured debt markets may be restricted for sub investment grade organisations, which may reduce the external funding options available to BA. The IAG Group successfully raised financing for all BA's aircraft deliveries during 2022, using normal long-term aircraft financing arrangements. Rising interest rates also increase the debt servicing cost for BA new aircraft financing or where BA chooses to refinance upcoming maturities.</p>	
<b>Risk Description</b>	<b>Mitigations</b>
<p>Failure to finance ongoing operations, committed aircraft orders and future fleet growth plans.</p> <p>New financial arrangements, in addition to the repayment of existing arrangements, and government support schemes (as applicable) may impact plans to transform BA.</p> <p>Higher interest rates in the market for new finance arrangements or re-financing may impact the BA's cost base.</p>	<p>The BA Board and BA Management Committee review BA's financial position and financing strategy regularly.</p> <p>BA has maintained clear focus on protecting liquidity.</p>

## Strategic report continued

### Principal risks and uncertainties continued

<i>Financial including Tax and Treasury continued</i>	
<b>Financial and treasury-related risk</b>	
<p><b>Status</b> Fuel cost increases have been partly mitigated by fuel hedging. Access to fuel hedging instruments or the ability to pass increased fuel costs on to consumers could impact BA's profits. BA continues to assess the strength of the US dollar against pound sterling and the potential impacts on BA's operating results. BA hedges in line with the IAG Group hedging policy.</p> <p>The approach to fuel risk management, financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and BA's exposure by geography continue to be assessed to ensure that BA responds to the rapidly changing financial environment appropriately.</p>	
<b>Risk Description</b>	<b>Mitigations</b>
<p>Failure to manage the volatility in the price of oil and petroleum products.</p> <p>Failure to manage currency risk on revenue, purchases, cash and borrowings in foreign currencies other than the airline's local currency of sterling.</p> <p>Failure to manage the impact of interest rate changes on floating finance debt and floating operating leases.</p> <p>Failure to manage the financial counterparties credit exposure arising from cash investments and derivatives trading.</p>	<p>Fuel price risk is partially hedged through the purchase of oil derivatives in accordance with BA's risk appetite.</p> <p>BA hedges in line with the IAG hedging policy under the IAG Treasury oversight.</p> <p>The BA CFO, in conjunction with IAG Treasury, regularly reviews the Group's fuel and currency positions.</p> <p>Currency risk is hedged through matching inflows and outflows and managing the surplus or shortfall through foreign exchange derivatives.</p> <p>BA reviews routes to countries with exchange controls to monitor delays in the repatriation of cash and/or with the risk of material local currency devaluation.</p> <p>BA has a financial counterparty credit limit allocation by type of exposure and monitors the financial and counterparty risk on an ongoing basis.</p> <p>The BA CFO, in conjunction with IAG Treasury, regularly reviews the financial risks and the hedged amounts.</p>
<b>Pensions</b>	
<p><b>Status</b> BA has two significant employer funded defined benefit schemes, APS and NAPS. The triennial valuations of the APS and NAPS pension schemes were agreed and signed-off in June 2022 and December 2022 respectively.</p>	
<b>Risk Description</b>	<b>Mitigations</b>
<p>BA is exposed to the risks of operating underfunded defined benefit schemes.</p> <p>Adverse movements in government bond yields, long term inflation and mortality assumptions, negative movements in pension asset values and financial returns from these assets may adversely affect the funding level of the scheme.</p>	<p>Management regularly reviews the funding status of the pension schemes and is in regular dialogue with the schemes' Trustees on funding and investment decisions.</p>
<i>Compliance and regulatory</i>	
<b>Non-compliance with key regulation and laws</b>	
<p><b>Status</b> BA has maintained its focus on compliance with key regulations and mandatory training programmes have continued throughout the year.</p>	
<b>Risk Description</b>	<b>Mitigations</b>
<p>BA 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>	<p>BA has clear frameworks in place including comprehensive policies designed to ensure compliance.</p> <p>There are mandatory training programmes in place to educate employees as required for their roles in these matters.</p> <p>Compliance professionals specialising in competition law and anti-bribery legislation support and advise BA.</p> <p>IAG Code of Conduct framework and mandatory training is in place.</p> <p>A Data Protection Officer is in place.</p>

## Strategic report continued

### Section 172 statement

During 2022, the Board and designated subcommittees acted in a way, they consider, in good faith, would most likely promote the success of 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 Group'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.

<b>Customers</b>	
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 Avios points from IAG Loyalty 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 (NPS) and complaints data.</p> <p>Customer feedback is analysed and used to drive product and service initiatives that deliver the greatest value for the customer.</p> <p>As a result of the COVID-19 pandemic, BA offered greater booking flexibility to customers and continued to do so in 2022. During the year it issued almost 500,000 vouchers to customers who chose not to travel, for use at a later date. BA refunded 1.4 million bookings either fully or partially, and more than 700,000 customers booked travel during the year using previously issued vouchers.</p> <p>BA customers are always and have always been entitled to a refund if their flight is cancelled. However, in addition, BA notified customers who, following receipt of notification of cancellation of their flight in the period of 9 March 2020 – 19 November 2020, specifically requested a voucher, to advise them that they can request a refund of the value (or residual value) of the voucher if not used (or only part used) within 24-months of the date of issue. On receipt of the email notification, customers can access a link to an online form to request a refund, which will then be processed if the customer is eligible. Customers have until September 2023 to contact BA to request the refund.</p> <p>The strategic report on pages 2 to 7 describes the investment in customer experience that the Group has delivered during 2022.</p>
<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>

## Strategic report continued

### Section 172 statement continued

<b>Workforce (continued)</b>	
How management and/or Directors engaged and what was the impact of the engagement?	<p>The section of the Directors' report on page 24 explain how the Company engages with the workforce.</p> <p>During the year, the Executive Directors visited areas across the business to meet with colleagues and gain insight into the challenges faced by colleagues on a day-to-day basis. There's a renewed emphasis on making sure colleagues understand the company's vision and strategic plan, and how their contribution makes a difference to the company's success. Information is shared with colleagues about the aviation industry, the business and its financial performance via emails from their local leaders, the Company intranet and the CEO's vlog, as well as team briefings. Colleagues are encouraged to share their views on all matters with senior management.</p> <p>As part of a focus on rebuilding trust and pride with colleagues, in 2022 a new Director of Industrial Relations joined the business and worked to build more constructive relationships with our trade unions, during which new pay deals were agreed with all unions.</p> <p>In October 2022, British Airways asked colleagues to take part in a confidential, independent survey; RealityCheck, to understand what matters to the workforce. The business also participated in two Organisational Health Index (OHI) surveys, which take place across all IAG operating companies. The insight from all surveys will help to build a Better BA and create a benchmark to build future activity upon.</p> <p>British Airways continues to introduce and promote a number of resources to support colleagues' mental health and positive wellbeing. This includes extending its partnership with Unmind to offer all colleagues access to a market leading mental health and wellbeing platform, running colleague wellbeing roadshows, encouraging knowledge sharing on menopause and launching the Peppy app, which connects colleagues with expert menopause nurses and offers personalised and confidential support through the airline's menopause colleague network and recruiting more than 150 mental health first aiders across the business.</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>We worked closely with Heathrow and Gatwick airports this summer to understand any constraints they had in terms of resourcing and therefore any impact on our customer and operations. We continue to engage with Heathrow Airport in relation to operational challenges and in relation to the airport charges. Additionally, we continue to actively engage with the Civil Aviation Authority regarding the quinquennial review of airport charges.</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 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>
<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><i>The communities in which the airline operates require British Airways to operate in a socially responsible manner and protect the environment.</i></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 Sustainability 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 in 2021 the airline launched its BA Better World sustainability programme, a further commitment to put sustainability at the heart of the business across three pillars – People, Planet and Responsible Business, including good governance and giving back to the communities it serves.</p> <p>In April 2022, British Airways launched the BA Better World Community Fund to support projects in communities across the UK, which delivered more than £2 million of funding in 2022 alone to support a number of charities across the UK focused on biodiversity and climate, diversity and inclusion, education, social mobility and wellbeing to name a few. In April, the airline took its first-ever supply of UK-produced sustainable aviation fuel, or SAF, (made from waste cooking oil) through its partnership with Phillips 66. It's now routinely delivered into Heathrow operations, so all BA flights leaving Heathrow now fly using a small proportion of SAF. In October, the airline launched CO<sub>2</sub>llaborate, a new online platform providing customers and colleagues with the ability to address their carbon footprint through carbon offsetting, purchasing SAF or carbon removals credits.</p> <p><i>The strategic report on page 4 provides more information on BA Better World.</i></p>
<b>Pension Trustees</b>	
Why it is important to engage and what matters to them?	<p>As described in note 27 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 boards. Additional management representatives attend Trustee investment strategy meetings. Senior management met with the NAPS Trustee Board during the year to discuss the Group's financial performance and updated forecasts.</p> <p>In December BA reached an agreement with the NAPS Trustee Board of Directors on the 2021 triennial valuation (pursuant to which it is anticipated that subject to the scheme remaining fully funded on the agreed basis, no further deficit reduction contributions will be required).</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 British Airways. Principal decisions taken during the year include:

#### *NAPS funding commitments*

British Airways reached an agreement with the NAPS Trustee Board of Directors on the 2021 triennial valuation (pursuant to which it is anticipated that subject to the scheme remaining fully funded on the agreed basis, no further deficit reduction contributions will be required).

#### *Heathrow Fleet Simplification*

In March 2022, the BA Board approved a project designed to deliver a consistent product and drive fleet simplification at Heathrow by upgrading the three formerly Gatwick based B777-200IGW aircrafts, by retrofitting these three aircraft with the Club World configuration.

#### *Relocation of Contact Centre in Delhi*

In March 2022, the Board approved a relocation project associated with moving the current Delhi Contact Centre (CallBA) to a new property in Gurgaon (Delhi). The objective of the project is to improve customer experience, colleague experience, aide retention through new offices, provide opportunities, better facilities and leveraging hybrid working.

#### *Aemetis (US) Sustainable Aviation Fuel (SAF)*

In May 2022, the BA Board approved a request to enter into a binding agreement to commit to procuring Sustainable Aviation Fuel for a seven year term.

SAF has a targeted negative carbon intensity via carbon capture of process emissions – British Airways' first SAF contract with such attributes - which would deliver up to 301,000 tonnes of direct CO<sub>2</sub> mitigation over the term in line with the Group's Flightpath Net Zero and 10 per cent SAF by 2030 policies as well as providing British Airways' large corporate customers that would like to reduce their Scope 3 air travel emissions.

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

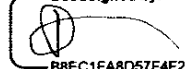
DocuSigned by:

 Sean Doyle

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Sean Doyle  
Chairman and Chief Executive Officer  
1 March 2023

DocuSigned by:

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Rebecca Napier  
Chief Financial Officer  
1 March 2023

## Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2022.

### Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 16 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 British Airways 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 profit for the year ended 31 December 2022 amounted to £303 million (2021: £1,900 million loss). The operating profit for the year ended 31 December 2022 was £322 million (2021: £1,769 million loss).

The Board has decided not to recommend the payment of any dividends in respect of the year ended 31 December 2022 (2021: Nil).

### Going concern

In its assessment of going concern over the period to 30 June 2024 (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, used in the creation of the Base Case, was prepared for and approved by the Board in December 2022. The business plan takes into account the Board's and management's views on the anticipated continued recovery from the COVID-19 pandemic and the wider economic and geopolitical environments on the Group's businesses across the going concern period.

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

### 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:

Sean Doyle  
Alison Reed  
Rebecca Napier  
Alison Brittain  
Lynne Embleton  
Carolina Martinoli

### 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.

British Airways 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 British Airways 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 2021 and remain in force.

## Directors' report continued

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

British Airways 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 British Airways' 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 2021 and remain in force.

### Corporate Governance

Effective corporate governance is a key requirement for the Group. For the year ended 31 December 2022, 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

British Airways recently launched a Better BA, which sets out British Airways' purpose, values, strategy and behaviours. This is supported by British Airways' business plan, which is refreshed and reviewed annually by the Board.

British Airways' purpose is to connect Britain with the world, and the world with Britain.

British Airways' purpose is delivered through our values, strategy and behaviours. British Airways' values are - safe and secure, caring, excellence, creative and open minded. These values unite and guide colleagues. Our strategy is based around five imperatives – London leadership, premium proposition, colleague centricity, efficient execution and sustainable strategy. Our behaviours will enable and drive delivery of our strategy – trusting, curious, empowering, courageous, and collaborative.

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 British Airways and the other operating companies within IAG.

#### Principle 2 – Board composition

In 2022 the Board comprised of two Executive Directors (the CEO and the CFO) and four Non-Executive Directors. Two of the Non-Executive Directors have other executive roles within IAG and two are external to IAG. The roles of Chairman and CEO were combined and it is considered that the two appointed external 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 five female Directors and one male Director, 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 British Airways' 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 Sustainability 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 regularly attend Board meetings. All Directors have access to professional advice and services of the British Airways 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.

#### Principle 3 – Director responsibilities

Whilst the Board maintains effective oversight of British Airways' 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. British Airways 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 British Airways 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 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 British Airways. 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 approval process.

## Directors' report continued

### Corporate Governance continued

The Board aims to meet eight times per year. During 2022, there were eight meetings, which were well attended.

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. *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 4 – 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 financial 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 British Airways 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 British Airways 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. British Airways 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. The risk framework allows British Airways to develop an assessment of the interdependencies of risks, built on scenario planning to quantify risk impact under different assumptions and consider the risks within British Airways' 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 with the return to operations as markets have re-opened. British Airways reviews macro-economic and geopolitical events to identify emerging risks and implications for existing principal risks as well as competition and market risk changes, particularly those that could impact operational resilience. Where further action has been required the British Airways Board has considered potential mitigations and, where appropriate or feasible, British Airways has implemented or confirmed plans that would address those risks. 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 British Airways 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 British Airways 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 16 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 British Airways' purpose, value and strategies and is set at a market competitive level to ensure that British Airways can attract and retain quality senior management.

The Remuneration Committee is chaired by a Non-Executive Director and has clearly defined terms of reference.

## 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 17 to 19 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

As customer demand rebounded very rapidly once restrictions were lifted, we have invested significantly in the recruitment of customer facing and operational teams. This has involved establishing operational effectiveness to recruit approximately 7,400 colleagues throughout the year. We continue to prioritise activity to build our people operational effectiveness to ensure a robust onboarding experience for colleagues, and resource requirements.

In 2022, British Airways continued to focus on our strategic imperative colleague centricity. Having defined our leadership behaviours in support of fostering a culture of trust, inclusivity and fairness in 2021, this year we have launched leadership development pathways to build capability across the organisation. These pathways and leadership development programmes will reach all layers of our leadership communities (including operational and strategic) over the next 3 years.

To promote trust, and our diversity, equity and inclusion commitments we have begun the transformation of how we support colleagues through our policies, leading with the introduction of gender neutral, enhanced family leave arrangements, which has significantly increased the retention of colleagues that have recently become parents. This supports the progress of reaching our diversity targets for both gender and ethnicity for 2025 and 2030.

A record-breaking number of apprentices and graduates have been recruited across the last 12 months. We have had a number of successes including re-introducing our school engagement programmes and signing up over 9,000 students to Speedbird-Z, as well as new features which include a full university strategy focussing on our Diversity and Inclusion agenda and new strategic partnerships to attract emerging talent onto our programmes.

Looking ahead into 2023, we will be continuing to focus on our people transformation priorities. We will be expanding our reverse mentoring programme to help our leaders celebrate different perspectives, backgrounds and experiences as we recognise that diversity is a powerful force for change. There are a number of exciting investments planned for talent development, and our strategic resourcing function in 2023, including a new partnership with The Princes Trust working with candidates from socially challenged backgrounds, our brand new work experience programme and our biggest recruitment drive to date.

The results of our company-wide engagement surveys show an improved engagement index when compared with November 2021, and we are using the insight to inform how we can continue to improve our colleague experience.

#### 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	2022	2021
Annual GHG emissions in tonnes of CO <sub>2</sub> equivalent	Scope 1	MT CO <sub>2</sub> equivalent	11,887,802	5,978,784
	Scope 2 location-based	MT CO <sub>2</sub> equivalent	28,414	26,857
	Scope 2 market-based	MT CO <sub>2</sub> equivalent	8,959	6,908
	Scope 3	MT CO <sub>2</sub> equivalent	2,773,091	1,674,405
Energy in kWh	Electricity	kWh	129,816,509	113,509,593
	Total energy	MWh	45,724,411	22,947,090
Intensity ratio	Flight emissions intensity	gCO <sub>2</sub> /pkm	89.1	101.6

Refer to pages 3 to 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 2022 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.

## Directors' report continued

### 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.

### Statement of directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

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

*Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by

DocuSigned by:



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Andrew Fleming

Company Secretary

1 March 2023

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 Company") for the year ended 31 December 2022 which comprise the Group consolidated income statement, Consolidated statement of other comprehensive income, Group and Company balance sheets, Group and Company cash flow statements, Group and Company statements of changes in equity and related notes, including the significant accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group and of the parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- *the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.*

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and parent Company's available financial resources over this period were:

- The risk that the recovery in operating capacity and passenger volumes does not continue as projected to pre-pandemic levels.
- The risk that current macroeconomic conditions (including higher fuel prices and cost inflation) adversely impact consumer demand and ticket pricing.
- The risk that operational disruption adversely affects the Group and parent Company during the going concern period.

Given the level of financial resources, and the risks inherent in the cash flows, particularly the operational and economic environments in which the Group and parent Company operates, our evaluation of the directors' going concern assessment was of particular significance in our audit. We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's and parent Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included;

- We critically assessed assumptions in the directors' forecast relevant to liquidity, by comparing to external forecasts for the aviation industry's recovery from the impacts of the COVID-19 pandemic and economic forecasts, overlaying our knowledge of the Group and parent Company's plans based on approved budgets and our knowledge of the sector in which it operates.
- We specifically challenged the assumptions underpinning the 'downside case' scenario prepared by the directors to evaluate whether this represented a sufficiently severe but plausible downside scenario.
- We inspected loan facility agreements with lenders to confirm the level of facilities available and expiration date.
- We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the parent Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure in note 2 to be acceptable.

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

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

### **Fraud and breaches of laws and regulations – ability to detect**

#### ***Identifying and responding to risks of material misstatement due to fraud***

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and inspection of policy documentation as to the Group and parent Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group and parent Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors including their short and long-term incentive plans.
- Using analytical procedures to identify any unusual or unexpected relationships.

*We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.*

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the nature of services tendered are high volume and low value, which have limited complexity in relation to the recognition principles of IFRS 15. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

#### ***Identifying and responding to risks of material misstatement related to compliance with laws and regulations***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group and parent Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

*We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.*

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group and parent Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, UK civil aviation authority regulations and association of British travel agents regulations, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group and parent Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Group and parent Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### ***Context of the ability of the audit to detect fraud or breaches of law or regulation***

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept 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.*

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they 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

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

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



**Mark Baillache (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
1 March 2023

## Group consolidated income statement

For the year ended 31 December 2022

£ million	Note	Group	
		2022	2021
Passenger revenue		9,215	2,315
Cargo revenue		1,060	1,097
Other revenue		755	281
<b>Total revenue</b>		<b>11,030</b>	<b>3,693</b>
Employee costs	6	2,100	1,482
Fuel, oil costs and emission charges		2,929	938
Handling, catering and other operating costs		1,812	824
Landing fees and en route charges		870	373
Engineering and other aircraft costs		803	377
Property, IT and other costs		635	490
Selling costs		385	138
Depreciation, amortisation and impairment	4	1,084	984
Currency differences		109	(13)
<b>Total expenditure on operations before exceptional items</b>		<b>10,727</b>	<b>5,593</b>
<b>Operating profit/(loss) before exceptional items</b>	4	<b>303</b>	<b>(1,900)</b>
Exceptional items	3	19	131
<b>Operating profit/(loss) after exceptional items</b>		<b>322</b>	<b>(1,769)</b>
Finance costs	7	(494)	(429)
Finance income	7	20	3
Net financing credit/(charge) relating to pensions	7	22	(2)
Net currency retranslation (charge)/credit		(49)	23
Other non-operating credits	7	225	70
<b>Total net non-operating costs</b>		<b>(276)</b>	<b>(335)</b>
<b>Profit/(loss) before tax</b>		<b>46</b>	<b>(2,104)</b>
Tax	8	15	456
<b>Profit/(loss) after tax</b>		<b>61</b>	<b>(1,648)</b>

## Consolidated statement of other comprehensive income

For the year ended 31 December 2022

£ million	Note	2022	Group 2021
Profit/(loss) after tax for the year		61	(1,648)
Other comprehensive income:			
<b>Items that may be reclassified to net profit/(loss)</b>			
Cash flow hedges:			
Fair value movements in equity	26	591	430
Reclassified and reported in net profit/(loss)	26	(593)	(32)
Fair value movements on cost of hedging	26	(56)	11
Cost of hedging reclassified and reported in net profit/(loss)	26	13	(11)
Currency translation differences	26	4	(9)
Other movements in comprehensive income of associates	15	8	(1)
		(33)	388
<b>Items that will not be reclassified to net loss</b>			
Fair value movements on cash flow hedges	26	112	18
Fair value movements on cost of hedging	26	(6)	1
Remeasurements of post-employment benefit obligations	27	554	1,197
		660	1,216
<b>Total other comprehensive income</b>		<b>627</b>	<b>1,604</b>
<b>Total comprehensive profit/(loss) for the year (net of tax)</b>		<b>688</b>	<b>(44)</b>

Items in the Consolidated statement of other comprehensive income above are disclosed net of tax.

**Balance sheets**

Company registration number 1777777

As at 31 December 2022

£ million	Note	2022	Group 2021	2022	Company 2021
<b>Non-current assets</b>					
Property, plant and equipment	10	10,446	9,861	10,300	9,696
Intangible assets	14	1,197	1,032	1,146	982
Investments in subsidiaries	15	-	-	1,271	842
Investments accounted for using the equity method	15	1,951	1,737	1,570	1,570
Other equity investments		2	2	2	2
Employee benefit assets	27	2,041	1,508	2,041	1,508
Derivative financial instruments	23	47	35	47	35
Deferred tax assets	8	513	574	623	671
Other non-current assets	19	174	168	173	170
		16,371	14,917	17,173	15,476
<b>Current assets</b>					
Non-current assets held for sale	13	16	-	16	-
Inventories		70	74	68	72
Trade receivables	16	811	454	788	441
Other current assets	16	685	414	688	417
Derivative financial instruments	23	340	218	343	220
Other current interest-bearing deposits	17	140	-	140	-
Cash and cash equivalents	17	2,376	1,687	2,321	1,630
		4,438	2,847	4,364	2,780
<b>Total assets</b>		<b>20,809</b>	<b>17,764</b>	<b>21,537</b>	<b>18,256</b>
<b>Shareholders' equity</b>					
Issued share capital	24	290	290	290	290
Share premium	24	1,512	1,512	1,512	1,512
Other reserves <sup>1</sup>	26	681	(10)	1,005	172
<b>Total shareholders' equity</b>		<b>2,483</b>	<b>1,792</b>	<b>2,807</b>	<b>1,974</b>
<b>Total equity</b>		<b>2,483</b>	<b>1,792</b>	<b>2,807</b>	<b>1,974</b>
<b>Non-current liabilities</b>					
Borrowings	20	9,226	8,918	9,208	8,898
Employee benefit obligations	27	188	241	179	218
Provisions	21	581	354	547	328
Derivative financial instruments	23	39	26	42	26
Other non-current liabilities	19	84	91	82	89
		10,118	9,630	10,058	9,559
<b>Current liabilities</b>					
Borrowings	20	1,211	832	1,198	819
Trade and other payables	18	2,436	1,665	2,965	2,092
Deferred revenue on ticket sales	18	4,171	3,512	4,141	3,490
Derivative financial instruments	23	141	69	146	70
Current tax payable	8	3	5	3	9
Provisions	21	246	259	219	243
		8,208	6,342	8,672	6,723
<b>Total liabilities</b>		<b>18,326</b>	<b>15,972</b>	<b>18,730</b>	<b>16,282</b>
<b>Total equity and liabilities</b>		<b>20,809</b>	<b>17,764</b>	<b>21,537</b>	<b>18,256</b>

<sup>1</sup>The profit for the year for the Company was £225 million (2021: loss £1,675 million).

