

**British Airways Plc**

**Annual Report and Accounts  
Year ended 31 December 2014**

Company registration number: 1777777

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# British Airways Plc

## Officers and professional advisers

### Directors

|                    |                           |
|--------------------|---------------------------|
| Keith Williams     | (Executive Chairman)      |
| Alison Reed        | (Deputy Chairman)         |
| Nick Swift         | (Chief Financial Officer) |
| Andrew Crawley     |                           |
| Frank van der Post |                           |
| Ken Smart          |                           |
| Gavin Patterson    |                           |
| Garrett Copeland   |                           |
| Julia Simpson      |                           |

### Secretary

Andrew Fleming

### Registered office

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### Parent company

International Consolidated Airlines Group S.A. ("IAG")  
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Camino de La Muñozza, s/n,  
28042 Madrid  
Spain

### Independent auditors

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

# Strategic report

The Directors present their Strategic report for the year ended 31 December 2014.

British Airways Plc ('BA' or 'the Group') is the UK's largest international scheduled airline and one of the world's leading global premium airlines. The Group's principal place of business is London with significant presence at Heathrow, Gatwick and London City airports. Operating one of the most extensive international scheduled airline networks, together with its joint business agreements, code share and franchise partners, BA flies to more than 400 destinations worldwide. BA's vision is to be the most admired airline.

The strategic report is presented in the following three sections:

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

## Management review

BA has made an operating profit of £975 million in 2014 (2013: £708 million), which is a significant achievement, building upon the solid foundations set in 2013. Following the arrival of our first Airbus A380s and Boeing 787s in 2013, this year BA introduced further aircraft and now has eight A380s and eight 787s. We have focused on investing in our product where it matters most to our customers, on making journeys more comfortable and enhancing the network we offer, including providing the opportunity to book flights with Vueling and US Airways, which has opened up more than 200 new destinations.

We have continued to use technology to innovate and enhance customer loyalty, including introducing digital membership cards for British Airways Executive Club members, and updating the BA app, allowing customers using Heathrow Terminal 5 and Terminal 3 to receive 'push notifications' on smartphones informing them of their gate number, when it is open and when their aircraft is boarding.

Looking ahead, we are introducing new routes to destinations in Spain, Greece, Egypt, Malaysia and elsewhere.

### To be the most admired airline

In 2014 our fleet was bolstered by 25 new aircraft. Customers reacted positively to them, with feedback showing an appreciation for the technological advancements and comfort offered by the new aircraft.

Following a poll of more than 3,000 voters, BA was named Consumer Superbrand of 2014 by Superbrands UK, securing the top position over 1,500 other brands vying for the prestigious title. It was the first time an airline or travel company of any kind topped the poll.

In June 2014, BA featured in a three-part BBC Two documentary series 'A Very British Airline'. Watched by nine million viewers, it gave a unique behind the scenes look at our airline and colleagues.

### Invest in our product where it matters most

The A380 now operates between London and Los Angeles, Hong Kong, Johannesburg, Singapore and Washington DC. Our millionth customer flew on one of our A380s in November 2014, and we announced the start of our A380 service to San Francisco in April 2015 and double-daily flights to Miami in October 2015.

During 2014 our eight 787-8s operated between London and Toronto, Newark, Austin, Hyderabad, Chengdu, Philadelphia, Calgary and Chennai. These new aircraft offer our customers a more pleasant flying experience, with larger windows, more moisture in the air, and a lower cabin altitude, which helps to reduce jetlag. We are looking forward to welcoming our first 787-9 in late 2015, featuring our new First cabin.

Inspired by the style of our new wide-bodied aircraft, we unveiled newly-designed seats and cabin interiors on 95 of our aircraft which fly across Europe and the UK from Heathrow and Gatwick. This will help us to compete with our low-cost rivals and improve profitability on our short-haul operation.

Eighteen of BA's Boeing 747s began to receive a cabin refresh including new state-of-the-art in-flight entertainment systems.