Approved by the Board and signed on its behalf by

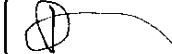
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Chairman and Chief Executive Officer  
1 March 2023

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Chief Financial Officer  
1 March 2023

## Cash flow statements

For the year ended 31 December 2022

£ million	Note	Group		Company	
		2022	2021	2022	2021
<b>Cash flow from operating activities</b>					
Operating profit/(loss) from continuing operations after exceptional items		322	(1,769)	259	(1,708)
Exceptional items		(19)	(131)	(19)	(131)
Operating profit/(loss) from continuing operations before exceptional items		303	(1,900)	240	(1,839)
Depreciation, amortisation and impairment		1,084	984	1,049	946
Movement in working capital		852	1,417	948	1,422
<i>Increase in trade receivables, inventories and other current assets</i>		(572)	(127)	(569)	(139)
<i>Increase in trade and other payables, deferred revenue on ticket sales and other current liabilities</i>		1,424	1,544	1,517	1,561
Payments related to restructuring	21	(8)	(18)	(8)	(18)
Employer contributions to defined benefit pension schemes net of service and administration costs	27	(3)	(14)	-	(12)
Provisions and other non-cash movements		193	160	188	158
Realised loss on de-designated fuel and foreign exchange hedges		14	(129)	6	(129)
Interest paid		(417)	(342)	(422)	(340)
Interest received		15	1	15	1
Tax paid		(10)	(28)	(10)	(28)
<b>Net cash flows generated from operating activities</b>		<b>2,023</b>	<b>131</b>	<b>2,006</b>	<b>161</b>
<b>Cash flow from investing activities</b>					
Acquisition of property, plant and equipment and intangible assets		(1,589)	(406)	(1,583)	(386)
Sale of property, plant and equipment and intangible assets		21	72	21	19
Dividends received	15	2	1	2	1
Loan repaid by parent company		9	9	9	9
Loan to associate		(11)	-	(11)	-
Other investing movements		(19)	(7)	(19)	(7)
Increase in other current interest-bearing deposits		(140)	-	(140)	-
<b>Net cash flows used in from investing activities</b>		<b>(1,727)</b>	<b>(331)</b>	<b>(1,721)</b>	<b>(364)</b>
<b>Cash flow from financing activities</b>					
Proceeds from borrowings		640	2,107	640	2,107
Repayments of borrowings		(159)	(459)	(159)	(459)
Repayment of lease liabilities		(610)	(738)	(595)	(724)
Settlement of derivative financial instruments		429	(237)	429	(237)
Other financing movements		-	(21)	-	(21)
<b>Net cash flows generated from financing activities</b>		<b>300</b>	<b>652</b>	<b>315</b>	<b>666</b>
Increase in cash and cash equivalents		596	452	600	463
Net foreign exchange differences		93	(26)	91	(28)
Cash and cash equivalents at 1 January		1,687	1,261	1,630	1,195
<b>Cash and cash equivalents at 31 December</b>		<b>2,376</b>	<b>1,687</b>	<b>2,321</b>	<b>1,630</b>
<b>Interest-bearing deposits with maturity periods of more than three months</b>		<b>140</b>	<b>-</b>	<b>140</b>	<b>-</b>
<b>Cash, cash equivalents and other interest-bearing deposits at 31 December</b>		<b>2,516</b>	<b>1,687</b>	<b>2,461</b>	<b>1,630</b>

## Statements of changes in equity

For the year ended 31 December 2022

				Group
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total equity
At 1 January 2022	290	1,512	(10)	1,792
Profit for the year	-	-	61	61
Other comprehensive income for the year	-	-	627	627
Total comprehensive income for the year, net of tax	-	-	688	688
Hedges reclassified and reported in property, plant and equipment	-	-	(19)	(19)
Hedges reclassified and reported in sales in advance of carriage	-	-	22	22
<b>As at 31 December 2022</b>	<b>290</b>	<b>1,512</b>	<b>681</b>	<b>2,483</b>

For the year ended 31 December 2021

				Group
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total Equity
At 1 January 2021	290	1,512	32	1,834
Loss for the year	-	-	(1,648)	(1,648)
Other comprehensive loss for the year	-	-	1,604	1,604
Total comprehensive loss for the year, net of tax	-	-	(44)	(44)
Hedges reclassified and reported in property, plant and equipment	-	-	2	2
<b>As at 31 December 2021</b>	<b>290</b>	<b>1,512</b>	<b>(10)</b>	<b>1,792</b>

## Statements of changes in equity

For the year ended 31 December 2022

	Company			
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total equity
At 1 January 2022	290	1,512	172	1,974
Profit for the year	-	-	225	225
Other comprehensive income for the year	-	-	605	605
Total comprehensive income for the year, net of tax	-	-	830	830
Hedges reclassified and reported in property, plant and equipment	-	-	(19)	(19)
Hedges reclassified and reported in sales in advance of carriage	-	-	22	22
<b>As at 31 December 2022</b>	<b>290</b>	<b>1,512</b>	<b>1,005</b>	<b>2,807</b>

For the year ended 31 December 2021

	Company			
£ million	Issued share capital	Share premium	Other reserves (note 26)	Total Equity
At 1 January 2021	290	1,512	237	2,039
Loss for the year	-	-	(1,675)	(1,675)
Other comprehensive income for the year	-	-	1,608	1,608
Total comprehensive loss for the year, net of tax	-	-	(67)	(67)
Hedges reclassified and reported in property, plant and equipment	-	-	2	2
<b>As at 31 December 2021</b>	<b>290</b>	<b>1,512</b>	<b>172</b>	<b>1,974</b>

# Notes to the Financial Statements

For the year ended 31 December 2022

## 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 2022 were authorised for issue by the Board of Directors on 1 March 2023 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 in the United Kingdom and registered in England and Wales. 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 Company income statement and related notes.

## 2 Significant accounting policies

### Basis of preparation

The Group has prepared the consolidated and Company financial statements in accordance with UK-adopted international accounting standards.

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 carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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 16) and the Group's financial position, including cash flows, liquidity position and available committed facilities (as set out on pages 6 and 7). Further information is provided in note 20 of the financial statements.

### Going concern

At 31 December 2022, the Group and Company had total liquidity of £5.5 billion (31 December 2021: total liquidity of £4.5 billion), comprising cash, cash equivalents and interest-bearing deposits of £2.5 billion (2021: £1.7 billion), £2.1 billion of committed and undrawn general facilities (2021: £2.0 billion) and a further £0.9 billion of committed and undrawn aircraft specific facilities (2021: £0.8 billion). The Group and Company's facilities do not contain financial covenants.

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

- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from 90 per cent in quarter 1 2023 (compared to the equivalent period in 2019) to pre-pandemic levels by the end of the going concern period;
- Passenger unit revenue per ASK is forecast to continue to remain above the levels obtained in 2019 throughout the going concern period, which is based on, amongst other assumptions, higher ticket prices to reflect both higher fuel prices and cost inflation;
- The Group and Company have assumed that the committed and undrawn general facilities of £2.1 billion will not be drawn over the going concern period. These facilities remain available throughout the going concern period;
- The Group and Company have assumed that of the committed and undrawn aircraft specific facilities of £0.9 billion, £0.5 billion will be drawn to fund specific aircraft scheduled for delivery during 2023 and the remaining £0.4 billion, for which the availability reduces with time throughout the going concern period, is not expected to be drawn; and
- Of the capital commitments detailed in note 12, £1.9 billion is due to be paid over the going concern period, of which the Group and Company have committed aircraft financing of £0.5 billion, and the Group and Company have further forecast securing 100 per cent 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 consistent with the level of financing the Group and Company have been able to achieve recently, including over the course of the COVID-19 pandemic to date.

The Downside Case applies stress to the Base Case to model adverse commercial and operational impacts as the Group and Company's capacity recovers over the going concern period, represented by: reduced levels of capacity operated in each month, including reductions of at least 25 per cent for three months during 2023 to reflect the risk of more severe operational disruption; reduced passenger unit revenue per ASK reflective of general pricing pressure due to the current economic backdrop; and increased operational costs reflective of inflationary pressures. In the Downside Case, over the going concern period capacity would be ten per cent down when compared to the Base Case. The Downside Case assumes that available general credit facilities are not required to be drawn. The Directors consider the Downside Case to be a severe but plausible scenario.

While not incorporated in the Downside Case, the Group and Company have modelled the impact of further deteriorations in capacity operated and yield, as well as increases in the price of jet fuel by 20 per cent and a reduction in the forecast loan to value to 80 per cent of the uncommitted financing, but also considered further mitigating actions, such as reducing operating and capital expenditure and deferring currently forecast early repayments of loans and borrowings. The Group and Company expect 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Going concern continued

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

#### Consolidation

The Group financial statements include the financial statements 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 consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. 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.

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.

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 intragroup account balances, including intragroup profits, are 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 undertake several such sale and leaseback transactions at once through Enhanced Equipment Trust Certificates (EETCs). Under each of these financing structures, a company or companies (the EETC Issuer) are established to facilitate such financing on behalf of a number of unrelated investors. In certain of these financing structures, additional special purpose vehicles (the Lessor SPV) are established to provide additional financing from a number of further unrelated investors to the EETC Issuer. The proceeds from the issuance of the EETCs by the EETC Issuer, and where relevant the proceeds obtained from the Lessor SPV, are then used to purchase aircraft solely from the Group. The Group will then enter into fixed rate lease arrangements (which meet the recognition criteria of Asset financed liabilities) with the EETC Issuer, or where relevant the Lessor SPV, with payments made by the Group to the EETC Issuer, or the Lessor SPV, 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.

The EETCs Issuer and the Lessor SPV are established solely with the purpose of providing the asset-backed financing and upon maturity of such financing are expected to have no further activity. The relevant activities of the EETCs Issuer and the Lessor SPV 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 and the Lessor SPVs are structured entities. Under the contractual terms of the financing structures, the Group has no exposure to losses in these entities, does not own any of the share capital of the EETC Issuer or the Lessor SPV, does not have any representation on the respective boards and has no ability to influence decision making.

In addition to the above, such financial transactions expose the Group to no further significant financial or economic risks, such as no variability over time in interest rates.

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

Further information as to the financial impact of these financial transactions are given in note 20.

#### Foreign currency translation

##### a Functional and presentational currency

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 using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation 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. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within Net currency retranslation (charges)/credits in the Income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Foreign currency translation continued

##### 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 (Currency translation reserve) until all or part of the interest is sold, when the relevant portion of the cumulative exchange difference is recognised in the Income statement.

#### 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 Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or Right of use ("ROU") assets, are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of up to 23 years and up to five per cent residual value for shorthaul aircraft and between 23 and 29 years (depending on aircraft) and up to five per cent residual value for longhaul aircraft.

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

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

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as 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 overhaul. 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.

##### b 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 duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

##### c Capitalisation of interest on progress payments

Interest costs 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.

##### d Liquidated damages

Liquidated damages are recognised in the Income statement only to the extent that they relate to compensation for loss of income and/or incremental operating costs, when a contractual entitlement exists, the amounts can be reliably measured and the receipt is virtually certain. When liquidated damages do not relate to compensation for loss of income and/or incremental operating costs, the amounts are recorded as a reduction in the cost of the associated aircraft in the Balance sheet and depreciated over the life of the aircraft.

##### e 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 tangible asset for a period of time in exchange for consideration. The Group has elected not to apply such consideration where a contract relates to an intangible asset, such as for landing rights or IT software, in which case payments associated with the contract are expensed as incurred.

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

#### *Right of use assets*

At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; and any initial direct costs. In addition, at the lease commencement date a ROU asset will incorporate unavoidable restoration costs, such as the removal of airline specific branding and configuration, to return the asset to its original condition, for which a corresponding amount is recognised within Provisions.

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Property, plant and equipment continued

##### *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.

Aircraft 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 the interest rate implicit in the lease 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 carrying amount of lease liabilities is remeasured if there is a modification of the lease contract, a re-assessment of the lease term (specifically in regard to assumptions regarding extension and termination options) and changes in variable lease payments that are based on an index or a rate.

##### *Amounts excluded from recognition as lease liabilities*

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 re-assessed 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 is also exposed to variable lease payments based on usage or revenue generated over a defined period. Such variable lease payments are expensed to the Income statement as incurred.

##### *Sale and leaseback transactions*

The Group regularly uses sale and lease 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. The principal criterion for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred, and; if no such repurchase option exists, then a sale is deemed to have occurred. The following defines the accounting for such transactions:

- if a sale is determined to have occurred, then the associated asset is de-recognised and a ROU asset and lease liability are recognised. The ROU asset recognised is based on the proportion of the previous carrying amount of the asset that is retained. Any gain or loss is restricted to the amount that relates to the rights that have been transferred to the counter-party to the transaction; and
- where a sale is determined to have 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.

##### *Cash flow presentation – lease liabilities*

Lease payments are presented as follows in the Consolidated cash flow statement:

- where the proceeds received from sale and leaseback transactions represent the fair value of the asset being transferred, the total proceeds are presented within cash flows from investing activities. Where the proceeds received from sale and leaseback transactions exceed the fair value of the asset being transferred, the element of the proceeds equivalent to the fair value of the asset being transferred are presented within investing activities and the amount of proceeds in excess of the fair value are presented within financing activities;
- 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.

##### *Cash flow presentation – asset financed liabilities*

Payments associated with asset financed liabilities are presented as follows in the Consolidated cash flow statement:

- the proceeds received Asset financed liabilities are presented within cash flows from financing activities;
- the repayments of the principal element of asset financed liabilities are presented within cash flows from financing activities;
- the payments of the interest element of asset financed liabilities are included within cash flows from operating activities.

##### *Lessor accounting*

The Company acts as a lessor in leasing aircraft to other companies within the Group. On inception of the lease, the Company determines whether each lease is a finance lease or an operating lease. In order to make this determination, the Company assesses whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. Factors in making this assessment include, but are not limited to, whether the lease term is for the major part of the economic life of the underlying asset (the ROU asset for sub-lease arrangements) and whether the underlying asset transfers to the lessee or the lessee has the option to purchase the underlying asset at the end of the lease. Where substantially all of the risks and rewards of ownership have been transferred, then the lease is recorded as a finance lease, otherwise it is recorded as an operating lease.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Intangible assets

##### a Goodwill

Goodwill arises on the acquisition of subsidiaries and associates 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 purpose 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 in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost. Capitalised landing rights based within the United Kingdom and 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 Emission allowances

Where the Group purchases emission allowances, these amounts are recognised at cost and recorded within Intangible assets. As the Group emits CO<sub>2</sub> equivalent and builds up an obligation to the relevant authorities, a provision is recognised. Emission allowances recorded within Intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. For those obligations arising for which the Group has purchased emission allowances to offset the emissions, the provision is recognised at the weighted average cost of the intangible asset. For those obligations arising for which the Group has not yet purchased emission allowances to offset the emissions, the provision is recognised at the market price of the allowances required at the reporting date. As the provision is recognised, a corresponding amount is recorded in the Income statement within Fuel, oil costs and emission charges.

The Group's emissions obligation, recognised as a separate liability, is extinguished when the associated emission certificates are surrendered, which is typically within 12 months of the reporting date.

From time to time the Group enters into sale and repurchase transactions for specified emission allowances. Such transactions do not meet the recognition criteria of a sale under IFRS 15 and accordingly the asset is retained on the Balance sheet within Intangible assets and an Other financing liability recognised equal to the proceeds received.

#### 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, including Right-of-use assets

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

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. 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.

#### Investments 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 50 per cent, the equity interest is treated as an associated undertaking.

Investments in associates are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Financial instruments

##### a Financial assets and liabilities

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

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

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

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

##### Long-term borrowings

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

##### Other equity investments

Other equity investments are non-derivative financial assets including listed and unlisted investments, excluding interests in associates. 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 or a change in the structure of transaction changes its classification as an Other equity instrument. 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.

##### Interest-bearing deposits

Interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are SPPI, and held in order to collect contractual cash flows, are carried at amortised cost using the effective interest method.

##### 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.

When determining whether there has been a significant increase in credit risk since initial recognition and when estimating the expected credit loss, the Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. Such forward-looking information takes into consideration the forecast economic conditions expected to impact the outstanding balances at the Balance sheet date. A financial asset is written off when there is no reasonable expectation of recovery, such as the customer having filed for liquidation.

##### b 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.

##### c Derivative and non-derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap derivatives, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and forward contracts), are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. They are classified as financial instruments through the Income statement. 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 a cost of hedging. Movements in the time value of options are recognised in Other comprehensive income until the underlying transaction affects the Income statement.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Financial instruments continued

When forward contracts are used to hedge forecast transactions, the Group generally designates only the spot component of the forward contract as the hedging instrument within a hedge relationship. Gains or losses arising on the change in fair value of the spot component are recognised within Other comprehensive income in the Cash flow hedge reserve within equity. The forward component of a forward contract is not designated within a hedge relationship, with the associated gains and losses on the forward component recorded within Other comprehensive income in the Cost of hedging reserve within equity until the underlying transaction affects the Income statement.

To manage foreign exchange movements on foreign currency customer cash inflows (denominated in US dollars, euros, Japanese yen and Chinese yuan), certain non-derivative repayment instalments on foreign currency denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. Gains or losses arising from movements in foreign exchange rates are recognised within Other comprehensive income in the Cash flow hedge reserve within equity. Accumulated gains or losses within the cash flow hedge reserve are transferred to Sales in advance of carriage in the same period as the forecast transaction occurs or when hedge accounting is discontinued when the forecast transaction is no longer expected to occur, at which point amounts are immediately reclassified to Passenger revenue.

When a derivative is designated as a hedging instrument and that instrument expires, is sold or is restructured, if the initial forecast transaction is still expected to occur, any cumulative gain or loss remains in the cash flow hedge reserve until such time as the hedged item impacts the Income statement. Where there is a change in the risk management objective, then hedge accounting is discontinued and the associated cumulative gain or loss arising prior to the change in risk management objective remains in the cash flow hedge reserve until such time as the underlying hedged item impacts the Income statement had the risk management objective continued to have been met. Where a forecast transaction which was previously determined to be highly probable and for which hedge accounting applied, is no longer expected to occur, hedge accounting is discontinued and the cumulative gain or loss in the cash flow hedge reserve is immediately reclassified to the Income statement.

The Group enters into foreign currency derivative contracts, that are not designated in a hedge relationship, in order to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentational currency of the Group, including but not limited to, lease liabilities. Movements in the fair value of such derivatives are recognised in the Income statement in the period in which they occur and are presented within Net currency retranslation (charges)/credits.

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 designated as in a hedge relationship of a highly probable expected future transaction are assessed for effectiveness and accordingly recorded in the Cash flow hedge reserve within equity.

##### *Hedge effectiveness*

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: (i) there is 'an economic relationship' between the hedged item and the hedging instrument; (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and (iii) the hedge ratio is aligned with the requirements of the Group's risk management strategy and in all instances is maintained at a ratio of 1:1.

Sources of ineffectiveness include the following:

- In hedges of fuel purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty;
- In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty; and
- In hedges of interest rate payments, ineffectiveness may arise if there are differences in the critical terms between the interest rate derivative instrument and the underlying hedged item, or if there are changes in the credit risk of the Group or the derivative counterparty.

Ineffectiveness is recorded within the Income statement as Realised/unrealised (losses)/gains on derivatives not qualifying for hedge accounting and presented within Other non-operating charges.

##### *Reclassification adjustments*

Gains and losses accumulated in the Cash flow hedge reserve within equity are reclassified from the Cash flow hedge reserve when the hedged item affects the Income statement as follows:

- Where the forecast hedged item results in the recognition of expenses within the Income statement (such as the purchase of jet fuel for which both fuel and the associated foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded in both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the Income statement within the same caption as the hedged item is presented. Such reclassification occurs in the same period as the hedged item is recognised in the Income statement;

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Financial instruments continued

- Where the forecast hedged item results in the recognition of a non-financial asset (such as the purchase of aircraft for which foreign currency derivatives are designated as the hedging instrument) or a non-financial liability (such as the sales in advance of carriage for which both foreign currency derivatives and non-financial derivative instruments are designated as the hedging instrument), the accumulated gains and losses recorded within both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the initial cost of the asset and liability, respectively. These gains or losses are recorded in the Income statement as the non-financial asset and the non-financial liability affects the Income statement (which for aircraft is through Depreciation over the expected life of the aircraft and for Sales in advance of carriage through Passenger revenue when the flight is flown); and
- Where the forecast hedged items result in the recognition of a financial asset or liability (such as variable rate debt for which interest rate swaps are designated as the hedging instrument), the accumulated gains and losses recorded within the cash flow hedge reserve are reclassified to Interest expense within the Income statement at the same time as the interest expense arises on the hedged item.

Further information on the risk management activities of the Group are given in note 22d.

#### g Interest rate benchmark reform

In 2020 the Group adopted the amendments to IFRS 9 and IFRS 7 relating to the interest rate benchmark reform Phase 1, ('Phase 1') and in 2021 the Group adopted the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the interest rate benchmark reform Phase 2, ('Phase 2').

The Phase 1 amendments provide temporary relief from applying certain hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform does not cause hedge accounting to terminate prior to contracts being amended. Where transition to an alternative benchmark rate has taken place, the Group ceases to apply the Phase 1 amendments and instead applies the Phase 2 amendments.

#### Hedge accounting

Where the Group continues to apply the Phase 1 amendments, the following reliefs are applied:

- when considering the highly probable requirement, the Group has assumed that those benchmark rates that need to transition to an alternative benchmark rate, on which the Group's hedged long-term borrowings are based, do not change as a result of IBOR reform;
- in assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that those benchmark rates that need to be transitioned to an alternative benchmark rate, on which the cash flows of the hedged long-term borrowings and the interest rate swaps that hedge them are based, are not altered by IBOR reform; and
- the Group has not recycled the cash flow hedge reserve relating to the period after the IBOR reform is expected to take effect.

When the Group ceases to apply the Phase 1 amendments, the Group amends its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of the following changes:

- designating an alternative benchmark rate (contractually or non-contractually specified) as the hedged risk;
- amending the description of the hedged item, including the description of the designated portion of the cash flows being hedged; or
- amending the description of the hedging instrument.

The associated hedge documentation is updated to reflect these changes in designation by the end of the reporting period in which the changes are made. Such amendments do not give rise to the hedge relationship being discontinued.

When the Group transitions to an alternative benchmark rate, the accumulated amounts within the cash flow hedge reserve are determined to be based on the alternative benchmark rate and no reclassification adjustments are made from the cash flow hedge reserve to the Income statement.

#### Long-term borrowings and lease liabilities

Phase 2 of the amendments requires that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate prospectively. No gain or loss is recognised upon transition to the new benchmark. The expedient is only applicable to direct changes that are required by interest rate benchmark reform.

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform.

Further information on the management of and uncertainty arising from interest rate reform is given in note 22h. No amounts have been recorded in the current or prior periods as a result of these amendments.

#### Employee benefit plans

##### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Employee benefit plans continued

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 for the Group, the recognition of an asset is limited to the present value of any future refunds, net of the relevant taxes, from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of plan 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 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 IAS 19 gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements 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.

#### Taxation

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

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.

#### Inventories

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

#### Share-based payments

IAG operates a number of equity-settled share-based employee incentive plans in which certain of the Group's employees participate. 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 employee costs.

#### Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated and where it is considered probable that an outflow of economic resources will be required to settle the obligation. Where it is not considered probable that there will be an outflow of economic resources required to settle the obligation, the Group does not recognise a provision, but discloses the matter as a contingent liability. The Group assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Provisions continued

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the Balance sheet date.

Restoration and handback provisions arising on inception of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any subsequent change in estimation relating to such costs are reflected in the ROU asset. Restoration and handback provisions that occur through usage or through the passage of time are recognised as such activity occurs, with a corresponding expense recorded in the Income statement. Any subsequent changes in estimation are recognised in the Income statement.

The method for determining legal claims provisions is determined on a claim by claim basis. Where a claim includes a significant population of items, the weighted average provision is estimated by determining all potential outcomes and the probability of their occurrence. Where a claim relates to a single item, then the Group determines the associated provision by applying the most likely outcome giving consideration to alternative outcomes. Where an individual claim is significant, the disclosure of quantitative information is restricted to the extent that it does not prejudice the outcome of the claim.

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

#### Revenue recognition

##### a Passenger revenue

*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 either the customer has flown or for flexible tickets, when unused ticket revenue is recognised or the ticket expires unused.

At the time of expected travel, revenue is recognised in relation to flexible tickets where a customer can reschedule the date of intended travel, that are not expected to be used, a term referred to as 'unused flexible tickets'. This revenue is recognised based on the terms and conditions of the ticket and analysis of historical experience. For these unused flexible tickets, revenue is recognised only when the risk of a significant reversal of revenue is remote based on the terms and conditions of the ticket and analysis of historical experience. The estimation regarding historical experience is updated at each reporting date.

Where a flight is cancelled, the passenger is entitled to either compensation, a refund, changing to an alternative flight or the receipt of a voucher. Where compensation is issued to the customer, such payments are presented net within Passenger revenue against the original ticket purchased. Where the Group provides a refund to a customer, Deferred revenue on ticket sales is reduced and no amount is recorded within revenue. Where a voucher is issued it is retained within Deferred revenue on ticket sales until such time as it is redeemed for a flight or it expires, at which time it is recorded within Passenger revenue. The Group also recognises revenue by estimating the amount of vouchers that are not expected to be redeemed prior to expiry using analysis of historical experience. The estimation regarding historical experience is updated at each reporting date. The amount of such revenue recognised is constrained, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Payments received in relation to certain ancillary services regarding passenger transportation, such as change fees, are not considered to be distinct from the performance obligation to provide the passenger flight. Payments relating to these ancillary services are recognised in Deferred revenue on ticket sales in current liabilities until the customer has flown.

The Group considers whether it is an agent or a principal in relation to passenger 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, duties 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. Commissions earned in relation to agency services are recognised as revenue when the underlying goods or services have been transferred to the customer. In all other instances, the Group considers it acts as the principal in relation to passenger transportation services.

##### b Cargo revenue

The Group has identified a single performance obligation in relation to cargo services and the associated revenue is measured at its standalone selling price and recognised on satisfaction of the performance obligation, which occurs on the fulfilment of the transportation service.

##### c Other revenue

The Group has identified several performance obligations in relation to services that give rise to revenue being recognised within Other revenue. These services, their performance obligations and associated revenue recognition include:

- the provision of maintenance services and overhaul services for engines and airframes, where the Group is engaged to enhance an asset while the customer retains control of the asset. Accordingly, the performance obligations are satisfied, and revenue recognised, over time. The Group estimates the proportion of the contract completed at the reporting date and recognises revenue based on the percentage of completion of the contract;
- the provision of ground handling services, where the performance obligations are fulfilled when the services are provided, which occurs upon the provision of the service; and
- the provision of holiday and hotel services, where the performance obligations are satisfied over time as the customer receives the benefit of the service.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Revenue recognition continued

##### d Customer loyalty schemes

The Group 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 standalone selling price of the loyalty points is based on the value of the awards for which the points could be redeemed.

#### Exceptional items

Exceptional items (disclosed in note 3) are those that in management's view need to be separately disclosed by virtue of their size or nature and where such presentation is relevant to an understanding of the entity's financial performance. While management has defined a list of items and a quantitative threshold that would merit categorisation as exceptional that has been established through historical experience, the Group retains the flexibility to add additional items should their size or nature merit such presentation. The classification of an item as exceptional is approved by the IAG Board, through the IAG Audit and Compliance Committee.

The financial performance of the Group is monitored by the Management Committee and the Board on a pre-exceptional basis to enable comparison to prior reporting periods as well as to other selected companies, but also for making strategic, financial and operational decisions.

The exceptional items recorded in the Income statement include, but are not limited to, items such as significant settlement agreements with the Group's pension schemes; significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; significant discontinuance of hedge accounting; legal settlements; individually significant tax transactions; and the impact of the sale, disposal or impairment of an asset or investment in a business. Where exceptional items are separately disclosed, the resultant tax impact is additionally separately disclosed. Certain exceptional items may cover more than a single reporting period, such as significant restructuring events, but not more than two reporting periods.

#### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. Loans provided and/or guaranteed by governments that represent market rates of interest are recorded at the amount of the proceeds received and recognised within Borrowings. Those loans provided and/or guaranteed by governments that represent below market rates of interest are measured at inception at their fair value and recognised within Borrowings, with the differential to the proceeds received recorded within Deferred income and released to the relevant financial statement caption in the Income statement on a systematic basis. Grants that compensate the Group for expenses incurred are recognised in the Income statement in the relevant financial statement caption on a systematic basis in the periods in which the expenses are recognised.

#### Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make certain critical accounting judgements and use key sources of estimation uncertainty that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

#### Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

##### a Employee benefit obligations: defined benefit pension schemes

At 31 December 2022 the Group recognised £2,041 million in respect of employee benefit assets (2021: £1,508 million) and £188 million in respect of employee benefit obligations (2021: £241 million). Further information on employee benefit obligations is disclosed in note 27.

Employee benefit obligations are determined using the valuation requirements of IAS 19. These valuations involve making assumptions about discount rates, 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 27. 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 27.

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 November 2020, the UK Government and UK Statistics Authority (UKSA) confirmed alignment of RPI with CPIH (a variant of CPI) from February 2030. In assessing RPI and CPI inflation from investment market data, allowance has been made for alignment of RPI with CPIH from 2030 and, therefore, effectively no gap between RPI and CPI inflation from that date. CPI inflation before 2030 is assumed to be 1 per cent per annum below RPI inflation.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Key sources of estimation uncertainty continued

##### b Revenue recognition

At 31 December 2022 the Group recognised a liability of £4,171 million in respect of deferred revenue on ticket sales (2021: £3,512 million).

Passenger revenue is recognised when the transportation service is provided. At the time of transportation, revenue is also recognised in respect of unused tickets and is estimated based on the terms and conditions of the tickets and historical experience. The Group considers that there is no reasonably possible change to unused ticket assumptions that would have a material impact on Passenger revenue recorded in the year.

During 2020 and 2021, due to the significant level of flight cancellations arising from COVID-19, the Group issued a significant volume of vouchers. In addition, given the uncertainty as to the timing of customers redeeming these vouchers, the Group was unable to estimate with a high degree of probability that there would not be a significant reversal of revenue in the future. Accordingly, for the years ended 31 December 2020 and 31 December 2021, the Group did not recognise revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher was redeemed, or it expired.

During 2022, while the recovery from COVID-19 has seen much lower levels of voucher issuance and high levels of voucher redemption, the Group's vouchers are only due to expire for redemption and travel in 2023. Accordingly, the Group has had insufficient historical expiry experience relating to vouchers issued during the pandemic and therefore has not applied any breakage to existing voucher liabilities as it cannot confirm that there would not be a significant reversal of revenue if it were to do so.

##### c Income taxes

At 31 December 2022, the Group and Company recognised £513 million and £623 million in respect of deferred tax assets (2021: £574 million and £671 million). Further information on current and deferred tax liabilities is disclosed in note 8.

The Group and Company recognise 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 uses judgement, including the consideration of past and current operating performance and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability.

At 31 December 2022, the Group and Company had unrecognised capital losses of £300 million and the Group had trading losses of £6 million which it does not reasonably expect to utilise. In applying the aforementioned judgement to the income tax losses, had the Group extended the period of future cash flow projections indefinitely, then the amount of unrecognised deferred tax assets would remain unchanged.

##### d Impairment of non-financial assets

At 31 December 2022 the Group recognised £953 million (2021: £762 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 14.

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 the cash-generating unit has been determined based on a value-in-use calculation, which uses a weighted average multi-scenario discounted cash flow model, which is then compared to the carrying amount of the cash-generating unit.

In determining the carrying value of the cash-generating unit, the Group allocates all associated operating tangible and intangible assets, including ROU assets. In addition, the Group has allocated certain liabilities to the carrying value of the cash-generating unit where those liabilities are critical to the underlying operations of the cash-generating unit and in the event of a disposal of the cash-generating unit would be required to be transferred to the purchaser. Such liabilities include lease liabilities.

The Group has applied estimation in the weighting of each scenario in the discounted cash flow model and these calculations require the use of estimates in the determination of key assumptions and sensitivities as disclosed in note 14.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. When such indicators are identified, then non-financial assets are tested for impairment.

The Company also considers key assumptions used within the test of impairment in the investment of BritAir Holdings Limited a key source of estimation uncertainty. Key assumptions and sensitivities are disclosed in note 14.

##### e Engineering and other aircraft costs

At 31 December 2022, the Group recognised a provision of £681 million (2021: £473 million) in respect of maintenance, restoration and handback provisions. Information on movements on the provisions are disclosed in note 21. 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. Provisions for maintenance, restoration and handback are made based on the best estimate of the likely committed cash outflow. In determining this best estimate, the Group applies significant estimation as to the level of forecast costs expected to be incurred when the aircraft is returned to the lessor. The assumptions used in this significant estimation include aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. The associated forecast costs are discounted to their present value. In 2021, the Group considered that there was no reasonably possible change to a single assumption that would have had a material impact on the provisions, however a combination of changes in multiple assumptions may have. In 2022, with the status of the macro-economic environment, the Group considers that a reasonable possible change in the inflation rate and discount rate assumptions of a 100 basis points increase would give rise to an increase of £17 million and a decrease of £23 million, respectively, when applied in isolation to one-another.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Critical accounting judgements

##### a 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 re-assesses the lease term if there is a significant event or change in circumstances and affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 11.

##### b Investment in associates – determination of significant influence

At 31 December 2022 the Group recognised £1,951 million (2021: £1,737 million) in respect of investments in associates. Further information on these assets is included in note 15.

The Group owns 13.55 per cent of the economic rights of IB Opco Holding S.L. ('Iberia') and 86.26 per cent of the equity of Avios Group (AGL) Limited. The Group applies judgement in the determination as to whether it has the power with which to participate in the decision making of, and as a result, significant influence over Iberia and AGL. Such judgement includes the consideration as to the ability of the Group to: have representation on the Board; participate in the policy-making processes, including participation in decisions regarding dividends and other distributions; enable the interchange of management personnel and provide essential technical information.

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 equity 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 equity of AGL.

#### New standards, amendments and interpretations

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

- Property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after 1 January 2022;
- Reference to the Conceptual Framework – amendments to IFRS 3 effective for periods beginning on or after 1 January 2022;
- Onerous contracts – cost of fulfilling a contract – amendments to IAS 37 effective for periods beginning on or after 1 January 2022; and
- Annual improvements to IFRS standards 2018–2020 – effective for periods beginning on or after 1 January 2022;

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. The Group has assessed the impact of these standards, amendments and interpretations and it is not expected that these will have a material effect on the reported income or net assets of the Group. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- IFRS 17 Insurance contracts – effective for periods beginning on or after 1 January 2023;
- Definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after 1 January 2023;
- Disclosure of accounting policies – amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after 1 January 2023; and
- Deferred tax related to assets and liabilities arising from a single transaction – amendments to IAS 12 effective for periods beginning on or after 1 January 2023.

#### Significant changes and transactions in the current reporting period

The financial performance and position of the Group was affected by the following significant events and transactions in the year to 31 December 2022 and subsequently to the date of this report:

- In August 2022, the Group extended the US dollar \$1,346 million secured Revolving Credit Facility, previously due to mature on 23 March 2024, by a further twelve months to 23 March 2025; and
- In November 2022, the Group entered into an asset-financing structure, under which four aircraft were financed. These transactions mature between 2032 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2022-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). In doing so, the asset financing structure provides committed aircraft financing of £365 million (\$441 million), with £139 million (\$169 million) recognised within Asset financed liabilities in 2022.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Critical accounting judgements and key sources of estimation uncertainty in the determination of the impact of climate change

As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to net zero emissions by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short, medium and long-term operations of the Group.

The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to, the following that are within the control of the Group:

- The additional cost of the Group's commitment to increasing the level of Sustainable Aviation Fuels to ten per cent by 2030 and to seventy per cent by 2050;
- The cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and
- The impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.

In addition to these inputs and measures within the control of management, Flightpath Net Zero includes assumptions pertaining to consumers, governments and regulators regarding the following:

- The impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- Investment and policy regarding the development of Sustainable Aviation Fuel (SAF) production facilities;
- Investment and improvements in air traffic management; and
- The price of carbon through the EU and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

The level of uncertainty regarding the impact of these factors increases over time. Accordingly, the Group has applied estimation in the evaluation of the impact of climate change regarding the recognition and measurement of assets and liabilities within the financial statements.

#### Key sources of estimation uncertainty in the determination of the impact of climate change – cash flow forecast estimation

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. For those assets and liabilities, where their recoverability is dependent on long-term cash flows, the following key sources of estimation uncertainty, to the extent they can be reliably measured, have been applied:

##### a Long-term fleet plans and useful economic lives

The Group's Flightpath Net Zero climate strategy has been developed in conjunction with the long-term fleet plans of the Group. This includes the annual assessment of useful lives and the residual values of each aircraft type.

During the course of 2020 as a result of the impact of COVID-19, the Group permanently stood down 41 aircraft, their associated engines and rotatable inventories. These permanently stood down aircraft were older generation aircraft, that were less fuel efficient, more carbon intensive and more expensive to operate than more modern models. With the permanent standing down of these aircraft, coupled with the future delivery of 46 fuel efficient aircraft as detailed in note 12, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero climate strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise sustainable aviation fuels in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year as a result of the Group's decarbonisation plans.

##### b Impairment testing of the Group's cash generating unit

The Group applies discounted cash flow models, derived from the cash flow forecasts from the approved three-year business plans. The Group's Flightpath Net Zero climate strategy is long-term in nature and includes commitments that will occur at differing points over this time horizon. To the extent that certain of those commitments occur over the short-term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year (being the third year) of these probability weighted cash flows to incorporate the impacts of climate change from the Group's Flightpath Net Zero climate strategy that are expected to occur over the medium term. These adjustments are limited to those that: (i) the Group can reliably estimate at the reporting date; (ii) only relate to the Group's existing asset base in its current condition; and (iii) incorporate expected legislation and regulation that is expected to be required to achieve the Group's Flightpath Net Zero climate strategy, and which is sufficiently progressed at the reporting date.

As a result, the Group's impairment modelling incorporates the following aspects of the Group's Flightpath Net Zero climate strategy through to 2030, after which time the level of uncertainty regarding timing and costing becomes insufficiently reliable to estimate: (i) an increase in the level of SAF consumption of 10 per cent of the overall fuel mix; (ii) forecast cost of carbon, including SAF, ETS allowances and CORSIA allowances (all derived from externally sourced or derived information); (iii) the removal of existing free ETS allowances issued by the UK and EU member states; (iv) forecast kerosene taxes applied to jet fuel for all intra-EU flight activity, and; (v) assumptions regarding the ability of the Group to recover these incremental costs through increased ticket pricing.

In addition, for the avoidance of doubt, the Group's impairment modelling excludes the following aspects of the Group's Flightpath Net Zero climate strategy: (i) the transition to electric and hydrogen aircraft, as well as future technological developments to jet engines; (ii) any savings from the transition to more fuel efficient aircraft other than those either in the Group's fleet or those committed orders due to be delivered over the business plan period; (iii) the benefit of the development of carbon capture technologies and enhanced carbon offsetting mechanisms; (iv) the required beneficial reforms to air traffic management regulation and legalisation, and; (v) the required government incentives and/or support across the supply chain.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 2 Significant accounting policies continued

#### Key sources of estimation uncertainty in the determination of the impact of climate change – cash flow forecast estimation continued

##### **b Impairment testing of the Group's cash generating unit continued**

As detailed in note 14b, the Group applies a long-term growth rate to the adjusted probability-weighted cash flows and the long-term growth rate includes a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand and elasticity impact arising from climate change. These impacts are derived with reference to external market data, industry publications and internal analysis.

Further, in preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring unless already committed, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date. The Group excludes potential future legislation/regulation regarding carbon pricing and/or alternative schemes not currently enacted or not sufficiently advanced, such as the air traffic management reform.

Given the inherent uncertainty associated with the impact of climate change, the Group has applied additional sensitivities in note 14b to reflect a more adverse impact of climate change than currently expected. This has been captured through both the downward sensitivity of the long-term growth rate, ASKs and operating margins and the increased fuel price sensitivity.

##### **c Valuation of employee benefit scheme assets**

The Group's employee benefit schemes are principally represented by the APS and NAPS schemes. The schemes are structured to make post-employment payments to members over the long-term, with the Trustees having established both return seeking assets and liability matching assets that mature over the long-term to align with the forecast benefit payments.

The assets of these schemes are invested predominantly in a diversified range of equities, bonds and property. The valuation of these assets ranges from those with quoted prices in active markets, where prices are readily and regularly available, through to those where the valuations are not based on observable market data, often requiring complex valuation models. The trustees of the schemes have integrated climate change considerations into their long-term decision making and reporting processes across all classes of assets, actively engaging with all fund and portfolio managers to ensure that where unobservable inputs are required into valuation models, such valuation models incorporate long-term expectations regarding the impact of climate change.

##### **d 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 for a period of up to ten years derived from the approved three-year business plans. The Group applies a medium-term growth rate subsequent to the three-year business plans. In considering the impact of the Group's Flightpath Net Zero climate strategy, management adjusts this medium-term growth rate, where applicable, to incorporate the assumed impacts on both revenue and costs to the Group.

##### **e The price of carbon through the EU and UK Emissions Trading Schemes**

The European Union and the United Kingdom's Emission Trading Schemes (ETS) were established to reduce greenhouse gas emissions. Under these schemes, companies, including the Group, are required to buy emission allowances, or are issued them under existing quotas. The Group is required to surrender these allowances to the relevant authorities annually dependent on the level of CO<sub>2</sub> equivalent emitted within a 12-month period. Over time the level of available emission allowances decreases in order to reduce total emissions, which has the effect of increasing the price of such allowances. The Group expects that the future price of such allowances will continue to increase and that the free allocation of emission allowances will cease. Given the relative illiquid nature of the emission allowance market there is uncertainty as to the future pricing of such allowances.

As detailed in note 2, the Group accounts for the purchase of allowances as an addition to Intangible assets, which are measured at amortised cost. In addition, as the Group emits CO<sub>2</sub> equivalent as part of its flight operations, a provision is recorded to settle the obligation. For emissions for which the Group has already purchased allowances, the provision is valued at the weighted average cost of those allowances. Where the level of emissions exceeds the amount of allowances held, this deficit is measured at the market price of such allowances at the reporting date.

At 31 December 2022, the Group had recorded ETS allowances within Intangibles assets of £220 million, representing allowances that will contribute towards the settlement of future obligations. At 31 December 2022, the Group has recorded a Provision for settling its 2022 emissions obligation of £32 million.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 3 Exceptional items

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

	Group	
£ million	2022	2021
<b>Total exceptional credit after tax</b>	<b>19</b>	<b>106</b>

The exceptional credit of £19 million relates to the partial reversal of the fine, plus accrued interest, initially issued by the European Commission in 2010 to British Airways regarding its involvement in cartel activity in the air cargo sector which had been recognised as an exceptional charge. There is no related tax charge.

Exceptional credits and charges in 2021 comprised the following items:

- Discontinuation of hedge accounting representing a credit of £118 million relating to fuel derivatives and an expense of £11 million for the associated fuel foreign currency derivatives, in addition to a credit of £6 million due to discontinuing hedge accounting on the associated foreign currency derivatives on forecast revenue. The cash outflow impact associated with discontinuing hedge accounting was £129 million. The related tax charge for discontinuing hedge accounting was £22 million.
- A credit of £7 million due to certain fully impaired engines being leased to a third party in 2021 and a resulting reversal of this previous impairment. The related tax charge was £1 million.
- A credit of £11 million arising from the release of certain unutilised restructuring provisions, with a related tax charge of £2 million.

### 4 Expenses by nature

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

Depreciation, amortisation and impairment of non-current assets prior to exceptional items:

	Group	
£ million	2022	2021
Depreciation charge on owned assets	401	342
Depreciation charge on right of use assets	466	446
Depreciation charge on other leasehold interest	126	97
Amortisation and impairment of intangible assets	91	67
Impairment charge on owned property, plant and equipment	-	5
Impairment charge on right of use assets	-	27
<b>Depreciation, amortisation and impairment</b>	<b>1,084</b>	<b>984</b>

Cost of inventories:

	Group	
£ million	2022	2021
<b>Cost of inventories recognised as an expense</b>	<b>70</b>	<b>650</b>

### 5 Auditor's remuneration

	Group	
£ '000	2022	2021
Fees payable to the Group's auditor for the audit of the Group's accounts	2,407	1,770
Fees payable to the Group's auditor and its associates for other services:		
Audit of the Group's subsidiaries pursuant to legislation - UK	402	190
Audit of the Group's subsidiaries pursuant to legislation - Worldwide	47	-
Audit related assurance services	910	90
Other assurance services	-	15
	<b>3,766</b>	<b>2,065</b>

Fees payable to the Group's auditor for the audit of the Group's pension schemes total £200,895 (2021: £158,550).

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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 6 Employee costs and numbers

#### a Employee costs

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

Number	Group		Company	
	2022	2021	2022	2021
UK	29,840	27,221	27,482	25,214
Overseas	3,785	3,334	2,198	2,064
	33,625	30,555	29,680	27,278

£ million	Group		Company	
	2022	2021	2022	2021
Wages and salaries	1,420	1,029	1,329	961
Social security costs	172	134	162	127
Costs related to pension scheme benefits (note 27b)	152	145	145	139
Other employee costs	356	174	334	168
<b>Total employee costs</b>	<b>2,100</b>	<b>1,482</b>	<b>1,970</b>	<b>1,395</b>

Included in 'Other employee costs' is a total expense for share-based payments of £7 million (2021: £3 million) that arises from transactions accounted for as equity-settled share-based payments (note 25). Other employee costs also include allowances and accommodation for crew.

In 2021, there was an exceptional credit of £11 million relating to employee costs, see note 3 for further details.

#### b Directors' emoluments

£ million	Group	
	2022	2021
Directors' remuneration	2	2

During the year, six Directors (2021: six) of the Company were employed and remunerated by IAG and two (2021: two) were recharged to the Company accordingly.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £1,515,621 (2021: £848,420).

During the year no Directors (2021: none) accrued benefits under a defined benefit pension scheme and two Directors (2021: one) accrued benefits under a defined contribution pension scheme. There were total pension contributions of £164,250 made during the year (2021: £39,206).

Four Directors (2021: five) participated in IAG's Long Term Incentive Schemes and three (2021: five) exercised awards during the year which included the highest paid Director.