Our lounges remain an important part of our business travel proposition and in 2014 we opened newly refurbished lounges in Glasgow, Belfast, Cape Town, Amsterdam and Washington DC. We plan to improve more lounges in 2015.

At London City we introduced a 'Carousel Collection' service for Executive Club customers arriving from Edinburgh or Glasgow. AirPortr, a new premium luggage concierge service, will collect luggage from baggage reclaim and deliver it to our customers' chosen London destination within hours. We hope to roll the service out to other destinations that we serve from London City in the future.

## Strategic report continued

### Deliver our brand

As well as being voted Consumer Superbrand, BA picked up a number of awards in 2014. Premium travel publication Conde Nast named BA as best short-haul airline of the year, The Times and Business Traveller both voted us the best airline, while The Daily Telegraph awarded us the best long-haul business class service.

In 2014, we added the Greek islands of Mykonos and Santorini to our operation from Heathrow. We launched a 787 service to Chengdu in China's Sichuan Province, one of China's fastest growing hub airports, and increased the frequency from three to five flights per week. We also began operating our Dreamliner to Austin, Texas. We started new services to Grenoble, Friedrichshafen, Fuerteventura and direct flights to Punta Cana, and we added extra flights from Heathrow to Vienna, Stockholm and Athens for the autumn.

We also announced new routes for 2015, including Kuala Lumpur in Malaysia, Sharm-el-Sheik in Egypt, Cagliari and Olbia in Sardinia, Crete, Kos and Rhodes in Greece and Bodrum and Dalaman in Turkey, plus Split in Croatia. More than half a million seats will be available to customers throughout the summer 2015 season.

During 2014 British Airways Holidays saw a rise in popularity of short-haul city breaks and winter sun holidays. New routes to Porto, Tenerife and Gran Canaria performed well alongside Thessaloniki, Ibiza, Faro, Istanbul, Naples and Marrakech. Malta was also one of our fastest growing destinations in 2014.

We began offering Hand Baggage Only fares for those customers who do not want to check luggage into the hold, and Semi-Flex fares for business travellers who want the option to change their flight on the day they fly.

To ensure our customers travelling in premium cabins receive their first choice of meal during their flight, we began trialling a service to allow those travelling in BA's First, Club World (business class) and World Traveller Plus (premium economy) cabins to pre-order their main course from the a-la-carte menu offered on board up to 30 days before their flight departs.

### Growing revenue with our airline partners

Following the merger between American Airlines and US Airways in 2014, BA customers were able to book from a total of 70 direct flights a day between the UK and US. US Airways added 27 new transatlantic routes to the Atlantic Joint Business ("AJB") and gave BA customers access to more than 50 new destinations in North America.

The addition of US Airways meant the total flights offered by the AJB between London and New York rose to 17 per day. Other new direct flights available to book via ba.com included London and Manchester to Charlotte; Manchester, Glasgow and Edinburgh to Philadelphia; and Madrid and Barcelona to Philadelphia and Charlotte.

In 2014 we also began code sharing with fellow IAG airline Vueling, enabling our customers to book on 170 Vueling flights across Europe.

### Grow our lead in London

In 2014, BA looked to become more competitive in the short-haul market from London, introducing Day Tripper fares to many European destinations, with prices for return travel on a Saturday or Sunday from £79 return.

2014 saw our busiest summer ever at London City, offering a network of 26 destinations. We introduced new routes to Dublin (flying five times a day), Florence and Rotterdam, along with extra daily flights to Amsterdam, Edinburgh and Zurich, strengthening BA's position as the largest airline at London City. We also took delivery of three new 98-seat Embraer aircraft, bringing the total number of aircraft at London City to 17.

Also at London City, our business class only service to New York celebrated its fifth birthday, with BA being the only commercial airline to operate a business class-only service between the world's financial capitals.

### Make our costs competitive

Since the merger with Iberia, IAG has committed to deliver synergies across the combined business by 2015 which will come from a mix of revenue and cost benefits. In 2014 we looked at how we ran our business, and what changes we needed to make to work more efficiently and cost effectively.

These included changes in procurement, finance and IT and plans to standardise all future A320 short-haul aircraft across the IAG group. Buying in bulk, through the IAG group, and reducing unnecessary items carried on board is saving up to £1 million per aircraft.

### Set the standard for safe, responsible aviation

BA has been working in partnership with Solena Fuels to build the world's first facility to convert landfill waste into jet fuel. In 2014 the Thames Enterprise Park, part of the site of the former Coryton oil refinery in Thurrock, Essex was identified as the proposed site. Approximately one thousand construction workers will be hired to build the facility which is due to be completed in 2017, creating up to 150 permanent jobs.

We are proud of our record in performing 'continuous descent approaches' at Heathrow which account for more than 96 per cent of landings. These descents save fuel, whilst reducing emissions and noise at the airport. We are now concentrating on efforts to improve our performance at other airports around the world.

## Strategic report continued

### Set the standard for safe, responsible aviation continued

In 2014 we introduced our newest flight simulator, a full-motion Airbus A320 model, taking the number used by BA to train our pilots to 18 - the highest ever. This helps us to continue to set the highest standards in flight safety and training that our customers expect from BA.

BA's one-day Flying with Confidence course, which has helped more than 45,000 nervous flyers over the past 25 years, had a strong year in 2014, which also saw the course rolled out globally.

During 2014 we welcomed 175 apprentices across 12 schemes and were named one of London's best apprenticeship employers in the National Apprenticeship Awards 2014. Seventy-two graduates joined BA across nine schemes and our Future Pilot Programme saw cadets start their training to become BA pilots.

BA's Community Learning Centre has welcomed more than 90,000 people since opening in 1999 with students attending aviation themed educational activities that are interactive and link with the school curriculum. Programmes are offered to students in the boroughs surrounding Heathrow.

Our staff and customers continued to successfully raise money for Flying Start, our charity partnership with Comic Relief, with the total amount raised over the past four years now standing at more than £9 million, of which £2 million was raised in 2014. For two weeks in November 2014, we re-directed money donated by customers on board flights to the Ebola appeal, raising £111,255.

### Be outstanding – perform at our best

Departure punctuality is our primary measure, as high performance here requires other operational processes to run smoothly and because it is a significant driver of customer satisfaction. The punctuality of our services improved year-on-year with 78% per cent of flights departing within 15 minutes (2013: 76 per cent of flights departed within 15 minutes of scheduled departure time), but further improvements were hampered by external factors, including industrial action in Europe and baggage system failures at Heathrow and Gatwick airports.

In 2015, we will introduce changes designed to improve and simplify the service we offer to customers at Heathrow. BA will begin operating from two terminals rather than three. Flights to 20 destinations will change terminals and by the middle of October 2015 all of the airline's services will depart from either our flagship home of Terminal 5 or the main oneworld alliance Heathrow base in Terminal 3. To help prepare for greater numbers of long-haul customers in Terminal 3 and the introduction of our A380 services to this terminal, we will be renovating and extending our check-in areas as well as working with Heathrow Airport Limited to enhance its baggage systems.

### Use technology to enhance customer engagement

During 2014 we continued to use technology to offer our customers a personalised and intuitive service across a number of platforms, allowing them to have as much or as little contact with us as they like.

Since 2012, BA has seen an increase of 290 per cent in the number of customers booking via mobile devices, and in 2014 we unveiled our updated app to deliver personalised, relevant and time sensitive travel information at the touch of a button. In a first for the UK airline industry, we began using iBeacon technology in our lounges to show useful notifications based on location, such as the gate numbers and flight boarding notifications.