#### c Remuneration of key management personnel

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

£ million	Group	
	2022	2021
Short-term employee benefits	6	7
<b>Year to 31 December</b>	<b>6</b>	<b>7</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 7 Finance costs, income and other non-operating credits

#### a Finance costs

	Group	
£ million	2022	2021
Interest expenses on:		
Bank borrowings	(133)	(90)
Asset financed liabilities	(61)	(48)
Lease liabilities	(186)	(188)
Provisions unwinding of discount	(1)	-
Other borrowings <sup>1</sup>	(123)	(105)
Capitalised interest on progress payments	10	2
<b>Total finance costs</b>	<b>(494)</b>	<b>(429)</b>

<sup>1</sup> Includes intragroup loan interest and other finance costs

#### b Finance income

	Group	
£ million	2022	2021
Interest on other interest-bearing deposits	20	3
<b>Total finance income</b>	<b>20</b>	<b>3</b>

#### c Net financing credit/(charge) to pensions

	Group	
£ million	2022	2021
Net financing credit/(charge) relating to pensions	22	(2)
<b>Total net financing credit/(charge) relating to pensions</b>	<b>22</b>	<b>(2)</b>

#### d Other non-operating credits

	Group	
£ million	2022	2021
Gain on sale of property, plant and equipment and investments	3	27
Realised gains on derivatives not qualifying for hedge accounting	14	-
Share of profits in investments accounted for using equity method	208	43
<b>Total other non-operating credits</b>	<b>225</b>	<b>70</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 8 Tax

#### a Tax on ordinary activities

Tax credit/(charge) in the Income statement and Other comprehensive income.

£ million	2022			2021		
	Income statement	Other comprehensive income	Total	Income statement	Other comprehensive income	Total
<b>Current tax</b>						
Movement in respect of prior years	-	-	-	-	-	-
Movement in respect of current year	43	-	43	15	-	15
<b>Total current tax</b>	43	-	43	15	-	15
<b>Deferred tax</b>						
Movement in respect of prior years	(29)	-	(29)	(9)	-	(9)
Movement in respect of current year	(11)	(25)	(36)	384	(320)	64
Rate change / rate differences	12	(8)	4	66	52	118
<b>Total deferred tax</b>	(28)	(33)	(61)	441	(268)	173
<b>Total tax</b>	15	(33)	(18)	456	(268)	188

The tax credit on continuing operations for 2022 includes £nil tax charge (2021: £25 million tax charge) in relation to exceptional items.

Within tax in Other comprehensive income is a tax credit of £2 million (2021: tax charge of £78 million) that may be reclassified to the Income statement and a tax charge of £35 million (2021: tax charge of £191 million) that will not.

#### b Current tax liability

£ million	Group		Company	
	2022	2021	2022	2021
Balance at 1 January	(5)	(37)	(9)	(40)
Income statement	(2)	15	(1)	16
Cash payments	10	28	10	27
Other	(6)	(11)	(3)	(12)
<b>Balance at 31 December</b>	<b>(3)</b>	<b>(5)</b>	<b>(3)</b>	<b>(9)</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 8 Tax continued

#### c Deferred tax

##### i Group deferred tax asset

£ million	Tax loss carried forward	Fixed assets	Right of use assets	Deferred tax on IFRS 16 transition	Assets held for sale <sup>1</sup>	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/ loss	Share-based payment schemes	Corporate interest	Other temporary differences	Total
Balance at 1 January 2022	737	(125)	(222)	16	-	5	53	55	2	55	(2)	574
Transfer	-	3	-	-	(3)	-	-	-	-	-	-	-
Income statement	16	(163)	96	(7)	-	2	2	(4)	1	29	-	(28)
Other comprehensive income	3	-	-	-	-	-	(11)	(25)	-	-	-	(33)
Balance at 31 December 2022	756	(285)	(126)	9	(3)	7	44	26	3	84	(2)	513

£ million	Tax loss carried forward	Fixed assets	Right of use assets	Deferred tax on IFRS 16 transition	Assets held for sale <sup>1</sup>	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/ loss	Share-based payment schemes	Corporate interest	Other temporary differences	Total
Balance at 1 January 2021	381	(211)	(250)	19	-	11	266	186	1	-	(2)	401
Transfer	-	-	-	-	-	-	-	-	-	-	-	-
Income statement	338	86	28	(3)	-	(6)	(9)	(49)	1	55	-	441
Other comprehensive income	18	-	-	-	-	-	(204)	(82)	-	-	-	(268)
Balance at 31 December 2021	737	(125)	(222)	16	-	5	53	55	2	55	(2)	574

<sup>1</sup>Refer to note 13

##### ii Company deferred tax asset

£ million	Tax loss carried forward	Fixed assets	Right of use assets	Deferred tax on IFRS 16 transition	Assets held for sale <sup>1</sup>	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/ loss	Share-based payment schemes	Corporate interest	Other temporary differences	Total
Balance at 1 January 2022	724	(11)	(222)	16	-	6	48	55	2	55	(2)	671
Transfer	-	3	-	-	(3)	-	-	-	-	-	-	-
Income statement	29	(165)	96	(7)	-	-	1	(3)	1	29	-	(19)
Other comprehensive income	3	-	-	-	-	-	(7)	(25)	-	-	-	(29)
Balance at 31 December 2022	756	(173)	(126)	9	(3)	6	42	27	3	84	(2)	623

£ million	Tax loss carried forward	Fixed assets	Right of use assets	Deferred tax on IFRS 16 transition	Assets held for sale <sup>1</sup>	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/ loss	Share-based payment schemes	Corporate interest	Other temporary differences	Total
Balance at 1 January 2021	378	(124)	(250)	19	-	10	261	185	1	-	(2)	478
Transfer	-	-	-	-	-	-	-	-	-	-	-	-
Income statement	328	113	28	(3)	-	(4)	(9)	(47)	1	55	-	462
Other comprehensive income	18	-	-	-	-	-	(204)	(83)	-	-	-	(269)
Balance at 31 December 2021	724	(11)	(222)	16	-	6	48	55	2	55	(2)	671

<sup>1</sup>Refer to note 13

Fair value gains/losses (Group and Company) include both the cash flow hedge reserve and the cost of hedging reserve, of which the movement in relation to other comprehensive income recognised in the cash flow hedge reserve for 2022 was £19 million (2021: £45 million). Refer to note 23d.

Movements in other comprehensive income relating to the post-employment benefit obligations increase the Group's (and Company's) tax losses by £3 million (tax value) at 31 December 2022 (2021: £18 million) and have therefore been disclosed as tax losses carried forward in the above table.

The deferred tax assets arise in the UK and are expected to reverse in full beyond one year. Recognition of the deferred tax assets is supported by the expected reversal of deferred tax liabilities in corresponding periods, and projections of operating performance laid out in the management approved business plans.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 8 Tax continued

#### d Reconciliation of the total tax credit in the Income statement

In accordance with bilateral tax treaties the Group's profits are mainly taxed in the UK at the standard rate of 19 per cent. The Group's effective tax rate is (32.6) per cent (2021: 21.7 per cent) and the differences between the expected tax charge (2021: credit) and the actual tax credit (2021: credit) on the profit for the year to 31 December 2022 (2021: loss) are explained below.

£ million	2022	2021
Accounting profit/(loss) before tax	46	(2,104)
Expected tax calculated at the standard rate of corporation tax in the UK of 19% (2021: 19%)	(9)	400
Tax on associates' profits	39	8
Movement in respect of prior years	(29)	(9)
Effect of tax rate changes	12	65
Non-taxable income	4	-
Non-deductible expenses	(5)	(9)
Employee benefit plans accounted for net of withholding tax	3	(1)
Current year tax asset recognised (not recognised)	(1)	-
Prior year tax asset recognised (not recognised)	1	1
Overseas tax rate differences	-	1
<b>Tax credit in the income statement</b>	<b>15</b>	<b>456</b>

#### e Payroll-related taxes and UK Air Passenger Duty

The Group was also subject to other taxes paid as follows:

£ million	2022	2021
Payroll related taxes	172	134
UK Air Passenger Duty	590	168
	<b>762</b>	<b>302</b>

#### f Factors that may affect future tax charges

Unrecognised temporary differences - losses

£ million	2022	2021
Overseas income tax losses	6	-
UK capital losses	300	307
	<b>306</b>	<b>307</b>

None of the unrecognised temporary differences have an expiry date.

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

No deferred tax liability has been recognised in respect of £1,059 million (2021: £833 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 material tax consequences would arise from their reversal to a material extent.

#### Tax rate changes

On 3 March 2021 the UK Chancellor announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On 24 May 2021 the Finance bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in the UK entities, a credit of £12 million is recorded in the Income statement and a charge of £8 million is recorded in Other comprehensive income.

#### Tax policy developments

The Group is closely monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This proposed reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate. The Group is continuing to assess the implications of the reform, currently expected to be effective from 2024, and these will be determined when the relevant legislation is finalised.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 8 Tax continued

#### **g Tax contingent liabilities**

The Group has certain contingent tax liabilities across all taxes which at 31 December 2022 amounted to £8 million (31 December 2021: £10 million), including estimated interest and penalties. No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts.

### 9 Dividends

No dividends were paid during the 12 months to 31 December 2022 (31 December 2021: £nil). Certain debt obligations, including the Export Development Guarantee Facility, place restrictions and/or conditions on the payments of dividends to the parent company, IAG. These loans can be repaid early without penalty at the election of British Airways. In addition, under the scheme funding agreement between British Airways and the Trustee of the New Airways Pension Scheme (NAPS), in the period up to 31 December 2023, no dividend payment is permitted from British Airways to IAG, and any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend. From 2025 British Airways may pay dividends of up to 50% of pre-exceptional profit after tax for that financial year without being required to mitigate the scheme. Refer to note 27 for further information.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 10 Property, plant and equipment

#### a Group

	Group			
£ million	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at 1 January 2021	17,151	2,394	955	20,500
Additions	298	19	6	323
Modification of leases	130	1	(21)	110
Disposals	(2,139)	(53)	(21)	(2,213)
Balance as at 31 December 2021	15,440	2,361	919	18,720
Additions	1,358	37	21	1,416
Modification of leases	74	109	-	183
Disposals	(367)	(340)	(58)	(765)
Transfers to Non-current assets held for sale	(37)	-	-	(37)
<b>As at 31 December 2022</b>	<b>16,468</b>	<b>2,167</b>	<b>882</b>	<b>19,517</b>
<b>Depreciation and impairment</b>				
Balances at 1 January 2021	8,302	1,065	752	10,119
Depreciation charge for the year	737	112	37	886
Modification of leases	-	-	(12)	(12)
Impairment <sup>1</sup>	10	15	-	25
Disposals	(2,087)	(52)	(20)	(2,159)
Balance as at 31 December 2021	6,962	1,140	757	8,859
Depreciation charge for the year	834	123	36	993
Disposals	(364)	(339)	(57)	(760)
Transfers to Non-current assets held for sale	(21)	-	-	(21)
<b>As at 31 December 2022</b>	<b>7,411</b>	<b>924</b>	<b>736</b>	<b>9,071</b>
<b>Net book amounts</b>				
<b>31 December 2022</b>	<b>9,057</b>	<b>1,243</b>	<b>146</b>	<b>10,446</b>
31 December 2021	8,478	1,221	162	9,861
<b>Analysis as at 31 December 2022</b>				
Owned	4,606	587	106	5,299
Right of use assets <sup>2</sup>	3,974	558	6	4,538
Progress payments	477	98	34	609
	9,057	1,243	146	10,446
<b>Analysis as at 31 December 2021</b>				
Owned	3,711	637	132	4,480
Right of use assets <sup>2</sup>	4,413	502	8	4,923
Progress payments	354	82	22	458
	8,478	1,221	162	9,861

	Group	
£ million	2022	2021
<b>The net book amount of property comprises:</b>		
Freehold	283	282
Right of use assets <sup>2</sup>	558	502
Long-leasehold improvements with a contractual life in excess of 50 years	263	264
Short-leasehold improvements with a contractual life of less than 50 years	139	173
<b>As at 31 December</b>	<b>1,243</b>	<b>1,221</b>

<sup>1</sup> In 2021, certain impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed.

<sup>2</sup> Refer to note 11 for right of use assets.

At 31 December 2022, long-term borrowings of the Group are secured on owned fleet assets with a net book amount of £2,183 million (2021: £1,861 million). There is also property pledged as security with a net book value of £561 million (31 December 2021: £574 million).

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 10 Property, plant and equipment continued

#### b Company

£ million	Company			
	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at 1 January 2021	16,537	2,293	922	19,752
Additions	283	15	6	304
Modification of leases	130	1	(20)	111
Disposals	(1,947)	(49)	(14)	(2,010)
Balance as at 31 December 2021	15,003	2,260	894	18,157
Additions	1,358	32	19	1,409
Modification of leases	70	109	-	179
Disposals	(359)	(340)	(51)	(750)
Transfers to Non-current assets held for sale	(37)	-	-	(37)
<b>As at 31 December 2022</b>	<b>16,035</b>	<b>2,061</b>	<b>862</b>	<b>18,958</b>
<b>Depreciation and impairment</b>				
Balances at 1 January 2021	7,858	1,007	725	9,590
Depreciation charge for the year	707	108	35	850
Modification of leases	-	-	(10)	(10)
Impairment <sup>1</sup>	10	15	-	25
Disposals	(1,933)	(48)	(13)	(1,994)
Balance as at 31 December 2021	6,642	1,082	737	8,461
Depreciation charge for the year	807	121	33	961
Disposals	(355)	(339)	(49)	(743)
Transfers to Non-current assets held for sale	(21)	-	-	(21)
<b>As at 31 December 2022</b>	<b>7,073</b>	<b>864</b>	<b>721</b>	<b>8,658</b>
<b>Net book amounts</b>				
<b>31 December 2022</b>	<b>8,962</b>	<b>1,197</b>	<b>141</b>	<b>10,300</b>
31 December 2021	8,361	1,178	157	9,696
<b>Analysis as at 31 December 2022</b>				
Owned	4,537	544	102	5,183
Right of use assets <sup>2</sup>	3,951	555	5	4,511
Progress payments	474	98	34	606
	8,962	1,197	141	10,300
<b>Analysis as at 31 December 2021</b>				
Owned	3,625	598	126	4,349
Right of use assets <sup>2</sup>	4,383	499	8	4,890
Progress payments	353	81	23	457
	8,361	1,178	157	9,696

£ million	Company	
	2022	2021
<b>The net book value of property comprises:</b>		
Freehold	242	242
Right of use assets <sup>2</sup>	555	499
Long-leasehold improvements with a contractual life in excess of 50 years	261	264
Short-leasehold improvements with a contractual life of less than 50 years	139	173
<b>As at 31 December</b>	<b>1,197</b>	<b>1,178</b>

<sup>1</sup> In 2021, certain impairments recorded in 2020, that arose from the permanent grounding of specific fleet assets, were reversed.

<sup>2</sup> Refer to note 11 for right of use assets.

At 31 December 2022, long-term borrowings of the Company are secured on owned fleet assets with a net book amount of £2,183 million (2021: £1,861 million). There is also property pledged as security with a net book value of £561 million (31 December 2021: £574 million).

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 11 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:

	Group			
£ million	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at 1 January 2021	7,535	723	35	8,293
Additions	7	-	-	7
Modification of leases	130	1	(21)	110
Disposals	(5)	(1)	-	(6)
Reclassifications <sup>1</sup>	(373)	-	-	(373)
Balance as at 31 December 2021	7,294	723	14	8,031
Additions	14	13	1	28
Modification of leases	74	109	-	183
Disposals	(47)	(142)	(1)	(190)
Reclassifications <sup>1</sup>	(406)	-	-	(406)
<b>As at 31 December 2022</b>	<b>6,929</b>	<b>703</b>	<b>14</b>	<b>7,646</b>
<b>Depreciation and impairment</b>				
Balances at 1 January 2021	2,680	150	15	2,845
Depreciation charge for the year	385	59	2	446
Modification of lease	-	-	(11)	(11)
Impairment <sup>2</sup>	14	13	-	27
Disposals	(5)	(1)	-	(6)
Reclassifications <sup>1</sup>	(193)	-	-	(193)
Balance as at 31 December 2021	2,881	221	6	3,108
Depreciation charge for the year	397	66	3	466
Disposals	(46)	(142)	(1)	(189)
Reclassifications <sup>1</sup>	(277)	-	-	(277)
<b>As at 31 December 2022</b>	<b>2,955</b>	<b>145</b>	<b>8</b>	<b>3,108</b>
<b>Net book value</b>				
<b>31 December 2022</b>	<b>3,974</b>	<b>558</b>	<b>6</b>	<b>4,538</b>
31 December 2021	4,413	502	8	4,923

<sup>1</sup>Amounts with a net book value of £129 million (2021: £180 million) were reclassified from right of use assets to Owned Property, plant and equipment at the cessation of the respective leases. The assets reclassified related to leases with purchase options that were grandfathered as ROU assets upon transition to IFRS 16, for which the Group had been depreciating over the expected useful life of the aircraft, incorporating the purchase option.

<sup>2</sup>Refer to note 3 for details

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

	Group	
£ million	2022	2021
1 January	4,849	5,491
Additions	14	34
Modification of leases	187	113
Repayments	(762)	(888)
Interest expense	182	175
Exchange movements	341	(76)
<b>31 December</b>	<b>4,811</b>	<b>4,849</b>
<b>Current</b>	<b>996</b>	<b>652</b>
<b>Non-current</b>	<b>3,815</b>	<b>4,197</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 11 Leases continued

#### a Group continued

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

£ million	2022	Group 2021
<i>Amounts not included in the measurement of lease liabilities</i>		
Variable lease payments	1	-
Expenses relating to short-term leases	22	22
Expenses relating to leases of low-value assets excluding short-term leases of low-value assets	-	-
Interest expense on lease liabilities	182	175
Depreciation charge for the year	466	446
Impairment charge for the year	=	27

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

£ million	2022	2021 <sup>1</sup>
<i>Cash flows arising from transactions that do not give rise to the recognition of lease liabilities:</i>		
Total cash outflows arising from short-term leases, low-value assets and variable lease payments	23	23
Total cash outflows arising from asset financed liabilities	150	117
<i>Cash flows arising from transactions giving rise to lease liabilities:</i>		
Total cash outflows arising from lease liabilities - aircraft	631	770
Total cash outflows arising from lease liabilities - other	122	114

<sup>1</sup> During 2022, the Group has re-presented cash flow amounts to disclose amounts arising from all contractual leases as opposed to only those that give rise to a right of use asset and a lease liability.

The Group is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2022, for which no amount has been recognised, in relation to leases not yet commenced to which the Company is committed of £nil (2021: £7 million).

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

The maturity profile of the lease liabilities is disclosed in note 22.

##### (v) Extension options

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 2022, for which no amount has been recognised, for potential extension options of £561 million (2021: £582 million) due to it not being reasonably certain that these leases will be extended.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 11 Leases continued

#### 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 at 1 January 2021	7,335	715	34	8,084
Modification of leases	130	1	(20)	111
Disposals	(5)	-	-	(5)
Reclassifications <sup>1</sup>	(372)	-	-	(372)
Balance as at 31 December 2021	7,088	716	14	7,818
Additions	14	10	-	24
Modification of leases	71	109	-	180
Disposals	(43)	(142)	(1)	(186)
Reclassifications <sup>1</sup>	(406)	-	-	(406)
<b>As at 31 December 2022</b>	<b>6,724</b>	<b>693</b>	<b>13</b>	<b>7,430</b>
<b>Depreciation and impairment</b>				
Balances at 1 January 2021	2,519	147	14	2,680
Depreciation charge for the year	370	57	2	429
Impairment	14	13	-	27
Modification of leases	-	-	(10)	(10)
Disposals	(5)	-	-	(5)
Reclassifications <sup>1</sup>	(193)	-	-	(193)
Balance as at 31 December 2021	2,705	217	6	2,928
Depreciation charge for the year	385	63	3	451
Disposals	(40)	(142)	(1)	(183)
Reclassifications <sup>1</sup>	(277)	-	-	(277)
<b>As at 31 December 2022</b>	<b>2,773</b>	<b>138</b>	<b>8</b>	<b>2,919</b>
<b>Net book amounts</b>				
<b>31 December 2022</b>	<b>3,951</b>	<b>555</b>	<b>5</b>	<b>4,511</b>
31 December 2021	4,383	499	8	4,890

<sup>1</sup>Amounts with a net book value of £129 million (2021: £179 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	
	2022	2021
Lease liability 1 January	4,816	5,442
Additions	11	27
Modification of leases	180	122
Repayments	(745)	(872)
Interest expense	180	173
Exchange movements	338	(76)
<b>Lease liabilities 31 December</b>	<b>4,780</b>	<b>4,816</b>
<b>Current</b>	<b>983</b>	<b>639</b>
<b>Non-current</b>	<b>3,797</b>	<b>4,177</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 11 Leases continued

#### b Company continued

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

£ million	Company	
	2022	2021
<i>Amounts not included in the measurement of lease liabilities</i>		
Variable lease payments	1	-
Short-term leases	21	22
Interest on lease liabilities	180	173
Depreciation charge for the year	451	429
Impairment	-	27

#### (iii) Amounts recognised in the company cash flow statement

£ million	2022	2021
<i>Cash flows arising from transactions that do not give rise to the recognition of lease liabilities</i>		
Total cash outflows arising from short-term leases, low-value assets and variable lease payments	22	22
Total cash outflows arising from asset financed liabilities	150	117
<i>Cash flows arising from transactions giving rise to lease liabilities</i>		
Total cash outflows arising from lease liabilities - aircraft	614	759
Total cash outflows arising from lease liabilities - other	119	111

The Company is exposed to future cash outflows (on an undiscounted basis) as at 31 December 2022, for which no amount has been recognised, in relation to leases not yet commenced to which the Company is committed of Enil (2021: £7 million).

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

The maturity profile of the lease liabilities are disclosed in note 22.

#### (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 2022, for which no amount has been recognised, for potential extension options £561 million (2021: £582 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.

### 12 Capital expenditure commitments

Capital expenditure authorised and contracted for at 31 December 2022 amounted to £4,930 million (2021: £5,382 million) and £4,927 million for the Company (2021: £5,377 million). The majority of capital expenditure commitments are denominated in US dollars and as such the commitments are subject to exchange movements.

The outstanding aircraft commitments include £4,824 million (2021: £5,300 million) for the acquisition of 10 Airbus A320 and A321 neos (from 2023 to 2024), 5 Airbus A350s (from 2023 to 2024), 7 Boeing 787s (from 2023 to 2024) and 18 Boeing 777s (from 2026 to 2028).

The Group has certain rights to defer aircraft deliveries and to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at 31 December 2022.

### 13 Non-current assets held for sale

As at 31 December 2022, the non-current assets held for sale of £16 million represented two Airbus A321-200 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft are expected to exit the business during 2023.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 14 Intangible assets and impairment review

#### a Intangible assets

##### i Group

	Group				
£ million	Goodwill	Landing rights	Emission allowances	Software	Total
<b>Cost</b>					
Balance at 1 January 2021	40	742	27	761	1,570
Additions	-	-	27	40	67
Disposals	-	(5)	(20)	(7)	(32)
Balance at 31 December 2021	40	737	34	794	1,605
Additions	-	11	186	67	264
Disposals	-	(6)	-	(31)	(37)
<b>31 December 2022</b>	<b>40</b>	<b>742</b>	<b>220</b>	<b>830</b>	<b>1,832</b>
<b>Amortisation</b>					
Balance at 1 January 2021	-	49	-	459	508
Amortisation charge for the year	-	-	-	67	67
Disposals	-	-	-	(2)	(2)
Balance at 31 December 2021	-	49	-	524	573
Amortisation charge for the year	-	-	-	91	91
Disposals	-	-	-	(29)	(29)
<b>31 December 2022</b>	<b>-</b>	<b>49</b>	<b>-</b>	<b>586</b>	<b>635</b>
<b>Net book values</b>					
<b>31 December 2022</b>	<b>40</b>	<b>693</b>	<b>220</b>	<b>244</b>	<b>1,197</b>
31 December 2021	40	688	34	270	1,032

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 14 Intangible assets and impairment review continued

#### a Intangible assets

##### ii Company

	Company			
£ million	Landing rights	Emission allowances	Software	Total
<b>Cost</b>				
Balance at 1 January 2021	742	27	723	1,492
Additions	-	27	38	65
Disposals	(5)	(20)	(8)	(33)
Balance at 31 December 2021	737	34	753	1,524
Additions	11	186	63	260
Disposals	(6)	-	(31)	(37)
<b>31 December 2022</b>	<b>742</b>	<b>220</b>	<b>785</b>	<b>1,747</b>
<b>Amortisation</b>				
Balance at 1 January 2021	49	-	433	482
Amortisation charge for the year	-	-	62	62
Disposals	-	-	(2)	(2)
Balance at 31 December 2021	49	-	493	542
Amortisation charge for the year	-	-	88	88
Disposals	-	-	(29)	(29)
<b>31 December 2022</b>	<b>49</b>	<b>-</b>	<b>552</b>	<b>601</b>
<b>Net book values</b>				
<b>31 December 2022</b>	<b>693</b>	<b>220</b>	<b>233</b>	<b>1,146</b>
31 December 2021	688	34	260	982

#### b Impairment review

##### i Network airline operations

###### *Basis for calculating recoverable amount*

Goodwill and other intangible assets with indefinite lives (being landing rights and emission allowances) are tested for impairment annually and when circumstances indicate the carrying value may be impaired. A full impairment test at 30 September 2022 has been conducted.