On ba.com we launched an online tool called 'My Flightpath' that provides Executive Club customers with their own personal travelogue, displaying a timeline of all their flights since they joined the loyalty scheme. BA also introduced digital Executive Club membership cards for customers with smartphones. The digital cards allow customers to chart their progress, and see how far until they reach the next tier. They can also use Avios points to obtain discounts on commercial tickets, as well as upgrading flights with cash.

### Outlook

Despite generating an operating profit of £975 million in 2014 (2013: £708 million), BA will continue to ensure that it is financially robust and is able to respond quickly to the ever-changing environment of the industry. Management is committed to delivering significant structural change to the cost base. BA continues to take delivery of new generation wide-bodied aircraft and the advanced technology of this new fleet is set to unlock significant fuel savings, whilst also contributing to BA's continued efforts to minimise its environmental impact.

BA will continue to focus on customer satisfaction and improved operational performance, focusing on investments which matter most to the customer and on the use of technology to improve the customer journey. We have continued to invest in technology, which is a key element to revenue growth. This allows BA to better understand the needs of our customers and better target marketing campaigns where they will have the greatest penetration.

More emphasis will be placed on improving revenue and profit contributions from the short-haul business to ensure it delivers a sustainable return on its own merit. Improvements include seat densification, a new interior, and active management of the short-haul network.

The AJB now incorporates the merged American Airlines and US Airways, adding 27 new transatlantic routes and nine new European destinations to the AJB's network. Where appropriate, BA will continue to seek to deepen other partnerships through the extension of codeshare relationships and the development of joint businesses and continues to be committed to the future development of the oneworld alliance, which welcomed TAM Airlines in 2014.

## Strategic report continued

### Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2014.

#### Summary financial performance

| £ million                                 | 2014     | 2013     | Better/(worse) |
|---|----------|----------|----------------|
| <b>CONTINUING OPERATIONS</b>              |          |          |                |
| Total revenue                             | 11,719   | 11,421   | 2.6%           |
| Total expenditure on operations           | (10,744) | (10,770) | 0.2%           |
| Operating profit before exceptional items | 975      | 651      | 49.8%          |
| Exceptional items                         |          | 57       | nm             |
| Operating profit                          | 975      | 708      | 37.7%          |
| Non-operating items                       | (116)    | (408)    | 71.6%          |
| Profit before tax                         | 859      | 300      | 186.3%         |
| Tax                                       | (157)    | (16)     | nm             |
| Profit after tax                          | 702      | 284      | 147.2%         |
| <b>DISCONTINUED OPERATIONS</b>            |          |          |                |
| Loss after tax                            |          | (3)      | Nm             |

|  | 2014    | 2013    | Better/(worse) |
|--|---------|---------|----------------|
| <b>CONTINUING OPERATIONS</b>           |         |         |                |
| Available seat kilometres (ASK) (m)    | 170,917 | 161,444 | 5.9%           |
| Revenue passenger kilometres (RPK) (m) | 138,431 | 131,333 | 5.4%           |
| Passenger load factor (%)              | 81.0    | 81.3    | (0.3)pts       |
| Passenger revenue per ASK (p)          | 6.12    | 6.27    | (2.4)%         |
| Passenger revenue per RPK (p)          | 7.55    | 7.71    | (2.1)%         |
| Non-fuel costs per ASK* (p)            | 4.23    | 4.35    | 2.7%           |

\*Stated before exceptional items

nm = not meaningful

#### Revenue

| £ million             | 2014   | 2013   | Better/(worse) |
|-----------------------|--------|--------|----------------|
| Passenger revenue     | 10,452 | 10,129 | 3.2%           |
| Cargo revenue         | 598    | 689    | (13.2)%        |
| Total traffic revenue | 11,050 | 10,818 | 2.1%           |
| Other revenue         | 669    | 603    | 10.9%          |
| Total revenue         | 11,719 | 11,421 | 2.6%           |

Revenue for the year was £11,719 million, up 2.6 per cent over the previous year. This included an increase in passenger revenue of £323 million or 3.2 per cent given strong improvements in volumes.

Available capacity (ASKs) increased by 5.9 per cent as a result of the addition of new aircraft which resulted in an increase in passengers carried to 42 million from 40 million in previous years. A strong commercial performance has meant that this additional capacity has mostly been filled with traffic as RPKs have increased by 5.4 per cent although load factor has only marginally decreased by 0.3 percentage points.

Passenger revenue per RPK ended the year 2.1 per cent lower than last year mainly as a result of adverse impact on foreign exchange.

The Group's cargo revenue declined by 13.2 per cent as a result of the strategic decision to replace the long-haul freighter service with capacity agreements on key trade lanes. The capacity reduction was offset by increased performance of the premium product portfolio and an increase in load factors. Other revenue has increased by £66 million or 10.9 per cent. This improvement is principally due to the strong performance of BA Holidays, which continues to grow, and revenue benefits recorded in relation to the customer loyalty programme.



## Strategic report continued

### Operating costs

| £ million  | 2014          | 2013          | Better/(worse) |
|--|---------------|---------------|----------------|
| Employee costs                                       | 2,422         | 2,387         | (1.5)%         |
| Restructuring  | 39            | 5             | Nm             |
| Depreciation, amortisation and impairment            | 831           | 722           | (15.1)%        |
| Aircraft operating lease costs                       | 80            | 85            | 5.9%           |
| Fuel, oil and emission costs                         | 3,515         | 3,755         | 6.4%           |
| Engineering and other aircraft costs                 | 613           | 643           | 4.7%           |
| Landing fees and en route charges                    | 787           | 790           | 0.4%           |
| Handling charges, catering and other operating costs | 1,381         | 1,340         | (3.1)%         |
| Selling costs  | 449           | 439           | (2.3)%         |
| Currency differences                                 | 37            | 28            | nm             |
| Accommodation, ground equipment and IT costs         | 590           | 576           | (2.4)%         |
| <b>Total Group expenditure on operations*</b>        | <b>10,744</b> | <b>10,770</b> | <b>0.2%</b>    |
| <b>Total Group expenditure excluding fuel*</b>       | <b>7,229</b>  | <b>7,015</b>  | <b>(3.1)%</b>  |

\*Stated before exceptional items.

nm = not meaningful

Fuel costs decreased year-on-year by £240 million to £3,515 million compared to £3,755 million in the prior year. The decrease is mainly attributed to a reduction in the average fuel price, net of the impact of hedging, and the favourable impact of foreign exchange offset by the increase in volume.

Group expenditure excluding fuel has increased by £214 million to £7,229 million, or a 3.1 per cent increase. Given that ASKs increased by 5.9 per cent, this represents a 2.7 per cent decrease in non-fuel costs per ASK driven mainly by cost saving initiatives around the business. Part of this decrease is also due to the favourable impact of foreign currency exchange rates, at a constant exchange rate non-fuel costs per ASK decreased by 1.1 per cent compared to the prior year.

Consistent with the increasing revenue trend mainly driven by volume, other operating costs have also increased. Depreciation, amortisation and impairment have increased due to the increase in depreciation from new aircraft deliveries and impact of changes to the depreciation policy on certain fleet. Handling charges, catering and other operating cost have also increased due to increased volume and incremental growth from BA Holidays. These were offset by reductions in engineering and other aircraft costs mainly driven by the cancellation of the long haul freighter service.

### Exceptional items

Exceptional items of £nil were recognised in the income statement in 2014 (2013: £57 million income).

During 2013, management made changes to a medical benefit plan available to US colleagues following their retirement, reducing the value of the benefits available and phasing the scheme out. These changes yielded a one-off gain of £143 million in 2013. In 2013, the Group also reviewed management estimates applied to the frequent flyer programme, with improvements in data tracking allowing for the recognition of revenue on departure date rather than at booking. This delay in revenue recognition increased the frequent flyer liability. The exceptional charge of £86 million represented the prior period impact of this increase.