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 which 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 (2021: one), being the network airline operations CGU, including passenger and cargo operations out of all operated airports, as well as all related ancillary operations.

The recoverable amounts of the CGU is measured based on its value-in-use, which utilises 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. Cash flow projections are based on the business plan approved by the Board in the fourth quarter of 2022, covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using a pre-tax discount rate.

Adjustments have been made to the final year of the business plan cash flows to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations. The business plan cash flows used in the value-in-use calculations also reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by management under existing agreements.

Further, in preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 14 Intangible assets and impairment review continued

#### b Impairment review continued

##### Key assumptions

The value-in-use calculations reflect the continued recovery from COVID-19 and the wider economic and geopolitical environments. The key assumptions used in the value-in-use calculation are as follows:

Per cent	2022	2021
Operating margin <sup>1</sup>	5% to 13%	3% to 13%
ASK as a proportion of 2019 <sup>1,2</sup>	90% to 105%	75% to 103%
Long-term growth rate	1.7%	1.9%
Pre-tax discount rate	10.4%	11.8%

<sup>1</sup>Operating margin and ASKs as a proportion of 2019 are both stated as the weighted average derived from the multi-scenario discounted cash flow model.

<sup>2</sup>In prior periods the Group applied the average ASK growth per annum as a key assumption. 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.

	To 31 December 2023	To 31 December 2024	To 31 December 2025	2026 and thereafter
Jet fuel price (\$ per MT)				
<b>31 December 2022</b>	<b>867</b>	<b>809</b>	<b>780</b>	<b>780</b>
<i>31 December 2021</i>	<i>690</i>	<i>673</i>	<i>659</i>	<i>659</i>

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 considering a number of data points: (i) industry publications; (ii) forecast weighted average exposure in each primary market using gross domestic product (GDP); and (iii) internal analysis regarding the long-term changes in consumer preferences and the effects on demand from the increased costs to the Group of climate change. The calculation of the long-term growth rate using internal analysis utilises a Base Case and a Downside Case growth rate, which is then weighted on the same basis as the cash flows detailed above of 70 per cent to the Base Case and 30 per cent to the Downside Case. The terminal value cash flows and long term growth rate incorporate the impacts of climate change insofar as they can be determined (note 2). The 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 and the Group. 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 airline investors and the cost of debt is derived from both market data and industry gearing levels derived from comparative companies. 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.

As detailed above, the Group adjusts the final year of the three-year business plans to incorporate the medium-term impacts of climate change from the Group's Flightpath Net Zero climate strategy. These adjustments include the following key assumptions: (i) a 11 per cent level of SAF consumption out of the overall fuel mix with an assumed price of £1,950 per metric tonne; (ii) a kerosene tax of £275 per metric tonne on all intra-EU flights; (iii) for costs of carbon, prices of £110, £150, £22 for EU ETS allowances, UK ETS allowances and CORSIA allowances, respectively, per tonne of CO2 equivalents emitted; and (iv) the removal of all free ETS and CORSIA allowances.

##### Summary of results

At 31 December 2022, 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, where applicable, which include reducing the operating margin by 2 percentage points in each year, ASKs by 5 per cent in each year, long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the downside case to be 100 per cent, and increasing the fuel price (both jet fuel and SAF) by 45 per cent with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible greater impact of climate change on the CGU than that included in the impairment model.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 14 Intangible assets and impairment review continued

#### b Impairment review continued

While the recoverable amounts are estimated to exceed the carrying amounts by £13,497 million (2021: £2,891 million), the recoverable amount would be below the carrying amount when applying reasonable possible changes in assumptions in each of the following scenarios:

- i. If ASKs were 5 per cent lower combined with a fuel price increase of 22.5 per cent without cost recovery; or
- ii. If the fuel price was 26 per cent higher without cost recovery.

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

#### ii Company

In 2022, the Company recognised a net impairment reversal of £429 million (2021: £5 million charge) within the Income statement in respect of its investment in subsidiaries. For investments where an indicator of impairment or reversal of previous impairment existed, an impairment test was performed to determine the recoverable amount, and where necessary, impair the carrying value to the recoverable amount, or reverse previous impairment charges. The recoverable amounts of the relevant investments have been determined as the higher of the fair value and their value in use, using a discounted cash flow model.

The net impairment reversal primarily arose as a result of the future outlook of the Company's subsidiaries improving as recovery from the COVID-19 pandemic continues, and includes a reversal of £401 million in respect of the Company's investment in BritAir Holdings Limited, a holding company. The recoverable amount of BritAir Holdings Limited based on its value in use, using a weighted average risk-adjusted discounted cash flow model, as of 31 December 2022 is £860 million.

The key assumptions used in the value-in-use calculation are as follows:

Per cent	2022	2021
Operating margin	5% to 11%	2% to 12%
Long-term growth rate	1.5%	1.7%
Pre-tax discount rate	11.2%	11.4%

Reasonable possible changes in key assumptions have been considered, where applicable, which include reducing the operating margin by 2 percentage points in each year (including the terminal value year), long-term growth rates in the terminal value calculation to zero and increasing pre-tax discount rates by 2.5 percentage points. All such changes, individually, would reduce the recoverable amount beneath the carrying amount, by £242 million, £143 million and £234 million respectively.

### 15 Investments

#### a Group

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

	Group	
£ million	2022	2021
Balance at 1 January	1,737	1,688
Additions <sup>1</sup>	-	7
Exchange differences	-	1
Share of attributable results	208	43
Share of movements in comprehensive income of associates	8	(1)
Dividends received <sup>2</sup>	(2)	(1)
<b>As at 31 December</b>	<b>1,951</b>	<b>1,737</b>

<sup>1</sup>In January 2021, British Airways invested in LanzaJet, a sustainable fuel technology company incorporated in the USA and attained 16.7% ownership of the company.

<sup>2</sup>The Group received dividends, net of withholding tax, of £2 million (2021: £1 million) from Dunwoody (2021: Dunwoody).

	Percentage of equity owned	Measurement basis	Principal activities	Holding	Country of incorporation and principal operations
Avios Group (AGL) Limited	86.26	Equity method	Airline marketing	Ordinary shares	England
Dunwoody Airline Services Limited	40.00	Equity method	Airline operations	Ordinary shares	England
IB Opco Holding, S.L. ('Iberia')	6.80	Equity method	Airline operations	Ordinary shares	Spain
LanzaJet, Inc.	16.70	Equity method	Sustainable fuel technology	Ordinary shares	USA

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 15 Investments continued

At 31 December 2022 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	
	2022		2021	
	Iberia	AGL	Iberia	AGL
Non-current assets	4,848	51	4,083	228
Current assets	3,197	2,837	1,796	2,478
Current liabilities	(3,051)	(2,261)	(2,317)	(2,221)
Non-current liabilities	(4,824)	(288)	(3,684)	(336)
<b>Net equity</b>	<b>170</b>	<b>339</b>	<b>(122)</b>	<b>149</b>
Group's share of net equity <sup>1</sup>	50	292	-	129
Goodwill attributable to investments in associates	-	1,598	-	1,598
<b>Total investment in associates</b>	<b>50</b>	<b>1,890</b>	<b>-</b>	<b>1,727</b>

The Group's carrying amount of investments in other associates was £11 million (2021: £9 million)

<sup>1</sup>The Group has not recognised losses previously incurred by Iberia because the Group has no obligation in respect of these losses.

Revenue	4,896	854	2,430	376
Operating costs	(4,539)	(615)	(2,639)	(264)
Other income and costs (including tax)	(101)	(50)	(96)	(42)
<b>Net profit/(loss) after tax</b>	<b>256</b>	<b>189</b>	<b>(305)</b>	<b>70</b>
Other comprehensive income/(expenses)	59	1	222	(2)
<b>Total comprehensive income/(expense) for the year (net of tax)</b>	<b>315</b>	<b>190</b>	<b>(83)</b>	<b>68</b>

The Group's share of total comprehensive income of other associates was a loss of £2 million (2021: income £1 million)

#### b Company

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

£ million			Company	
	Cost	Impairments	2022	2021
Balance at 1 January	1,645	(803)	842	847
Impairments reversed/(recognised) <sup>1</sup>	-	429	429	(5)
<b>As at 31 December</b>	<b>1,645</b>	<b>(374)</b>	<b>1,271</b>	<b>842</b>

<sup>1</sup>The Company recognised an impairment charge of £36 million and an impairment reversal of £465 million (2021: £5 million impairment charge) in respect of its subsidiaries, see note 14 for further details.

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 107 and 108.

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

£ million			Company	
	2022		2021	
Balance at 1 January	1,570		1,563	
Additions	-		7	
<b>As at 31 December</b>	<b>1,570</b>		<b>1,570</b>	

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 16 Trade receivables and other assets

Trade receivables and other current assets are set out below:

£ million	Group		Company	
	2022	2021	2022	2021
<b>Amounts falling due within one year</b>				
Trade receivables	844	480	821	467
Allowance for expected credit loss	(33)	(25)	(33)	(25)
Net trade receivables	811	454	788	441
Prepayments and accrued income	345	276	335	269
Other non-trade receivables <sup>1</sup>	340	138	353	148
Other current assets	685	414	688	417
<b>Trade receivables and other current assets</b>	<b>1,496</b>	<b>868</b>	<b>1,476</b>	<b>858</b>

<sup>1</sup>Within the Company, the balance is net of £44 million (2021: £44 million) of expected credit loss on receivables with subsidiary undertakings.

Movements in allowance for expected credit loss of trade receivables were as follows:

£ million	2022	2021
At the beginning of the year	26	34
Provided during the year	8	1
Receivables written off during the year	(1)	(9)
	<b>33</b>	<b>26</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 days terms (2021: 30 days).

2022	Group							
	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	285	409	93	4	13	15	25	844
Expected credit loss rate	0.0%	0.0%	0.4%	1.8%	0.4%	58.0%	100.0%	3.9%
Net trade receivables	285	409	92	4	13	8	-	811

2021	Group							
	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	304	91	39	10	8	4	24	480
Expected credit loss rate	0.1%	0.1%	0.3%	0.3%	2.1%	50.1%	100.0%	5.5%
Net trade receivables	304	91	39	10	8	2	-	454

2022	Company							
	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	262	409	93	4	13	15	25	821
Expected credit loss rate	0.0%	0.0%	0.1%	1.7%	0.4%	56.9%	100%	3.9%
Net trade receivables	262	409	93	4	13	7	-	788

2021	Company							
	Current	<30 days	30-60 days	60-90 days	90-180 days	180-365 days	>365 days	Total
Trade receivables	291	91	39	10	8	4	24	467
Expected credit loss rate	0.1%	0.1%	0.3%	0.3%	2.1%	50.8%	100.0%	5.6%
Net trade receivables	291	91	39	10	8	2	-	441

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

#### a Cash and cash equivalents

£ million	Group		Company	
	2022	2021	2022	2021
Cash at bank and in hand	2,176	1,687	2,121	1,630
Short term deposits falling due within three months	200	-	200	-
Cash and cash equivalents	2,376	1,687	2,321	1,630
Other current interest-bearing deposits maturing after three months	140	-	140	-

The fair value of cash and cash equivalents is £2,376 million for the Group (2021: £1,687 million) and £2,321 million for the Company (2021: £1,630 million).

At 31 December 2022, the Group and Company had no outstanding bank overdrafts (2021: £nil).

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

£ million	Group					
	Balance at 1 January 2022	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2022
Bank, other loans and asset financed liabilities	(4,901)	(481)	(213)	-	(31)	(5,626)
Lease liabilities	(4,849)	610	(341)	(201)	(30)	(4,811)
Liabilities from financing activities	(9,750)	129	(554)	(201)	(61)	(10,437)
Cash and cash equivalents	1,687	596	93	-	-	2,376
Other current-interest bearing deposits	-	140	-	-	-	140
Net debt	(8,063)	865	(461)	(201)	(61)	(7,921)

£ million	Group					
	Balance at 1 January 2021	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2021
Bank, other loans and asset financed liabilities	(3,296)	(1,648)	92	-	(49)	(4,901)
Lease liabilities	(5,491)	738	77	(122)	(51)	(4,849)
Liabilities from financing activities	(8,787)	(910)	169	(122)	(100)	(9,750)
Cash and cash equivalents	1,261	452	(26)	-	-	1,687
Net debt	(7,526)	(458)	143	(122)	(100)	(8,063)

£ million	Company					
	Balance at 1 January 2022	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2022
Bank, other loans and asset financed liabilities	(4,901)	(481)	(213)	-	(31)	(5,626)
Lease liabilities	(4,816)	595	(338)	(191)	(30)	(4,780)
Liabilities from financing activities	(9,717)	114	(551)	(191)	(61)	(10,406)
Cash and cash equivalents	1,630	600	91	-	-	2,321
Other current-interest bearing deposits	-	140	-	-	-	140
Net debt	(8,087)	854	(460)	(191)	(61)	(7,945)

£ million	Company					
	Balance at 1 January 2021	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at 31 December 2021
Bank, other loans and asset financed liabilities	(3,296)	(1,648)	92	-	(49)	(4,901)
Lease liabilities	(5,442)	724	75	(122)	(51)	(4,816)
Liabilities from financing activities	(8,738)	(924)	167	(122)	(100)	(9,717)
Cash and cash equivalents	1,195	463	(28)	-	-	1,630
Net debt	(7,543)	(461)	139	(122)	(100)	(8,087)

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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

#### a Trade and other payables

£ million	Group		Company	
	2022	2021	2022	2021
Trade creditors and accrued expenses	1,738	1,139	1,665	1,068
Amounts owed to subsidiary companies	-	-	579	473
Other creditors	582	410	622	450
Other taxation and social security	33	26	33	25
Other accruals and deferred income	83	90	66	76
<b>As at 31 December</b>	<b>2,436</b>	<b>1,665</b>	<b>2,965</b>	<b>2,092</b>

#### b Deferred revenue on ticket sales

£ million	Group			Company		
	Customer loyalty	Sales in advance of carriage	2022	Customer loyalty	Sales in advance of carriage	2022
As at 1 January	35	3,477	3,512	35	3,455	3,490
Revenue recognised in income statement <sup>1</sup>	(2)	(9,810)	(9,812)	(2)	(8,498)	(8,500)
Loyalty points issued to customers	3	-	3	3	-	3
Cash received from customers <sup>2</sup>	-	10,468	10,468	-	9,148	9,148
<b>As at 31 December</b>	<b>36</b>	<b>4,135</b>	<b>4,171</b>	<b>36</b>	<b>4,105</b>	<b>4,141</b>

£ million	Group			Company		
	Customer loyalty	Sales in advance of carriage	2021	Customer loyalty	Sales in advance of carriage	2021
As at 1 January	36	2,393	2,429	36	2,402	2,438
Revenue recognised in income statement <sup>1</sup>	(7)	(2,479)	(2,486)	(7)	(2,115)	(2,122)
Loyalty points issued to customers	6	-	6	6	-	6
Cash received from customers <sup>2</sup>	-	3,563	3,563	-	3,168	3,168
<b>As at 31 December</b>	<b>35</b>	<b>3,477</b>	<b>3,512</b>	<b>35</b>	<b>3,455</b>	<b>3,490</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 £741 million (2021: £64 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.

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios. Avios are issued by the Group through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programme. While Avios do not have an expiry date and can be redeemed at any time in the future, a customers membership account is closed if there is a period of 36 months of inactivity in terms of both issuances and redemptions. Revenue may therefore be recognised at any time in the future.

Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period. In addition, the significant disruption caused by the COVID-19 pandemic led to a number of flight cancellations during both 2020 and 2021, which entitled the customer to either a refund or the issuance of a voucher for future redemption. Vouchers are presented within sales in advance of carriage.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 19 Other non-current assets and liabilities

Other non-current assets are set out below:

£ million	Group		Company	
	2022	2021	2022	2021
Prepayments and accrued income	148	92	145	86
Other non-trade receivables	26	76	28	84
<b>As at 31 December</b>	<b>174</b>	<b>168</b>	<b>173</b>	<b>170</b>

Other non-current liabilities are set out below:

£ million	Group		Company	
	2022	2021	2022	2021
Accruals and deferred income	13	33	11	31
Other non-trade creditors	71	58	71	58
<b>As at 31 December</b>	<b>84</b>	<b>91</b>	<b>82</b>	<b>89</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 20 Long-term borrowings

#### a Total borrowings

£ million	Group			Group		
	Current	Non-current	2022 Total	Current	Non-current	2021 Total
Bank and other loans	91	3,560	3,651	83	3,539	3,622
Asset financed liabilities	124	1,851	1,975	83	1,182	1,265
Lease liabilities	996	3,815	4,811	652	4,197	4,849
Other financing liabilities <sup>1</sup>	-	-	-	14	-	14
<b>Interest bearing borrowings</b>	<b>1,211</b>	<b>9,226</b>	<b>10,437</b>	<b>832</b>	<b>8,918</b>	<b>9,750</b>

£ million	Company			Company		
	Current	Non-current	2022 Total	Current	Non-current	2021 Total
Bank and other loans	91	3,560	3,651	83	3,539	3,622
Asset financed liabilities	124	1,851	1,975	83	1,182	1,265
Lease liabilities	983	3,797	4,780	639	4,177	4,816
Other financing liabilities <sup>1</sup>	-	-	-	14	-	14
<b>Interest bearing borrowings</b>	<b>1,198</b>	<b>9,208</b>	<b>10,406</b>	<b>819</b>	<b>8,898</b>	<b>9,717</b>

<sup>1</sup>Other financing liabilities recognised in 2021 related to sale and repurchase agreements with regards to emission allowances and represent the amount the Group repurchased during 2022.

Long-term borrowings of the Group and Company amounting to £2,099 million (2021: £1,420 million) are secured on owned fleet assets with a net book value of £2,183 million (2021: £1,861 million). Asset financed liabilities are all secured on the associated aircraft.

#### b Bank and other loans

Bank and other loans are repayable by 2027 and comprise of the following:

£ million	Group		Company	
	2022	2021	2022	2021
Floating rate pound sterling loan guaranteed by UKEF (i)	2,026	2,003	2,026	2,003
Floating rate euro mortgage loans secured on aircraft (ii)	125	145	125	145
Fixed rate unsecured US dollar mortgage loans (iii)	62	73	62	73
Fixed rate Chinese yuan mortgage loans secured on aircraft (iv)	-	10	-	10
Floating rate unsecured euro loans (v)	1,438	1,391	1,438	1,391
	<b>3,651</b>	<b>3,622</b>	<b>3,651</b>	<b>3,622</b>
Less: current instalments due on bank and other loans	91	83	91	83
<b>Non-current bank and other loans as at 31 December</b>	<b>3,560</b>	<b>3,539</b>	<b>3,560</b>	<b>3,539</b>

(i) In 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. This loan bears interest of up to 7.45%. British Airways is entitled to repay the loan at any time on notice. The arrangement contains some non-financial covenants, including restrictions on dividend payments by the airline to IAG.

(ii) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of up to 3.56 per cent. The loans are repayable between 2024 and 2027.

(iii) Fixed rate unsecured US dollar mortgage loans bearing interest between 1.38 to 2.86 per cent. The loans are repayable between 2023 and 2026.

(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 were repaid in 2022.

(v) Floating rate unsecured euro loan due to fellow undertaking of the IAG bearing interest of EURIBOR + 4.60 per cent and is repayable in 2026.

In March 2021, British Airways entered into a three-year US dollar secured Revolving Credit Facility. The total amount available under the facility for British Airways is \$1,346 million and was initially available for a period of three years to March 2024, plus two one-year extension periods at the discretion of the lenders. The first one-year extension was exercised in 2022, and hence the facility is now available until March 2025. As at 31 December 2022 no amounts had been drawn under the facility. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 20 Long-term borrowings continued

#### b Bank and other loans continued

##### Transactions with unconsolidated entities

In July 2021, the Group entered into an asset-financing structure, under which seven aircraft were financed. These transactions mature between 2031 and 2035. This arrangement was transacted an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2021-1. In doing so the Group recognised a further £525 million (\$635 million) of Asset financed liabilities in 2022. This facility has been fully drawn as at 31 December 2022.

In 2022, the Group entered into an asset financing structure under which four aircraft were financed. These transactions mature between 2023 and 2026. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2022-1. In doing so British Airways recognised £139 million (\$169 million) of Asset financed liabilities. As at 31 December 2022, the total financing remaining to be drawn was £226 million (\$273 million).

As at 31 December 2022, Asset financed liabilities include cumulative amounts of £1,975 million (2021: £1,265 million) and the associated assets recorded within Property, plant and equipment include cumulative amounts of £2,400 million (2021: £2,573 million) associated with transactions with unconsolidated structured entities having issued EETCs.