### Non-operating items

In total, non-operating items are an expense of £116 million in the current year (2013: £408 million) a decrease of £292 million.

The three principal changes in non-operating income and costs were a favourable share in profit of associates of £39 million (2013: £65 million loss) and the non-recurring impact of the revaluation of the convertible bond liability in 2013 giving rise to a £164 million charge offset by the adverse impact of the fuel derivative losses of £37 million (2013: gain of £17 million).

## Strategic report continued

### Operating profit

During the year the Group achieved an operating profit of £975 million (2013: £708 million profit after exceptional items) which is a new record for BA. The Group will continue to focus on profitability over the coming years to finance the Group's investment in new aircraft and ensure we are financially robust for the future.

### Taxation

The tax charge on continuing operations for the year ended 31 December 2014 was £157 million (2013: £16 million). The UK cash tax charge for the year was reduced by the utilisation of the remaining £80 million of Advanced Corporation Tax (ACT) paid on dividends in previous years. The Group profit before tax was £859 million but is stated after a gain of £39 million from the post-tax share of associates for which no corporation tax is reflected in the financial statements. After adjusting for this and movements relating to prior years, the Group's effective tax rate was 20.8 per cent, compared to the UK corporation tax rate of 21.5 per cent.

During the year, the net deferred tax liability has decreased by £222 million to £222 million, primarily as a result of an increase in deferred tax assets related to the pension liabilities, given significant actuarial losses recognised in the year, and the significant mark-to-market losses on hedging instruments driven by the sharp decline in fuel price.

### Discontinued operations

There were no material discontinued operations during the year as all the remaining bmi baby aircraft were handed back during the year.

### Capital expenditure

Total capital expenditure in the year, amounted to £1,494 million (2013: £1,378 million). This comprised: £1,296 million in fleet-related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £198 million on property, equipment, software, and landing rights.

During the year the Group took delivery of three Airbus A320 aircraft, five Airbus A380 aircraft, two Boeing 777-300 aircraft, four Boeing 787-800 aircraft and one Embraer E190 aircraft.

### Liquidity

The Group's liquidity position remains strong with £2.5 billion of cash, cash equivalents and other interest-bearing deposits (2013: £1.9 billion). Net debt stood at £2.0 billion (2013: £2.0 billion). Refer to Note 20 of the financial statements for further discussion around net debt.

During 2013, the Group obtained an additional source of financing from the issuance of BA's Enhanced Equipment Trust Certificates ('EETC'). This was the first time that the Group had used EETC's and that this form of financing had been used in the UK. A total of \$927 million was raised from the issuance which was used to fund the purchase of six Airbus A320-200s, two Boeing 777-300ERs and six Boeing 787-800s. In connection with this issuance, the Group also received an additional \$369 million of funding from Japanese Operating Lease structure with Call Option ('JOLCO') investors bringing the total finance lease facility available to \$1.3 billion. As of 31 December 2014, £nil (2013: \$431 million (£264 million)) of the EETC and £nil (2013: \$170 million (£104 million)) of the JOLCO facility were undrawn.

In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £1.8 billion (2013: £1.7 billion) and further committed general facilities of £0.6 billion (2013: £0.5 billion).

### Pensions

As reported in previous years, the Trustees of the Airways Pension Scheme ('APS') have proposed to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. This would be expected to reduce the APS accounting surplus by £12 million. BA has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme (which at 31 March 2012 had a £680 million deficit under the Pension Regulator's funding regime); BA is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which BA may ultimately be exposed as the principal employer and sponsor of the scheme. BA is committed to an existing recovery plan, with additional deficit payments of £55 million per annum until March 2023. Legal proceedings have been commenced to determine the legitimacy of the additional discretionary increase, the outcome of which will not be known until the first half of 2016. This discretionary increase has not been reflected in the accounting assumptions used. Had the £12 million been recorded in 2014, it would have been classified in 'other comprehensive income' as an actuarial loss arising from a change of assumption.

## Strategic report continued

### Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, leaves the Group exposed to a number of significant risks. The focus remains on mitigating these risks at all levels in the business, although many remain outside our control such as government regulation, taxes, terrorism, adverse weather, pandemics and availability of funding from the financial markets. The risks and uncertainties described below are the ones that are expected to have the most significant impact on the Group. The list presented is not intended to be exhaustive. The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible.

#### Strategic

##### Competition

The markets in which the Group operates are highly competitive. Direct competition is faced from other airlines on routes, as well as from indirect flights, charter services and from other modes of transport. Competitor capacity growth in excess of demand growth could materially impact our margins. Some competitors have cost structures that are lower than BA or have other competitive advantages such as being supported by government intervention. Fare discounting by some competitors has historically had a negative effect on the Group's results because a response is generally required to competitors' fares to maintain passenger traffic. The Group's strong global market positioning, leadership in strategic markets, alliances and diverse customer base continues to address this risk.

##### Consolidation and deregulation

As noted above, the airline market is fiercely competitive and will need to continue to rationalise given the current market conditions. This may involve further airline failures and consolidation leading to opportunities to capture market share and expand the Group. Mergers and acquisitions amongst competitors have the potential to adversely affect market position and revenue. The Group maintains rigorous cost control and targeted product investment to remain competitive.

The airline industry is increasingly dependent on alliances and BA is no exception to this. Maintaining a leading presence in **oneworld** and ensuring the alliance itself performs as expected by the members is key in safeguarding the network. Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, while creating growth opportunities for the Group, may have a negative impact on margins.

##### Government intervention

Regulation of the airline industry is increasing and covers many of the Group's activities including safety, security, route flying rights, airport slot access and environmental controls. The ability to both comply with and influence any changes in these regulations is key to maintaining performance.

Government taxes such as Air Passenger Duty, may have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit BA's competitors by reducing the relative cost of doing business from their respective hubs.

##### Infrastructure constraints

Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, the Group is vulnerable to short-term operational disruption and there is little that can be done to mitigate this.

Airport, transit and landing fees and security charges represent a significant operating cost to BA. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not.

BA is particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports.

#### Business and operational

##### Brand reputation

BA's brand has significant commercial value. Erosion of the brand, through either a single event or series of events, may adversely impact the Company's leadership position with customers and could ultimately affect future revenue and profitability. The Group regularly monitors customer satisfaction through the global monthly Customer Voice survey, alongside ongoing research and development of the BA product, in order to mitigate this risk. BA allocates substantial resources to safety, operational integrity, on-board product and new aircraft to maintain its leadership position.

##### Economic conditions

The Group's revenue is highly sensitive to economic conditions in the markets operated in. Deterioration in either the domestic and/or global economy may have a material impact on the reported financial position.

##### Employee relations

BA has a large unionised workforce. Collective bargaining takes place on a regular basis and a breakdown in the bargaining process may disrupt operations and adversely affect business performance.

## Strategic report continued

### Failure of critical suppliers

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

### Failure of a critical IT system

BA is dependent on IT systems for most of our principal business processes. The failure of a key system may cause significant disruption to operations and result in lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

### Pandemic

If there is a significant outbreak of an infectious disease, such as Ebola, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. The Group has comprehensive business continuity plans.

### Safety/security incidents

The safety and security of customers and employees are fundamental values for BA. Failure to prevent or respond effectively to a major safety or security incident may adversely impact operations and financial performance. The Safety Committee satisfies itself that BA has appropriate safety resources and procedures. The Crisis Management Centre responds in a structured way in the event of an incident.

### Event causing significant network disruption

Several possible events may cause a significant network disruption. Example scenarios include a major failure of the public transport system, failure of the air traffic control system, the complete or partial loss of the use of terminals at Heathrow, adverse weather conditions (such as snow, fog or volcanic ash), widespread or coordinated air traffic control industrial action, war, civil unrest or terrorism. Such a disruption may result in lost revenue and additional cost. Management has implemented robust business continuity plans to mitigate these risks to the extent feasible.