#### c Reconciliation of movements of liabilities to cash flows arising from financing activities

	Group			
£ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at 1 January 2022	(4,901)	(4,849)	9	(9,741)
Proceeds from borrowings	(640)	-	-	(640)
Repayments of borrowings	159	-	-	159
Repayment of lease liabilities	-	610	-	610
Settlements of derivative financial instruments	-	-	(424)	(424)
<b>Total changes arising from financing cash flows</b>	<b>(481)</b>	<b>610</b>	<b>(424)</b>	<b>(295)</b>
Interest paid	241	143	-	384
Interest expense	(269)	(182)	-	(451)
New leases and modifications	-	(201)	-	(201)
Fair value movements	-	-	532	532
Other non-cash movements	(3)	9	-	6
Effect of changes in foreign exchange rates	(213)	(341)	-	(554)
<b>Closing financial liabilities at 31 December 2022</b>	<b>(5,626)</b>	<b>(4,811)</b>	<b>117</b>	<b>(10,320)</b>

	Group			
£ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at 1 January 2021	(3,926)	(5,491)	(221)	(9,008)
Proceeds from borrowings	(2,107)	-	-	(2,107)
Repayments of borrowings	459	-	-	459
Repayment of lease liabilities	-	738	-	738
Settlements of derivative financial instruments	-	-	245	245
<b>Total changes arising from financing cash flows</b>	<b>(1,648)</b>	<b>738</b>	<b>245</b>	<b>(665)</b>
Interest paid	180	146	-	326
Interest expense	(212)	(156)	-	(368)
New leases and modifications	-	(122)	-	(122)
Fair value movements	-	-	(10)	(10)
Other non-cash movements	(17)	(41)	(5)	(63)
Effect of changes in foreign exchange rates	92	77	-	169
<b>Closing financial liabilities at 31 December 2021</b>	<b>(4,901)</b>	<b>(4,849)</b>	<b>9</b>	<b>(9,741)</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 20 Long-term borrowings continued

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

Million	Group		Company	
	2022	2021	2022	2021
<b>Loans:</b>				
US dollar	\$75	\$98	\$75	\$98
Euro	€1,787	€1,808	€1,787	€1,808
Chinese yuan	-	¥78	-	¥78
Pound sterling	£2,026	£2,003	£2,026	£2,003
Pound sterling	3,651	3,622	3,651	3,622
<b>Lease liabilities:</b>				
US dollar	\$3,727	\$4,064	\$3,694	\$4,023
Euro	€805	€968	€804	€968
Japanese yen	¥68,991	¥72,423	¥68,991	¥72,423
Pound sterling	£617	£564	£612	£562
Pound sterling	4,811	4,849	4,780	4,816
<b>Asset financed liabilities:</b>				
US dollar	\$2,232	\$1,682	\$2,232	\$1,682
Japanese yen	¥20,788	¥3,365	¥20,788	¥3,365
Pound sterling	1,975	1,265	1,975	1,265
<b>Other financing liabilities:</b>				
Euro	-	€17	-	€17
Pound sterling	-	14	-	14
<b>Total interest-bearing borrowings</b>	<b>10,437</b>	<b>9,750</b>	<b>10,406</b>	<b>9,717</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 21 Provisions

	Group					
£ million	Restoration and handback	Restructuring	Legal claims and contractual disputes	ETS provisions <sup>1</sup>	Other	Total
Balance at 1 January 2022	473	31	57	2	50	613
Provisions recorded during the year	186	9	32	32	44	303
Reclassifications	(12)	-	-	-	-	(12)
Utilised during the year	(47)	(8)	-	(2)	(31)	(88)
Release of unused amounts	(12)	(1)	(38)	-	(32)	(83)
Unwinding of discount	1	-	-	-	-	1
Remeasurements	24	-	-	-	-	24
Exchange differences	68	1	-	-	-	69
<b>As at 31 December 2022<sup>1</sup></b>	<b>681</b>	<b>32</b>	<b>51</b>	<b>32</b>	<b>31</b>	<b>827</b>
Analysis:						
Current	121	32	50	32	11	246
Non-current	560	-	1	-	20	581
	<b>681</b>	<b>32</b>	<b>51</b>	<b>32</b>	<b>31</b>	<b>827</b>

<sup>1</sup>During 2022 the Group has separated the ETS provision from Other provisions. This change resulted in an amount of £2 million recorded within ETS provisions at 1 January 2022. There was no net change in total provisions.

	Company					
£ million	Restoration and handback	Restructuring	Legal claims and contractual disputes	ETS provisions <sup>1</sup>	Other	Total
Balance at 1 January 2022	434	31	55	2	49	571
Provisions recorded during the year	165	1	32	23	44	265
Reclassifications	(12)	-	-	-	-	(12)
Utilised during the year	(27)	(8)	-	(1)	(31)	(67)
Release of unused amounts	(12)	(1)	(38)	-	(32)	(83)
Unwinding of discount	1	-	-	-	-	1
Remeasurements	27	-	-	-	-	27
Exchange differences	63	1	-	-	-	64
<b>As at 31 December 2022</b>	<b>639</b>	<b>24</b>	<b>49</b>	<b>24</b>	<b>30</b>	<b>766</b>
Analysis:						
Current	113	24	48	24	10	219
Non-current	526	-	1	-	20	547
	<b>639</b>	<b>24</b>	<b>49</b>	<b>24</b>	<b>30</b>	<b>766</b>

<sup>1</sup>During 2022 the Company has separated the ETS provision from Other provisions. This change resulted in an amount of £2 million recorded within ETS provisions at 1 January 2022. There was no net change in total provisions.

#### Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under lease. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Such costs are capitalised within ROU assets. The provision is long-term in nature, typically covering the leased asset term, which for aircraft is up to 12 years.

Remeasurements arising from changes in estimates relating to the effects of both discounting and inflation are recorded in the Income statement to the extent they relate to avoidable provisions or recorded as an adjustment to the right of use asset (see note 11) for those unavoidable provisions.

Where amounts are finalised and the uncertainty relating to these provisions removed, the associated liability is reclassified to either current or non-current Other creditors, depending on the expected timing of the settlement.

#### Restructuring provisions

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans. The payments will be made within the next 12 months.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 21 Provisions continued

#### Legal claims and contractual dispute provisions

Legal claims and contractual provisions include:

- amounts for multi-party claims from groups of employees on a number of matters related to the Group's operations, including claims for additional holiday pay and for age discrimination;
- amounts relating to ongoing contractual disputes arising from the Group's ongoing provisions; and
- amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

The final amount required to pay the remaining claims and fines is subject to uncertainty.

#### ETS provisions

ETS provisions relate to the Emissions Trading Scheme for CO<sub>2</sub> emitted on flights within the United Kingdom and the EU and are due to be settled in the year subsequent to the reporting date.

#### Other provisions

The provision includes staff leaving indemnities that were set up based on Collective Labour Agreements or local jurisdiction regulations and other employee related provisions.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 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), credit risk and liquidity risk. The principal impact of these on the financial statements are discussed below:

#### a Fuel price risk

The Group is exposed to fuel price risk. In order to mitigate such risk, under the Group's fuel price risk management strategy a variety of over the counter derivative instruments are entered into. The Group strategy is to hedge a proportion of fuel consumption up to two years within the approved hedging profile.

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

			Group and Company		
			2022		
Increase/(decrease) in fuel price per cent	Effect on result before tax	Effect on equity <sup>1</sup>	Increase/(decrease) in fuel price per cent	Effect on result before tax	Effect on equity <sup>1</sup>
	£ million	£ million		£ million	£ million
	Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)
45	-	682	30	-	431
(45)	-	(567)	(30)	-	(251)

<sup>1</sup> The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

During 2022, following a substantial recovery in the global price of crude oil, which continues to be impacted by geopolitical events in Ukraine, the fair value of such net asset derivative instruments was £35 million at 31 December 2022, representing a decrease of £121 million from 1 January 2022.

#### b Foreign currency risk

The Group is exposed to foreign 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 has a number of strategies to hedge foreign currency risk. The Group strategy is to hedge a proportion of its foreign currency sales and purchases for up to three years.

The following table demonstrates the sensitivity of the Group's financial instruments to a reasonable, possible change in exchange rates, based on current market volatility, with all other variables held constant, on the result before tax and equity<sup>1</sup>. The sensitivity analysis has been performed on cash and cash equivalents, interest-bearing liabilities, lease liabilities and derivatives (both designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies. These represent both the Group and the Company as the majority of the foreign currency risks are borne by the Company.

Group and Company	Strengthening/(weakening) in US dollar rate per cent	Effect on result before tax	Effect on equity	Strengthening/(weakening) in euro rate per cent	Effect on result before tax	Effect on equity	Strengthening/(weakening) in yen rate per cent	Effect on result before tax	Effect on equity
		£ million	£ million		£ million	£ million		£ million	£ million
		Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)
2022	20	4	822	20	13	(211)	20	(49)	(61)
	(20)	(5)	(733)	(20)	(13)	211	(20)	49	61
2021	10	129	234	10	9	(115)	10	(15)	(35)
	(10)	(131)	(242)	(10)	(9)	115	(10)	15	35

<sup>1</sup> The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 Financial risk management objectives and policies continued

#### b Foreign currency risk continued

At 31 December 2022, the fair value of foreign currency net asset derivatives instruments was £145 million, representing an increase of £133 million, since 1 January 2022. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated into a hedge relationship at inception.

Those derivatives not designated in a hedge relationship on inception have their mark-to-market movements recorded directly in the Income statement and recognised within Net currency retranslation (charges)/credits.

#### c Interest rate risk

The Group is exposed to changes in interest rates on debt and cash deposits. In order to mitigate the interest rate risk, the Group's policies allow a variety of over the counter derivative instruments to be entered into.

The following table demonstrates the sensitivity of the Group's financial instruments to a reasonable possible change in interest rates, based on expectations regarding forward rate movements, with all other variables held constant, on the result before tax and equity<sup>1</sup>:

Group and Company	Strengthening / (weakening) in euro interest rate Basis points	Effect on result before tax £ million Increase/ (decrease)	Effect on equity <sup>1</sup> £ million Increase/ (decrease)	Strengthening / (weakening) in sterling interest rate Basis points	Effect on result before tax £ million Increase/ (decrease)	Effect on equity <sup>1</sup> £ million Increase/ (decrease)
<b>2022</b>	<b>150</b>	<b>(27)</b>	<b>15</b>	<b>150</b>	<b>(30)</b>	<b>-</b>
	<b>(150)</b>	<b>27</b>	<b>(15)</b>	<b>(150)</b>	<b>30</b>	<b>-</b>
<b>2021</b>	<b>50</b>	<b>(1)</b>	<b>6</b>	<b>50</b>	<b>(2)</b>	<b>-</b>
	<b>(50)</b>	<b>1</b>	<b>(5)</b>	<b>(50)</b>	<b>2</b>	<b>-</b>

<sup>1</sup>The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

For details regarding the Group's management of interest rate benchmark reform, refer to note 22h.

#### d Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company and by only entering into transactions with counterparties with a very low credit risk. The underlying exposures are monitored on a daily basis and the overall exposure limit by counterparty is periodically reviewed by using available market information.

At each period end, the Group assesses the effect of counterparties' and the Group's own credit risk on the fair value of derivatives. 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 28.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 Financial risk management objectives and policies continued

#### 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 2022 the Group and Company had unused overdraft facilities of £11 million (2021: £11 million).

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

Million	31 December 2022	
	Currency	£ equivalent
<i>General facilities:</i>		
US dollar facility expiring March 2025 <sup>1</sup>	\$1,346	1,114
GBP pound sterling facility expiring November 2025 <sup>2</sup>	£1,000	1,000
		2,114
<i>Committed aircraft facilities:</i>		
US dollar facility expiring between February and April 2023 <sup>3</sup>	\$659	545
US dollar facility expiring March 2024 <sup>4</sup>	\$404	334
		879
Million	31 December 2021	
	Currency	£ equivalent
<i>General facilities:</i>		
US dollar facility expiring March 2024 <sup>1</sup>	\$1,346	994
GBP pound sterling facility expiring November 2025 <sup>2</sup>	£1,000	1,000
		1,994
<i>Committed aircraft facilities:</i>		
US dollar facility expiring September 2022 <sup>5</sup>	\$635	469
US dollar facility expiring March 2024 <sup>4</sup>	\$398	294
		763

<sup>1</sup>In March 2021, British Airways entered into a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is \$1,346 million and was initially available for a period of three years to March 2024, plus two one-year extension periods at the discretion of the lenders. A one-year extension was exercised in 2022, and hence the facility is now available until March 2025. The facility is undrawn at the date of this report. Any resultant debt on drawing down on the Revolving Credit Facility would be securitised against specific landing rights and aircraft.

<sup>2</sup>Unsecured five year Export Development Guarantee committed Facility of £1,000 million with UKEF and a syndicate of banks.

<sup>3</sup>The aircraft facilities maturing in 2023 are available for specific committed aircraft deliveries.

<sup>4</sup>The aircraft facility maturing in 2024 is only available for specific committed aircraft deliveries.

<sup>5</sup>The undrawn part of the EETC aircraft financing facility raised in July 2021, fully drawn down upon in 2022. Refer to note 20 for further information.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 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 2022
Interest-bearing loans and borrowings:						
Asset financing liabilities	(95)	(94)	(187)	(551)	(1,520)	(2,447)
Lease liabilities	(453)	(559)	(1,200)	(1,263)	(3,357)	(6,832)
Fixed rate borrowings	(14)	(6)	(12)	(31)	-	(63)
Floating rate borrowings	(141)	(171)	(251)	(3,759)	-	(4,322)
Trade and other payables	(2,372)	-	(72)	-	-	(2,444)
Other assets	3	6	7	3	18	37
Derivatives financial instruments (assets):						
Foreign currency derivatives (asset)	146	126	31	-	-	303
Fuel derivatives (asset)	47	17	1	-	-	65
Interest rate swap (asset)	4	7	9	7	-	27
Derivative financial instruments (liabilities):						
Foreign currency derivatives (liability)	(75)	(42)	(38)	-	-	(155)
Fuel derivatives (liability)	(9)	(18)	(3)	-	-	(30)
As at 31 December	(2,959)	(734)	(1,715)	(5,594)	(4,859)	(15,861)

	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 2021
Interest-bearing loans and borrowings:						
Asset financing liabilities	(66)	(61)	(120)	(350)	(959)	(1,556)
Lease liabilities	(390)	(342)	(934)	(1,879)	(3,568)	(7,113)
Fixed rate borrowings	(18)	(9)	(18)	(39)	-	(84)
Floating rate borrowings	(90)	(101)	(214)	(3,913)	(14)	(4,332)
Other financing liabilities	(15)	-	-	-	-	(15)
Trade and other payables	(1,588)	-	(77)	-	-	(1,665)
Derivatives financial instruments (assets):						
Foreign currency derivatives (asset)	62	12	18	-	-	92
Fuel derivatives (asset)	81	62	17	-	-	160
Derivative financial instruments (liabilities):						
Foreign currency derivatives (liability)	(38)	(26)	(15)	(5)	-	(84)
Fuel derivatives (liability)	-	(1)	(3)	-	-	(4)
Interest rate swap (liability)	(3)	(3)	(3)	(3)	-	(12)
As at 31 December	(2,065)	(469)	(1,349)	(6,189)	(4,541)	(14,613)

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 Financial risk management objectives and policies continued

#### e Liquidity risk continued

The table below analyses the Company's (outflows) and inflows in respect of financial liabilities and derivative financial instruments 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.

	Company					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2022
Interest-bearing loans and borrowings:						
Asset financing liabilities	(95)	(94)	(187)	(551)	(1,520)	(2,447)
Lease liabilities	(447)	(552)	(1,189)	(1,258)	(3,355)	(6,801)
Fixed rate borrowings	(14)	(6)	(12)	(31)	-	(63)
Floating rate borrowings	(141)	(171)	(251)	(3,759)	-	(4,322)
Trade and other payables	(2,902)	-	(72)	-	-	(2,974)
Other assets	3	6	7	3	18	37
Derivatives financial instruments (assets):						
Foreign currency derivatives (asset)	148	127	30	-	-	305
Fuel derivatives (asset)	47	17	1	-	-	65
Interest rate swap (asset)	4	7	9	7	-	27
Derivative financial instruments (liabilities):						
Forward currency derivatives (liability)	(79)	(44)	(41)	(1)	-	(165)
Fuel derivatives (liability)	(9)	(18)	(3)	-	-	(30)
<b>As at 31 December</b>	<b>(3,485)</b>	<b>(728)</b>	<b>(1,708)</b>	<b>(5,590)</b>	<b>(4,857)</b>	<b>(16,368)</b>

	Company					
£ million	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2021
Interest-bearing loans and borrowings:						
Asset financing liabilities	(66)	(61)	(120)	(350)	(959)	(1,556)
Lease liabilities	(383)	(335)	(923)	(1,869)	(3,568)	(7,078)
Fixed rate borrowings	(18)	(9)	(18)	(39)	-	(84)
Floating rate borrowings	(90)	(101)	(214)	(3,913)	(14)	(4,332)
Other financing liabilities	(15)	-	-	-	-	(15)
Trade and other payables	(2,051)	-	(78)	-	-	(2,129)
Derivatives financial instruments (assets):						
Foreign currency derivatives (asset)	63	13	20	-	-	96
Fuel derivatives (asset)	81	62	17	-	-	160
Derivative financial instruments (liabilities):						
Forward currency derivatives (liability)	(40)	(29)	(18)	(7)	-	(94)
Fuel derivatives (liability)	-	(1)	(3)	-	-	(4)
Interest rate swap (liability)	(3)	(3)	(3)	(3)	-	(12)
<b>As at 31 December</b>	<b>(2,522)</b>	<b>(464)</b>	<b>(1,340)</b>	<b>(6,181)</b>	<b>(4,541)</b>	<b>(15,048)</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 Financial risk management objectives and policies continued

#### f Offsetting financial assets and liabilities

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

					Group
£ million	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 <sup>1</sup>	Net amount
<b>31 December 2022</b>					
<b>Financial assets</b>					
Derivative financial assets	416	(29)	387	(4)	383
<b>Financial liabilities</b>					
Derivative financial liabilities	209	(29)	180	(4)	176

<sup>1</sup> As at 31 December 2022, the Group recognised Enil million of collateral (2021: Enil) offset under netting arrangements.

Within the Company the gross value of derivative financial assets was £419 million and the net value was £390 million. The gross value of derivative financial liabilities was £217 million and the net value was £188 million. The value of related financial instruments that are not offset was £6 million.

					Group
£ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related financial instruments that are not offset	Net amount
<b>31 December 2021</b>					
<b>Financial assets</b>					
Derivative financial assets	260	(7)	253	(7)	246
<b>Financial liabilities</b>					
Derivative financial liabilities	102	(7)	95	(7)	88

Within the Company the gross value of derivative financial assets was £262 million and the net value was £255 million. The gross value of derivative financial liabilities was £102 million and the net value was £96 million. The value of related financial instruments that are not offset was £7 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.

The Group monitors capital on the basis of the net debt to EBITDA before exceptional items. For the year to 31 December 2022, the net debt to EBITDA before exceptional items was 5.71 times (2021: minus 8.81 times). Net debt is defined as the total borrowings, asset financing liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts and EBITDA is defined as operating profit/(loss) before exceptional items, depreciation, amortisation and impairment.

Further detail on liquidity and capital resources and capital risk management is disclosed in the going concern section in note 2.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 22 Financial risk management objectives and policies continued

#### h Managing interest rate benchmark reform and associated risks

##### *Overview*

A reform of major interest rate benchmarks is being undertaken globally, including the replacement of certain interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that are expected to mature subsequent to 31 December 2022.

During 2020 the Group established an IBOR transition working group and project plan, led by IAG Treasury. This project has continued to consider the required changes to systems, processes, risk management and valuation models, as well as managing any accounting and tax implications. During 2022, the Group, and the counterparties to the financial instruments, transitioned the majority of such instruments to an alternative benchmark rate and in order to enable such transitions, changes to systems, processes and models have been implemented.

Reforms to the Euro Interbank Offered Rate (EURIBOR) methodology to enable it to meet the criteria of a risk-free rate were completed in 2019. As such the Group expects to continue to utilise financial instruments with a EURIBOR component without transitioning to an alternative benchmark rate.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 Financial instruments

#### a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2022 and 31 December 2021 by nature and classification for measurement purposes was as follows:

##### At 31 December 2022

£ million	Financial assets			Non-financial assets	Group
	Amortised cost	Fair value through OCI	Fair value through income statement		Total carrying amount
<b>Non-current financial assets</b>					
Other equity investments	-	2	-	-	2
Derivative financial instruments <sup>1</sup>	-	-	47	-	47
Other non-current assets <sup>2</sup>	18	-	-	156	174
<b>Current financial assets</b>					
Trade receivables	811	-	-	-	811
Derivative financial instruments <sup>1</sup>	-	-	340	-	340
Other current assets <sup>2</sup>	116	-	-	569	685
Other current interest-bearing deposits	140	-	-	-	140
Cash and cash equivalents	2,376	-	-	-	2,376

<sup>1</sup>Within the Company, non-current derivative financial instrument assets are £47 million and current derivative financial instrument assets are £343 million.

<sup>2</sup>Within the Company, total other non-current assets are £173 million, of which loans and receivables (amortised cost) are £18 million and non-financial assets are £155 million. Total other current assets in the Company are £688 million, of which loans and receivables (amortised cost) are £138 million and non-financial assets are £550 million.

£ million	Financial liabilities			Non-financial liabilities	Group
	Amortised cost	Fair value through OCI	Fair value through income statement		Total carrying amount
<b>Non-current financial liabilities</b>					
Interest bearing long-term borrowings	5,411	-	-	-	5,411
Lease liabilities	3,815	-	-	-	3,815
Derivative financial instruments <sup>1</sup>	-	-	39	-	39
Other long-term liabilities <sup>2</sup>	72	-	-	12	84
<b>Current financial liabilities</b>					
Current portion of long-term borrowings	215	-	-	-	215
Lease liabilities	996	-	-	-	996
Trade and other payables <sup>2</sup>	2,372	-	-	64	2,436
Derivative financial instruments <sup>1</sup>	-	-	141	-	141

<sup>1</sup>Within the Company, non-current derivative financial instrument liabilities are £42 million and current derivative financial instrument liabilities are £146 million.

<sup>2</sup>Within the Company, total other long-term liabilities are £82 million, of which loans and payables (amortised cost) are £72 million and non-financial liabilities are £10 million. Total trade and other payables in the Company are £2,965 million, of which loans and payables (amortised cost) are £2,902 million and non-financial liabilities are £63 million.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 Financial instruments continued

#### a Financial assets and liabilities by category continued

As at 31 December 2021

£ million	Financial assets			Group	
	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial liabilities	Total carrying amount
<b>Non-current financial assets</b>					
Other equity investments	-	2	-	-	2
Derivative financial instruments <sup>1</sup>	-	-	35	-	35
Other non-current assets <sup>2</sup>	76	-	-	92	168
<b>Current financial assets</b>					
Trade receivables	454	-	-	-	454
Derivative financial instruments <sup>1</sup>	-	-	218	-	218
Other current assets <sup>2</sup>	148	-	-	266	414
Cash and cash equivalents	1,687	-	-	-	1,687

<sup>1</sup>Within the Company, non-current derivative financial instrument assets are £35 million and current derivative financial instrument assets are £220 million.

<sup>2</sup>Within the Company, total other non-current assets are £170 million, of which loans and receivables (amortised cost) are £82 million and non-financial assets are £88 million. Total other current assets in the Company are £417 million, of which loans and receivables (amortised cost) are £157 million and non-financial assets are £260 million.

£ million	Financial liabilities			Group	
	Amortised cost	Fair value through OCI	Fair value through income statement	Non-financial assets	Total carrying amount
<b>Non-current financial liabilities</b>					
Interest bearing long-term borrowings	4,721	-	-	-	4,721
Lease liabilities	4,197	-	-	-	4,197
Derivative financial instruments <sup>1</sup>	-	-	26	-	26
Other long-term liabilities <sup>2</sup>	76	-	-	15	91
<b>Current financial liabilities</b>					
Current portion of long-term borrowings	180	-	-	-	180
Lease liabilities	652	-	-	-	652
Trade and other payables <sup>2</sup>	1,622	-	-	43	1,665
Derivative financial instruments <sup>1</sup>	-	-	69	-	69

<sup>1</sup>Within the Company, non-current derivative financial instrument liabilities are £26 million and current derivative financial instrument liabilities are £70 million.

<sup>2</sup>Within the Company, total other long-term liabilities are £89 million, of which loans and payables (amortised cost) are £79 million and non-financial liabilities are £10 million. Total trade and other payables in the Company are £2,092 million, of which loans and payables (amortised cost) are £2,051 million and non-financial liabilities are £41 million.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 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 represent actual and regularly occurring market transactions on an arm's length basis.

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

Derivative instruments are measured based on the market value of instruments with similar terms and conditions using forward pricing models, which include forward exchange rates, forward interest rates, forward fuel curves and corresponding volatility surface data at the reporting date. The fair value of derivative financial assets and liabilities are determined as follows, incorporating adjustments for own credit risk and counterparty credit risk:

- commodity reference contracts including swaps and options transactions, referenced to (i) CIF NWE cargoes jet fuel; (ii) ICE Gasoil; (iii) ICE Brent; (iv) ICE Gasoil Brent crack; (v) Jet Differential and (vi) Jet fuel Brent crack – the mark-to-market valuation prices are determined by reference to current forward curve and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate;
- currency forward and option contracts – by reference to current forward prices and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate; and
- Interest rate swap contracts – by discounting the future cash flows of the swap contracts at market interest rate valued with the current forward curve.

The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date. The fair value of the Group's interest-bearing borrowings is adjusted for own credit risk.

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 current 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 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 2022 are set out below:

£ million				Fair value	Group Carrying value
	Level 1	Level 2	Level 3	Total	Total
<b>Financial assets:</b>					
Other equity investments	-	-	2	2	2
Amounts owed by associated group undertakings	-	85	-	85	84
Other assets	-	18	-	18	27
Derivative financial assets:					
Foreign exchange contracts	-	296	-	296	296
Fuel derivatives	-	64	-	64	64
Interest rate swaps	-	27	-	27	27
<b>Financial liabilities:</b>					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	1,517	-	1,517	1,975
Fixed rate borrowings	-	54	-	54	62
Floating rate borrowings	-	3,361	-	3,361	3,589
Derivative financial liabilities:					
Foreign exchange contracts	-	151	-	151	151
Fuel derivatives	-	29	-	29	29

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2021 are set out below:

£ million				Fair value	Group Carrying value
	Level 1	Level 2	Level 3	Total	Total
<b>Financial assets:</b>					
Other equity investments	-	-	2	2	2
Amounts owed by associated group undertakings	-	88	-	88	85
Derivative financial assets:					
Foreign exchange contracts	-	92	-	92	92
Currency option contracts	-	2	-	2	2
Fuel derivatives	-	160	-	160	160
Interest rate swaps	-	1	-	1	1
<b>Financial liabilities:</b>					
Interest-bearing loans and borrowings:					
Asset financed liabilities	-	1,419	-	1,419	1,265
Fixed rate borrowings	-	84	-	84	83
Floating rate borrowings	-	3,539	-	3,539	3,539
Other financing liabilities	-	14	-	14	14
Derivative financial liabilities:					
Foreign exchange contracts	-	81	-	81	81
Fuel Derivatives	-	3	-	3	3
Interest rate swaps	-	11	-	11	11

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 Financial instruments continued

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

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

#### c Level 3 financial assets reconciliation

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

£ million	Group		Company	
	2022	2021	2022	2021
Balance at 1 January	2	2	2	2
Fair value adjustment	-	-	-	-
<b>As at 31 December</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

#### d Cash flow hedges

At 31 December 2022 the Group's principal risk management activities that were hedging future forecast transactions were:

- Foreign exchange contracts, hedging foreign currency exchange risk on certain operational payments. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement, where the hedged item is recorded directly in the Income statement, to the same caption as the underlying hedged item is classified; (ii) recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability, are recorded to the Balance Sheet in the same caption as the hedged item is recognised; and (iii) recognised in equity and transferred to the Income statement, where the hedged item is a financial asset or liability, at the same time as the financial asset or liability is recorded in the Income statement. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement when the future transaction is no longer expected to occur and recorded in the relevant Income statement caption to which the hedged item is classified;
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel expenditure. 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. Remeasurement 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;
- Interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Interest expense;
- Future loan repayment instalments denominated in foreign currency are designated in a hedge relationship hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the associated loans are recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability when the loan repayments are made (generally in instalments over the life of the loan).

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 2022	Total 2021
Loan repayments to hedge future revenue	76	84
Foreign exchange contracts to hedge future revenue and expenditure	(131)	53
Hedges of future fuel purchases	(55)	(147)
Interest rate hedges	(6)	36
Instruments for which hedge accounting no longer applies <sup>1</sup>	187	210
	71	236
Related deferred tax credit	(19)	(45)
<b>Total amount included within equity</b>	<b>52</b>	<b>191</b>

<sup>1</sup>Relates to previously terminated hedge relationships for which the underlying forecast transaction remains expected to occur.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 Financial instruments continued

#### d Cash flow hedges continued

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

Notional principal amounts		Group and Company				
£ million	Hedge range	Within 1 year	1-2 years	2-5 years	More than 5 years	Total 2022
Foreign exchange contracts to hedge future revenue and expenditure						
USD	1.05-1.45	3,132	1,185		-	4,317
EUR	1.07-1.17	123	147		-	270

Notional principal amounts		Group and Company				
£ million	Hedge range	Within 1 year	1-2 years	2-5 years	More than 5 years	Total 2021
Foreign exchange contracts to hedge future revenue and expenditure						
USD	1.23 – 1.45	2,214	876	36	-	3,126
EUR	1.08 – 1.18	170	88	-	-	258

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 2022 were €940 million (2021: €1,134 million) and ¥49,497 million (2021: ¥53,268 million).

Derivative contracts are used to hedge fuel purchases over a period of up to two years. Notional quantities associated with these contracts at 31 December 2022 amounted to 3 million tonnes (2021: 4 million tonnes) with a hedge price range of USD 416-1300 (2021: USD 378 - 715).

The notional amount of the Group's interest rate contracts to hedge the floating interest rate on euro-denominated debt at 31 December 2022 was €645 million (2021: €796 million).

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 23 Financial instruments continued

#### d Cash flow hedges continued

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

##### As at 31 December 2022

£ million	Amounts recognised in other comprehensive income <sup>1</sup>	Amounts associated with ineffectiveness recognised in the income statement	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	(1)	-	-	(1)	-	(6)
Foreign exchange contracts to hedge future revenue and expenditure	(290)	-	-	(290)	94	12
Hedge of future fuel purchases	(555)	16	-	(539)	631	-
Interest rate hedges	(34)	-	-	(34)	(8)	-
Instruments for which hedge accounting no longer applies	-	-	-	-	-	(23)
	(880)	16	-	(864)	717	(17)

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

##### As at 31 December 2021

£ million	Amounts recognised in other comprehensive income <sup>1</sup>	Amounts associated with ineffectiveness recognised in the income statement	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	(106)	-	-	(106)	(13)	-
Foreign exchange contracts to hedge future revenue and expenditure	(68)	-	3	(65)	16	(15)
Hedge of future fuel purchases	(390)	-	60	(330)	29	-
Interest rate hedges	(6)	-	-	(6)	(9)	27
Instruments for which hedge accounting no longer applies	-	-	-	-	(46)	-
	(570)	-	63	(507)	(23)	12

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

The 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 3) through to the earlier of the reporting date and the maturity date of the derivatives are set out below:

£ million	2022	2021
Gains associated with the discontinuance of hedge accounting recognised in the income statement	-	(63)
Fair value movements subsequently recorded in the income statement	-	(50)
<b>Total effect of discontinuance of hedge accounting in the income statement</b>	<b>-</b>	<b>(113)</b>

The Group has no fair value hedges at 31 December 2022 and 2021.

#### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 24 Share capital and share premium

	Group and Company			
	2022		2021	
	Number of shares 000s	£ million	Number of 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	
	2022	2021
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.

### 25 Share-based payment schemes

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

£ million	2022	2021
Share-based payment schemes recharged from IAG	7	3
<b>Total share-based payments charge recorded in employee costs</b>	<b>7</b>	<b>3</b>

BA participates in 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 30. A brief description of the schemes is set out below:

#### a) 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.

#### b) IAG Restricted Share Plan

During 2021, IAG revised its approach to long-term incentives, replacing the existing PSP with a Restricted Share Plan proposal under the new Executive Share Plan ('RSP') approved by shareholders in June 2021. The RSP was introduced to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Group. Awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options vest. There are no performance measures associated with the awards, although approval at the end of the vesting period will be at the discretion of the IAG Remuneration Committee, considering the IAG Group's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified.

#### c) IAG Full Potential Incentive Plan

During 2021, IAG launched the new Full Potential Incentive Plan ('FPIP'), which is granted to key individuals involved in the delivery of a series of transformation projects that will enable the Group to deliver business success over the medium to long term. The Awards have been made as nil-cost options, vesting in 2025 and dependent on stretch performance targets for 2024 and the approval of the Board.

#### d) 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 IAG 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 26 Other reserves

#### a Group

£ million	Retained earnings	Unrealised gains and losses	Cost of hedging reserve	Currency translation	Group Total other reserves
Balance at 1 January 2021	584	(607)	40	15	32
Loss for the year	(1,648)	-	-	-	(1,648)
Other comprehensive income for the year:					
Exchange losses	-	-	-	(9)	(9)
Fair value of cash flow hedges transferred to passenger revenue	-	16	-	-	16
Fair value of cash flow hedges transferred to fuel and oil costs	-	(4)	-	-	(4)
Fair value of cash flow hedges transferred to finance costs	-	7	-	-	7
Derecognition of fuel hedges	-	(51)	-	-	(51)
Net change in fair value of cash flow hedges	-	448	-	-	448
Net change in fair value of cost of hedging	-	-	12	-	12
Cost of hedging reclassified and reported in net loss	-	-	(11)	-	(11)
Share of movement in reserves of associates	(1)	-	-	-	(1)
Pension remeasurements	1,197	-	-	-	1,197
Hedges reclassified and reported in property, plant and equipment	-	12	(10)	-	2
Total income and expense for the year	(452)	428	(9)	(9)	(42)
Balance at 1 January 2022	132	(179)	31	6	(10)
Profit for the year	61	-	-	-	61
Other comprehensive income for the year:					
Exchange gains	-	-	-	4	4
Fair value of cash flow hedges transferred to fuel and oil costs	-	(587)	-	-	(587)
Fair value of cash flow hedges transferred to finance costs	-	7	-	-	7
Ineffectiveness taken to Other non-operating costs	-	(13)	-	-	(13)
Net change in fair value of cash flow hedges	-	703	-	-	703
Net change in fair value of cost of hedging	-	-	(62)	-	(62)
Cost of hedging reclassified and reported in net profit	-	-	13	-	13
Share of movement in reserves of associates	8	-	-	-	8
Pension remeasurements	554	-	-	-	554
Hedges reclassified and reported in property, plant and equipment	-	(7)	(12)	-	(19)
Hedges reclassified and reported in sales in advance of carriage	-	20	2	-	22
Total income and expense for the year	623	123	(59)	4	691
As at 31 December 2022	755	(56)	(28)	10	681

#### 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.

#### Cost of hedging reserve

The cost of hedging reserve records, amongst others, changes on the time value of options.

#### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 26 Other reserves continued

#### b Company

£ million	Company			
	Retained earnings	Unrealised gains and losses	Cost of hedging reserve	Total other reserves
Balance at 1 January 2021	808	(612)	40	237
Loss for the year	(1,675)	-	-	(1,675)
Other comprehensive loss for the year:				
Fair value of cash flow hedges transferred to passenger revenue	-	16	-	16
Fair value of cash flow hedges transferred to fuel and oil costs	-	(4)	-	(4)
Fair value of cash flow hedges transferred to finance costs	-	7	-	7
Derecognition of fuel hedges	-	(51)	-	(51)
Net change in fair value of cash flow hedges	-	448	-	448
Net change in fair value of cost of hedging	-	-	12	12
Cost of hedging reclassified and reported in net loss	-	-	(11)	(11)
Pension remeasurements	1,192	-	-	1,192
Hedges reclassified and reported in property, plant and equipment	-	12	(10)	2
Total income and expense for the year	(483)	428	(9)	(65)
Balance at 1 January 2022	325	(184)	31	172
Profit for the year	225	-	-	225
Other comprehensive income for the year:				
Fair value of cash flow hedges transferred to fuel and oil costs	-	(587)	-	(587)
Fair value of cash flow hedges transferred to finance costs	-	7	-	7
Ineffectiveness taken to Other non-operating costs	-	(13)	-	(13)
Net change in fair value of cash flow hedges	-	703	-	703
Net change in fair value of cost of hedging	-	-	(62)	(62)
Cost of hedging reclassified and reported in net loss	-	-	13	13
Pension remeasurements	544	-	-	544
Hedges reclassified and reported in property, plant and equipment	-	(7)	(12)	(19)
Hedges reclassified and reported in sales in advance of carriage	-	20	2	22
Total income and expense for the year	769	123	(59)	833
<b>As at 31 December 2022</b>	<b>1,094</b>	<b>(61)</b>	<b>(28)</b>	<b>1,005</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes.

#### Defined contribution schemes

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.

Costs recognised in respect of the defined contribution pension plan for the year to 31 December 2022 were £134 million (2021: £116 million).

#### Defined benefit schemes

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme ('APS') and the New Airways Pension Scheme ('NAPS'), both of which are in the UK and are closed to new members.

APS has been closed to new members since 1984, but remains open to future accrual. 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.

NAPS has been closed to new members since 2003 and closed to future accrual since 2018. Following closure, 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).

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, certain aspects of the business of the two schemes are common. APS and NAPS have developed certain joint working groups that are attended by the Trustee Board members of each scheme although each Trustee Board reaches its decisions independently. There are 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.

Triennially, the Trustees of APS and NAPS undertake actuarial valuations, which are subsequently agreed with British Airways to determine the cash contributions and any deficit payment plans through to the next valuation date, as well as ensuring that the schemes have sufficient funds available to meet future benefit payments to members. These actuarial valuations are prepared using the principles set out in UK Pension legislation. This differs from the IAS 19 'Employee benefits' valuation, which is used for deriving the Income statement and Balance sheet positions, and uses a best-estimate approach overall. The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and funding levels.

During 2022, the triennial valuations, as at 31 March 2021, were finalised for APS and NAPS which resulted in a technical surplus of £295 million for APS and a technical deficit of £1,650 million for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at 31 December 2022 under IAS 19 'Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation performed as at 31 March 2021, compared with IAS 19 requirements used in the accounting valuation assumptions as at the reporting date. The triennial actuarial valuation of neither APS and NAPS is updated outside of the triennial valuations, making comparability between the scheme liabilities applying the principles set out in the UK Pension legislation and the requirements of IAS 19 not possible. The principle difference relates to the discount rate applied, which under the actuarial valuation, aligns with a prudent estimate of the future investment returns on the assets of the respective schemes, whereas, under IAS 19, the rates are based on high quality corporate bond yields, regardless of how the assets are invested.

The triennial valuation as at 31 March 2021 for NAPS supersedes the previous agreements reached in 2020 and 2021 between British Airways and the Trustees of NAPS relating to the deferral of deficit contributions. The deferred deficit contributions have been incorporated into the deficit payment plan agreed as part of the triennial valuation as at 31 March 2021.

As part of the triennial valuation as at 31 March 2021 for NAPS, British Airways has agreed to provide certain property assets as security, which will remain in place until 30 September 2028.

#### Other plans

British Airways also operates post-retirement schemes in a number of jurisdictions outside of the UK. The principal scheme is the British Airways Plc Pension Plan (USA) based in the United States and referred to as the 'US Plan'. The US Plan is considered to be a defined benefit scheme and is closed to new members and to future accrual.

The majority of the British Airways' other plans are fully funded, but there are also a number of unfunded plans, where the Group meets the benefit payment obligations as they fall due.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### Risks associated with the defined benefit schemes

The defined benefit schemes expose the Group to a range of risks, with the following being the most significant:

- Asset volatility risk - the scheme obligations are calculated using a discount rate set with reference to high quality corporate bond yields. If scheme assets underperform this yield, this will reduce the surplus / increase the deficit, depending on the scheme. Certain of the schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while creating volatility and risk in the short term;
- Longevity risk - the majority of the scheme obligations are to provide benefits over the life of the scheme members. An increase in life expectancy will result in a corresponding increase in the defined benefit obligation;
- Interest rate risk - a decrease in interest rates will increase plan liabilities, although this will be partially offset by an increase in the value of certain of the scheme assets;
- Inflation risk - a significant proportion of the scheme obligations are linked to inflation, such that any increase in inflation will cause an increase in the obligations. While certain of the scheme assets are indexed to inflation, any expected increase in the scheme assets from inflation would be disproportionately lower than the increase in the scheme obligations; and
- Currency risk - a number of scheme assets are denominated in currencies other than the pound sterling. Weakening of those currencies, or strengthening of the pound sterling, in the long term, will have the effect of reducing the value of scheme assets.

#### a Cash payments and funding arrangements

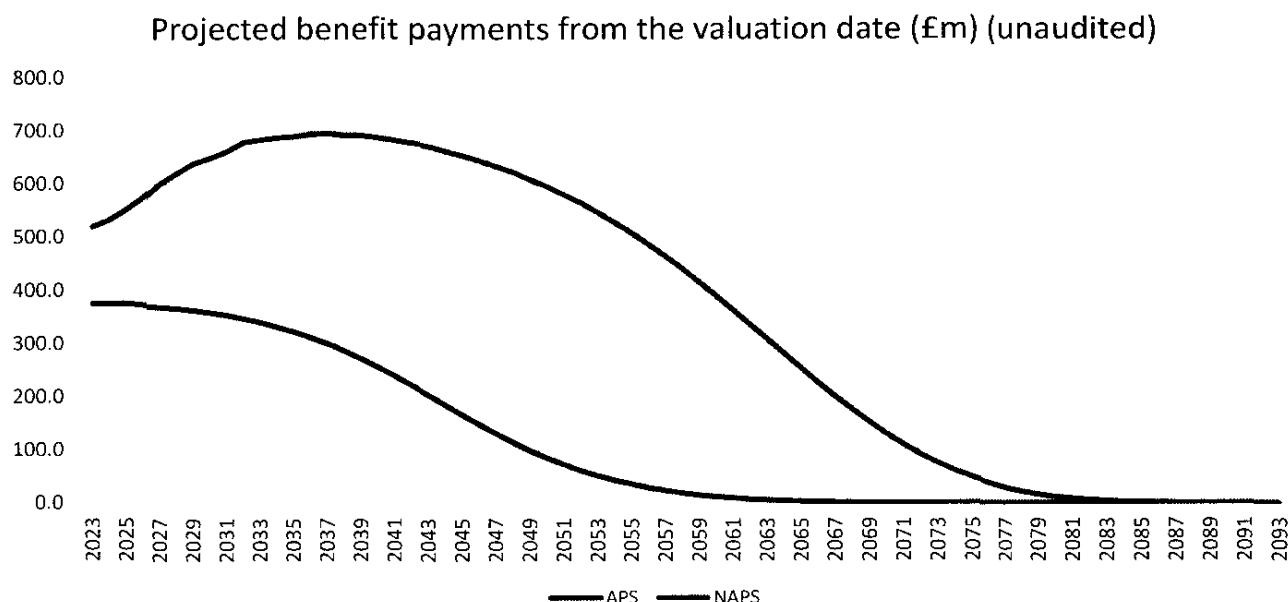
Cash payments in respect of pension obligations comprise normal employer contributions made by the Group and deficit contributions based on the agreed deficit payment plan with NAPS. Total payments for the year ended 31 December 2022 net of service costs made by the Group were £17 million (2021: £35 million) being the employer contributions of £19 million (2021: £38 million) less the current service cost of £2 million (2021: £3 million) (note 27b).

#### Future funding arrangements

Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2021, using assumptions and methodologies agreed between the Group and Trustee of each scheme.

In total, the Group expects to pay £1 million in employer contributions to APS and £nil to NAPS in 2023.

The following graph provides the undiscounted benefit payments to be made by the trustees of APS and NAPS over the remaining expected duration of the schemes:



The amounts and timing of these projected benefit payments are subject to the aforementioned risks to the schemes.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### a Cash payments and funding arrangements continued

##### Deficit contributions

At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to £1,650 million. In order to address the deficit in the scheme, the Group has also committed to deficit contribution payments through to 30 June 2023, amounting to approximately £50 million per year, increasing by £50 million each year up to 30 June 2026 and subsequently capped at £225 million per year through to 31 May 2032. The deficit contribution plan includes an over-funding mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are suspended if the funding level reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, or until such point as the scheme funding level reaches 100 per cent.

During the year ended and as at 31 December 2022, given the funding level of the scheme, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At 31 December 2022, the valuation of the funding level incorporates significant forward-looking assumptions, such that the Group currently does not expect to make further deficit contributions. Given the long-term nature of the NAPS scheme, these assumptions are subject to uncertainty and there can be no guarantee that deficit contributions will not resume in the future or that additional deficit contributions will not need to be incorporated into future triennial actuarial valuations.

At 31 December 2022, had the over-funding mechanism not been applied, then the asset ceiling adjustment (as detailed in note 27c) would have been £578 million higher.

At 31 December 2022, the Group is committed to the following undiscounted deficit payments, including interest, which are deductible for tax purposes at the statutory rate of tax:

£ million	NAPS <sup>1</sup>	Other schemes
Within twelve months	-	43
One to two years	-	38
Two to five years	-	38
<b>Total expected deficit payments</b>	-	<b>119</b>

<sup>1</sup>Committed deficit contributions for NAPS are stated after the effect of the over-funding protection mechanism.

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

Under the triennial valuation of NAPS as at 31 March 2021, in the period up to 31 December 2023, no dividend payment is permitted from British Airways to IAG. In the period from 1 January to 31 December 2024, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. In the period from 1 January to 30 September 2025, any dividend payment from British Airways to IAG that exceeds 50 per cent of the pre-exceptional profit after tax in each financial year will require additional payments to be made to NAPS if the scheme is not at least 100 per cent funded. All dividend restrictions cease from 1 October 2025, onwards. British Airways must maintain a minimum cash level of £1,600 million as at the date of the declaration of any dividends as well as immediately following the payment of any dividends to IAG and the associated matching contributions to NAPS. The amount of any deficit contributions and dividend matching contributions in a single financial year is limited to £300 million.

#### b Employee benefit schemes recognised in the financial statements

##### i Amounts recognised on the Balance sheet

£ million	As at 31 December 2022			
	APS	NAPS	Other	Total
Scheme assets at fair value <sup>1</sup>	5,495	14,893	310	20,698
Present value of scheme liabilities <sup>1</sup>	(5,293)	(11,975)	(477)	(17,745)
Net pension asset/(liability)	202	2,918	(167)	2,953
Effect of the asset ceiling <sup>2</sup>	(70)	(1,021)	-	(1,091)
Other employee benefit obligations	-	-	(9)	(9)
	<b>132</b>	<b>1,897</b>	<b>(176)</b>	<b>1,853</b>
Represented by				
Employee benefit assets <sup>4</sup>				2,041
Employee benefit obligations <sup>4</sup>				(188)
<b>Net employee benefit assets<sup>1,3</sup></b>				<b>1,853</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### b Employee benefit schemes recognised in the financial statements continued

£ million	As at 31 December 2021			
	APS	NAPS	Other	Total
Scheme assets at fair value <sup>1</sup>	7,536	21,291	378	29,205
Present value of scheme liabilities <sup>1</sup>	(7,081)	(19,190)	(598)	(26,869)
Net pension asset/(liability)	455	2,101	(220)	2,336
Effect of the asset ceiling <sup>2</sup>	(159)	(901)	-	(1,060)
Other employee benefit obligations	-	-	(9)	(9)
	296	1,200	(229)	1,267
Represented by				
Employee benefit assets <sup>4</sup>				1,508
Employee benefit obligations <sup>4</sup>				(241)
Net employee benefit assets <sup>1,3</sup>				1,267

<sup>1</sup>Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At 31 December 2022, such assets were £280 million (2021: £332 million) with a corresponding amount recorded in the scheme liabilities.

<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 arising on both the net pension asset and the future contractual minimum funding requirements.

<sup>3</sup>The net deferred tax asset recognised on the net employee benefit asset (2021: asset) was £44 million at 31 December 2022 (2021: £53 million). The defined benefit obligation includes £17 million (2021: £20 million) arising from unfunded plans.

<sup>4</sup>At 31 December 2022, the Company had employee benefit assets of £2,041 million (2021: £1,508 million) and employee benefit obligations of £179 million (2021: £218 million). The deferred tax asset recognised on the Company net employee benefit asset was £42m at 31 December 2022 (2021: £48m).

#### ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

£ million	2022	2021
Defined benefit plans:		
Current service cost	2	3
Administrative expenses	16	26
	18	29
Defined contribution plans	134	116
<b>Pension costs recorded as employee costs</b>	<b>152</b>	<b>145</b>
£ million	2022	2021
Interest income on scheme assets	(539)	(373)
Interest expense on scheme liabilities	497	367
Interest expense on asset ceiling	20	8
<b>Net financing (credit)/charge relating to pensions</b>	<b>(22)</b>	<b>2</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### iii Amounts recognised in the Statement of other comprehensive income

£ million	2022	2021
Return on plan assets excluding interest income	7,969	(2,153)
Remeasurement of plan liabilities from changes in financial assumptions <sup>1</sup>	(8,920)	82
Remeasurement of plan liabilities from changes in demographic assumptions <sup>1</sup>	(176)	(42)
Remeasurement of experience losses	538	369
Remeasurement of the APS and NAPS asset ceilings	11	361
Exchange movements	16	-
<b>Pension remeasurements credited to Other comprehensive income</b>	<b>(562)</b>	<b>(1,383)</b>
<b>Deferred tax arising on pension remeasurements</b>	<b>8</b>	<b>186</b>
<b>Pension remeasurements credited to Other comprehensive income, net of tax</b>	<b>(554)</b>	<b>(1,197)</b>

<sup>1</sup>The prior year figures include a reclassification between remeasurements of plan liabilities from changes in financial assumptions to remeasurement of plan liabilities from changes in demographic assumptions to align with the current year presentation. There is no change in the total pension remeasurements credited to Other comprehensive income.

#### c Fair value of scheme assets

##### i Investment strategies

For both APS and NAPS, the Trustee has ultimate responsibility for decision making on investments 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 the projected benefit obligation over time. The Trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The 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, longevity 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. Longevity risk is managed through the use of buy-in insurance contracts, asset swaps and longevity swaps.

Along with existing contracts with Rothesay Life (as detailed in note 27c(iii)), APS is 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 basis).

The strategic benchmark for asset allocations differentiates between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At 31 December 2022, the benchmark for NAPS was 31 per cent (2021: 37 per cent) in return seeking assets and 69 per cent (2021: 63 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 2022 was 1 per cent (2021: 1 per cent) in return seeking assets and 99 per cent (2021: 99 per cent) in liability matching investments. NAPS uses Liability Driven Investments (LDIs) to effectively hedge volatility in the scheme liabilities. This is achieved through direct bond holdings as opposed to the use of derivatives and as such leverage is low. Accordingly, as at 31 December 2022, NAPS has not been required to raise additional cash or liquidate existing assets in order to fund derivative positions.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### c Fair value of scheme assets continued

#### ii Movement in scheme assets

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

£ million	2022	2021
As at 1 January	29,205	28,317
Interest income	539	373
Administration expenses	(13)	(18)
Return on plan assets excluding interest income	(7,969)	2,153
Employer contributions <sup>1</sup>	17	35
Employee contributions	5	11
Benefits paid	(1,108)	(1,666)
Exchange movements	22	-
<b>Fair value of scheme assets</b>	<b>20,698</b>	<b>29,205</b>

<sup>1</sup>Includes employer contributions to APS of £1 million (2021: £1 million) and to NAPS of £nil million (2021: £nil million), of which deficit funding payments represented £nil million for APS (2021: £nil million) and £nil million for NAPS (2021: £nil million).

#### iii Composition of scheme assets

Scheme assets held by the Group at 31 December comprise:

£ million	2022				2021
	APS	NAPS	Other	Total	
<b>Return seeking investments</b>					
Listed equities – UK	7	109	5	121	190
Listed equities – Rest of world	1	772	142	915	3,774
Private equities	33	1,328	9	1,370	1,396
Properties	2	1,858	14	1,874	2,108
Alternative investments	36	1,607	2	1,645	1,636
	79	5,674	172	5,925	9,104
<b>Liabilities matching investments</b>					
Government issued fixed bonds	691	3,839	85	4,615	9,074
Government issued index linked bonds	752	6,319	7	7,078	7,233
Assets and longevity swaps <sup>1</sup>	974	-	-	974	1,458
Insurance contracts <sup>1</sup>	2,935	-	31	2,966	3,962
	5,352	10,158	123	15,633	21,727
<b>Other</b>					
Cash and cash equivalents	102	492	4	598	967
Derivatives financial instruments	(41)	(1,443)	8	(1,476)	(2,664)
Other investments	3	12	3	18	71
	64	(939)	15	(860)	(1,626)
<b>Total scheme assets</b>	<b>5,495</b>	<b>14,893</b>	<b>310</b>	<b>20,698</b>	<b>29,205</b>

<sup>1</sup>The prior year scheme asset balances split between Asset and longevity swaps and Insurance contracts have been updated to reflect the current year presentation. There is no change in total scheme assets.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### iii Composition of scheme assets continued

The fair values of the Group's scheme assets, which are not derived from quoted process on active markets, are determined depending on the nature of the inputs used in determining the fair values (see note 23b for further details) and using the following methods and assumptions:

- Private equities are valued at fair value based on the most recent transaction price or third-party net asset, revenue or earnings-based valuations that generally result in the use of significant unobservable inputs. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not updated through to the reporting date unless there are indications of significant market movements.
- Properties are valued based on an analysis of recent market transactions supported by market knowledge derived from third-party professional valuers that generally result in the use of significant unobservable inputs.
- Alternative investments fair values, which predominantly include holdings in investment and infrastructure funds are determined based on the most recent available valuations applying the Net Asset Value methodology and issued by fund administrators or investment managers and adjusted for any cash movements having occurred from the date of the valuation and the reporting date. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not updated through to the reporting date unless there are indications of significant market movements.
- Other investments predominantly includes: interest receivable on bonds; dividends from listed and private equities that have been declared but not received at the balance sheet date; receivables from the sale of assets for which the proceeds have not been collected at the balance sheet date, and; payables for the purchase of assets which have not been settled at the balance sheet date.
- Asset and longevity swaps - APS has a contract with Rothesay Life, entered into in 2010 and extended in 2013, which covers 25 per cent (2021: 25 per cent) of the pensioner liabilities for an agreed list of members. Under the contract, to reduce the risk of long-term longevity risk, Rothesay Life makes benefit payments monthly in respect of the agreed list of members in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt) held by the scheme and the contractual payments made by APS to Rothesay Life on the longevity swaps. The Group holds the portfolio of assets at their fair value, with the government debt held at their quoted market price and the swaps accounted for at their estimated discounted future cash flows.
- During 2011, APS entered into a longevity swap with Rothesay Life, which covers an additional 21 per cent (2021: 21 per cent) of the pensioner liabilities for the same agreed list of members as the 2010 contract. Under the longevity swap, to reduce the risk of long-term longevity risk, APS makes a fixed payment to Rothesay Life each month reflecting the prevailing mortality assumptions at the inception of the contract, and Rothesay Life make a monthly payment to APS reflecting the actual monthly benefit payments to members. The cash flows are settled net each month. If pensioners live longer than expected at inception of the longevity swap, Rothesay Life will make payments to the scheme to offset the additional cost of paying pensioners and if pensioners do not live as long as expected, then the scheme will make payments to Rothesay Life. The Group holds the longevity swap at fair value, determined at the estimated discounted future cash flows.
- Insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at 31 March 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension 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. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### iv Effect of the asset ceiling

In measuring the valuation of the net defined benefit asset for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available in the form of a refund or a reduction in future contributions after they are paid into the plan. The Group has determined that the recoverability of such surpluses, including minimum funding requirements, will be subject to withholding taxes in the UK, payable by the Trustee, of 35 per cent.

The future committed NAPS deficit contributions, as detailed in note 27a, are treated as minimum funding requirements under IAS 19 and are not recognised as part of the scheme assets or liabilities. The Group has determined that upon the wind up of the scheme, that if the scheme is in surplus, including the incorporation of the minimum funding requirements, then the surplus will be available as a refund or a reduction in future contributions after they are paid into the scheme. The recovery of such amounts are subject to UK withholding tax payable by the Trustee. In measuring the recoverability of the surplus for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available upon wind up of the scheme, less the application of withholding taxes in the UK, payable by the Trustee, at 35 per cent.

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

£ million	2022	2021
As at 1 January	1,060	691
Interest expense	20	8
Remeasurements	11	361
<b>As at 31 December</b>	<b>1,091</b>	<b>1,060</b>

#### d Present value of scheme liabilities

##### i Movement in scheme liabilities

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

£ million	2022	2021
As at 1 January	26,869	27,745
Current service cost	2	3
Interest expense	497	367
Remeasurements – financial assumptions <sup>1,2</sup>	(8,920)	82
Remeasurements – demographic assumptions <sup>2</sup>	(176)	(42)
Remeasurement of experience losses	538	369
Benefits paid	(1,108)	(1,666)
Employee contributions	5	11
Exchange movements	38	-
<b>At 31 December</b>	<b>17,745</b>	<b>26,869</b>

<sup>1</sup>Included in the remeasurements from financial assumptions is an amount of of £8,770 million that reduces the scheme liabilities relating to changes in the discount rates (2021: £1,611 million decrease) and £150 million that decreases the scheme liabilities relating to changes in inflation rates (2021: £1,693 million increase).

<sup>2</sup>The prior year figures include a reclassification between remeasurements of plan liabilities from changes in financial assumptions to remeasurement of plan liabilities from changes in demographic assumptions to align with the current year presentation. There is no change in total scheme liabilities.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 27 Employee benefits continued

#### d Present value of scheme liabilities continued

##### ii Scheme liability assumptions

The principal assumptions used for the purposes of the IAS 19 valuations were as follows:

£ million	2022			2021		
	APS	NAPS	Other schemes <sup>4</sup>	APS	NAPS	Other schemes <sup>4</sup>
Discount rate <sup>1</sup>	4.85	4.80	0.75 – 7.20	1.80	1.90	1.90 – 3.00
Rate of increase in pensionable pay <sup>2</sup>	3.40	N/A	2.00 – 6.00	3.55	N/A	2.50
Rate of increase of pensions in payment <sup>3</sup>	3.40	2.80	0.25 – 3.40	3.55	2.85	2.00 – 3.00
RPI rate inflation	3.40	N/A	2.20 – 3.10	3.55	N/A	2.50 – 3.00
CPI rate of inflation	N/A	2.80	2.00 – 2.60	N/A	2.85	2.50 – 3.00

<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, which reflects inflationary increases, 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, which reflects inflationary increases, will be in line with CPI for NAPS and RPI for APS as at 31 December 2022.

<sup>4</sup>The rate of increase in healthcare costs for schemes based in the United States is based on medical trend rates of 6.25 per cent grading down to 5.00 per cent over five years (2021: 6.00 per cent to 5.00 per cent over five years).

The current longevities underlying the values of the scheme liabilities were as follows:

Mortality Assumptions	UK	
	2022	2021
Life expectancy at age 60 for a;		
- male currently aged 60	27.9	28.1
- male currently aged 40	29.1	29.9
- female currently aged 60	29.3	29.5
- female currently aged 40	31.5	31.9

For APS, the base mortality tables are based on the Agreed Valuation Basis (AVB) as agreed between British Airways and the trustees of APS. For NAPS, the base mortality tables are based on the most recent model published by the UK actuarial profession's Continuous Mortality Investigation (CMI), being their 2021 model. These standard mortality tables, for both APS and NAPS, incorporate adjustments specific to the demographics of scheme members, including a long-term improvement parameter of 1.00 per cent per annum (2021: 1.25 per cent). Allowance has been made with regard to the long-term uncertainty arising from the effects of COVID-19.

For schemes in the United States, mortality rates were based on the MP-2021 mortality tables incorporating adjustments for the long-term impact COVID-19 will have on mortality.

As at 31 December 2022, the weighted-average duration of the defined benefit obligation was 10 years for APS (2021: 12 years) and 15 years for NAPS (2021: 19 years). The weighted-average duration of the defined benefit obligations was 3 to 19 years for other schemes (2021: 4 to 23 years). The weighted average duration represents a single figure for the average number of years over which the employee benefit liability discounted cash flows is extinguished and is highly dependent to movements in the aforementioned discount rates, such that with an increase in the discount rates experienced in 2022, the weighted-average duration for both schemes has reduced.

##### iii Sensitivity analysis

Reasonable 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 present value of scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 50 basis points) <sup>1</sup>	250	860	25
Future pension growth (increase of 50 basis points) <sup>1</sup>	220	830	3
Future mortality rate (one year increase in life expectancy)	250	310	19

<sup>1</sup>Sensitivities smaller than those disclosed can be approximately interpolated from those sensitivities above.

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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 28 Contingent liabilities and guarantees

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at 31 December 2022, where they could be reliably estimated, amounted to £7 million (2021: £19 million). The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provisions have been recorded.

Contingent liabilities associated with income taxes, deferred taxes and indirect taxes are presented in note 8.

#### *Audit exemptions*

The Company has issued guarantees in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 32 in respect of audit exemptions.

### 29 Government grants and assistance

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

#### **a The UK Export Finance ('UKEF')**

In February 2021, British Airways entered into a 5 year term loan Export Development Guarantee Facility of £2 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UK Export Finance (UKEF). The facility is unsecured.

In November 2021, British Airways reached agreement with UKEF and a syndicate of banks for a 5-year Export Development Guarantee committed Credit Facility (UKEF facility) of £1.0 billion. This is additional to a £2.0 billion UKEF guaranteed facility above. The facility is unsecured. At 31 December 2022 the facility remains undrawn.

#### **b 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 30 November 2020 and then further to 31 March 2021 and then further again to 30 September 2021 with the level of eligibility increased to 80 per cent of wage costs and a maximum of £2,500 per month through to the end of June 2021, after which the eligibility decreased down each month to 60 per cent of wage costs and a maximum of £1,875 per month by 30 September 2021, at which time the CJRS ended.

Such costs were paid by the government to the Group in arrears. The Group was obliged to continue to pay the associated social security costs and employer pension contributions.

The total amount of the relief received under the CJRS by the Group during 2022 amounted to £nil (2021: £190 million).

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 30 Related party transactions

The following transactions took place with related parties for the financial year ended 31 December 2022:

£ million	Group		Company	
	2022	2021	2022	2021
<b>Sales of goods and services:</b>				
Sales to/purchases on behalf of IAG <sup>1</sup>	2	6	2	6
Sales to/purchases on behalf of subsidiary undertakings of IAG <sup>2</sup>	100	55	100	55
Sales to/purchases on behalf of significant shareholders of IAG <sup>3</sup>	67	13	67	13
Sales to associates <sup>4</sup>	377	143	377	143
Sales to subsidiaries <sup>5</sup>	-	-	462	128
<b>Purchases of goods and services:</b>				
Purchases from IAG <sup>1</sup>	69	42	69	42
Purchases from subsidiary undertakings of IAG <sup>2</sup>	333	197	333	197
Purchases from significant shareholders of IAG <sup>3</sup>	70	59	70	59
Purchases from associates <sup>4</sup>	198	114	198	113
Purchases from subsidiaries <sup>5</sup>	-	-	105	78

Period end balances arising from sales and purchases of goods and services:

£ million	Group		Company	
	2022	2021	2022	2021
<b>Receivables from related parties:</b>				
Amounts owed by IAG <sup>1</sup>	85	101	85	101
Amounts owed by subsidiary undertakings of IAG <sup>2</sup>	92	47	92	47
Amounts owed by significant shareholders of IAG <sup>3</sup>	16	4	16	4
Amounts owed by associates <sup>4</sup>	117	60	117	60
Amounts owed by subsidiaries <sup>5</sup>	-	-	22	24
<b>Payables to related parties:</b>				
Amounts owed to IAG <sup>1</sup>	1,472	1,442	1,472	1,442
Amounts owed to subsidiary undertakings of IAG <sup>2</sup>	70	42	70	42
Amounts owed to significant shareholders of IAG <sup>3</sup>	6	2	6	2
Amounts owed to associates <sup>4</sup>	1,430	1,405	1,430	1,404
Amounts owed to subsidiaries <sup>5</sup>	-	-	579	473

<sup>1</sup>The transactions between BA 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>Amounts owed by and to subsidiary undertakings of IAG related to other subsidiaries of the IAG Group.

<sup>3</sup>Amounts owed by and to significant shareholders of IAG related to Qatar Airways.

<sup>4</sup>Sales and purchases with associates are made at normal market prices and outstanding balances are unsecured. Cash settlement is expected within the standard settlement terms.

<sup>5</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 £2 million in relation to the Pension Protection Fund levy (2021: £5 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 2022 the Group has not made any allowance for expected credit losses relating to amounts owed by related parties (2021: £nil). The Company has made an allowance for expected credit losses related to amounts owed by related parties of £44 million (2021: £44 million).

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

During the course of 2022, the Group provided the first tranche of a long-term shareholder loan of £11 million to LanzaJet, Inc., a company which specialises in the generation of Sustainable Aviation Fuels of which the Group has a 16.7 per cent equity interest, classified as an associate and presented within Investments accounted for using the equity method in the Balance sheet. Tranche two of this loan, worth £3 million, is included as a capital commitment.

#### Directors' and Officers' loans and transactions

There were no loans or credit transactions with Directors or Officers of the Company at 31 December 2022 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 31 Post balance sheet events

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

### 32 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2022 by virtue of Section 479A of the Companies Act 2006:

BA and AA Holdings Limited (03840072)  
BA European Limited (06346489)  
BA Excepted Group Life Scheme Limited (11283644)  
BA Healthcare Trust Limited (09619950)  
BA Holdco Limited (12278609)  
BritAir Holdings Limited (03537574)  
British Airways (BA) Limited (07990613)  
British Airways 777 Leasing Limited (04954270)  
British Airways Associated Companies Limited (00590083)  
British Airways Avionic Engineering Limited (02775232)  
British Airways Interior Engineering Limited (03109109)  
British Airways Leasing Limited (04150220)  
British Airways Maintenance Cardiff Limited (02204178)  
British Midland Airways Limited (00464648)  
Gatwick Ground Services Limited (10390742)  
Teleflight Limited (03918190)

### 33 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking and controlling party as at 31 December 2022 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).

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### Subsidiary undertakings at 31 December 2022

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 Euroflyer Limited	England	Airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA European Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Excepted Group Life Scheme Limited	England	Life Insurance	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Healthcare Trust Limited	England	Healthcare	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Holdco Limited	England	Holding Company	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	Former 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
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
Teleflight Limited	England	Call centre	Waterside, PO Box 365, Harmondsworth, UB7 0GB

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

<sup>2</sup>99.0% holding

## Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### Associated undertakings at 31 December 2022

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principal activities	Registered address
Avios Group (AGL) Limited	86.26	England	Airline marketing	Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY
Dunwoody Airline Services Limited	40.00	England	Airline operations	Building 552, Shoreham Road East, Heathrow Airport, TW6 3UA
IB Opco Holding S.L. <sup>1</sup>	6.80	Spain	Airline operations	Calle Velazquez 130, 28006 Madrid
LanzaJet, Inc.	16.70	USA	Sustainable fuel technology	520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015, USA

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

### Other equity investments at 31 December 2022

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principal activities	Registered address
International Consolidated Airlines Group S.A.	0.001	Spain	Airline operations	El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid.
The Airline Group Limited	16.68	England	Air traffic control holding company	Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN

## Operating and financial statistics

Not forming part of the audited financial statements

		Year ended 31 December		
Total Group continuing operations		2022	2021	2020
<b>Traffic and capacity</b>				
Revenue passenger kilometre ('km') ('RPK')	m	104,559	30,700	39,118
Available seat km ('ASK')	m	130,938	52,635	63,725
Passenger load factor	%	79.9	58.3	61.4
Cargo tonne km ('CTK')	m	2,915	2,981	2,721
Passengers carried	'000	33,025	10,322	12,282
Tonnes of cargo carried	'000	393	379	341
<b>Operations</b>				
Average manpower equivalent ('MPE')		33,644	26,890	33,898
ASKs per MPE		3,892	1,957	1,880
Aircraft in service at year end		276	276	277
Aircraft utilisation (average hours per aircraft per day)		8.60	5.90	4.37
Punctuality – within 15 minutes	%	56	77	85
Regularity	%	97.0	92.0	82.0
<b>Financial</b>				
Passenger revenue per RPK	p	8.81	7.54	7.40
Passenger revenue per ASK	p	7.04	4.40	4.54
Cargo revenue per CTK	p	36.36	36.80	32.71
Average fuel price (US cents/US gallon)		361.82	211.30	160.17
Operating margin	%	2.9%	(47.9)%	(97.6)%
Operating margin before exceptional items	%	2.7%	(51.4)%	(58.7)%
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	£m	1,387	(916)	(1,274)
Net debt/total capital ratio	%	145.1	128.3	82.8
Total traffic revenue per ASK	p	8.4	7.0	6.3
Total expenditure before exceptional items on operations per ASK	p	8.19	10.63	9.97
Total expenditure before exceptional items on operations excluding fuel per ASK	p	5.96	8.84	8.15

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 2022

	Owned	Finance lease	Operating lease	Total December 2022	Total December 2021	Changes since December 2021 (Note 2)	Future deliveries	Options
<b>Airline Operations (Note 1)</b>								
Airbus A319	8		22	30	30			
Airbus A320	32	26	28	86	84	2	5	10
Airbus A321	11		10	21	28	(7)	5	
Airbus A350	3	10		13	8	5	5	36
Airbus A380	2	10		12	12			
Boeing 777-200	38	2	3	43	43			
Boeing 777-300	5	4	7	16	16			
Boeing 777-9							18	24
Boeing 787-8		10	2	12	12			
Boeing 787-9	1	8	9	18	18			
Boeing 787-10		4		4	2	2	7	6
Embraer E190	9		12	21	23	(2)		
<b>Total Operations</b>	<b>109</b>	<b>74</b>	<b>93</b>	<b>276</b>	<b>276</b>	<b>-</b>	<b>40</b>	<b>76</b>

#### Notes:

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

2. Aircraft movements during the period were:

2xA320: G-TTNS/T delivered in 2022 and entered into service;

5xA321: Fully impaired in 2021 (G-MEDF/G/L/M/N) and stood down in 2022;

2xA321: G-MEDJ/U stood down and classified as held for sale at 31 December 2022;

5xA350: G-XWBI/J/K/L/M delivered in 2022 and entered into service;

2xB787-10: G-ZBLC/F delivered in 2022 and entered into service. Note: G-ZBLG delivered in Q4 2022 but had not entered service at 31 December 2022;

2xEmbraer E190: G-LCYX and G-LCYW stood down in 2022

3. Aircraft are reported based on their contractual definitions as opposed to their accounting determination. For accounting purposes, while all operating leases are presented as lease liabilities, finance leases are presented as either lease liabilities or asset financed liabilities, depending on the nature and timing of the individual arrangement.

4. As well as those aircraft in service the Group also holds 9 aircraft (31 December 2021: 1) not in service.

## Glossary

Airline operations	This includes British Airways Plc, BA Cityflyer Limited and BA Euroflyer Limited.
Available seat kilometres ('ASK')	<i>The number of seats available for sale multiplied by the distance flown.</i>
Available tonne kilometres ('ATK')	The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
Cargo revenue per CTK	Cargo revenue divided by CTK.
Cargo tonne kilometres ('CTK')	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Continuing operations	The segments of the business that are considered to be normal, and expected to operate in the foreseeable future.
EBITDA	Earnings before interest, tax, depreciation and amortisation
Exceptional items	Those items that in management's view need to be separately disclosed by virtue of their size or nature.
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
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.
Passenger revenue per ASK	Passenger revenue divided by ASK.
Passenger revenue per RPK	Passenger revenue divided by RPK.
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.
Revenue tonne kilometres ('RTK')	The revenue load in tonnes multiplied by the distance flown.
Total capital	Total equity plus net debt.
Total group revenue per ASK	Total Group revenue divided by ASK.
Total operating expenditure excluding fuel per ASK	Total operating expenditure excluding fuel divided by ASK.
Total operating expenditure per ASK	<i>Total operating expenditure divided by ASK.</i>
Total traffic revenue per ASK	Revenue from total traffic divided by ASK.