## Financial

### Financial risk management objectives, policies and procedures

The Group is exposed to a variety of financial risks, including market risk, credit risk, capital risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The BA Board approves prudent treasury policies and delegates certain responsibilities to senior management, who directly control day-to-day treasury operations and operate within clearly defined parameters. The financial risks faced by the Group are covered in note 26 to the financial statements.

### Debt funding

The Group carries substantial debt that needs to be repaid or refinanced. The ability to finance ongoing operations and committed future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing. The Group carries substantial cash reserves and committed financing facilities to mitigate the risk of short-term interruptions to the aircraft financing market.

### Fuel price

The Group used approximately 5.8 million tonnes of jet fuel in 2014. Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results. This price risk is partially hedged through the purchase of oil derivatives in forward markets, which can generate a profit or a loss. The financial risks faced by the Group are covered in more detail in note 26 to the financial statements.

### Pensions

Negative movements in pension asset values and financial returns from these assets may increase the size of the pension deficit. Management regularly reviews the status of the pension funds and remains committed to appropriate action.

## Compliance and regulatory

### Compliance with Competition, Bribery and Corruption Law

The Group is exposed to the risk of individual colleague's or groups of colleagues' unethical behaviour resulting in fines or losses to the Group. The Group has comprehensive policies and training schemes in place to educate colleagues.

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

Keith Williams  
Executive Chairman  
26 February 2015

Nick Swift  
Chief Financial Officer  
26 February 2015

## Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2014.

### Business Review

A review of the Group's business, future developments and principal risk is detailed further on pages 2 to 9 of the Strategic report.

### Results and Dividends

The operating profit for the year ended 31 December 2014 amounted to £975 million (2013: £708 million after exceptional items). The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2014 (2013: £nil).

### Directors

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

|                       |                         |
|-----------------------|-------------------------|
| Sir Martin Broughton  | resigned 1 January 2014 |
| Keith Williams        |                         |
| Alison Reed           |                         |
| Nick Swift            |                         |
| Andrew Crawley        |                         |
| Frank van der Post    |                         |
| Enrique Dupuy de Lôme | resigned 1 January 2014 |
| Ken Smart             |                         |
| Gavin Patterson       |                         |
| Garrett Copeland      |                         |
| Julia Simpson         |                         |

### Company Secretary

Andrew Fleming

### Employment policies

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

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

There is a framework in place for consultation with colleagues, through direct engagement as well as collective bargaining, enabling everyone to have an open and honest dialogue with the Group. Regular briefings (including updates on financial and economic factors affecting the performance of the Group) are run across the airline and other communication channels include live on-line forums, a personalised intranet, mobile SMS and video messages and a range of BA-wide and local newsletters. In 2013 we also introduced Yammer, an internal networking and collaboration tool within BA which is used extensively by colleagues.

BA is committed to delivering competitive packages that reward colleagues for their performance and contribution to the business and allow us to attract, retain and grow existing and future talent. BA drives the involvement of colleagues in the Group's performance through the employee bonus scheme and the IAG group share schemes for eligible employees.

As a responsible organisation, disability is taken very seriously and applications are welcomed from individuals with disabilities. BA aims to employ the most talented people and thus has procedures in place to ensure that individuals with disabilities are supported in reaching their full potential by making reasonable adjustments for them in the workplace. BA has held the Two Ticks disability symbol for more than five years as recognition both of our commitment to encourage job applications from disabled people and to support disabled colleagues within BA.

Wellbeing and Inclusion is a key part of BA's people strategy. Mandatory training on inclusion principles, and how to avoid discrimination, continues for all colleagues and managers to ensure that BA has a culture of fairness and respect and all our colleagues feel supported and able to be their best at work.

### Political Donations

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

### Internal control and risk management

#### *Corporate Governance*

As the shares of the Company are not listed, it is not required to comply with the UK Corporate Governance Code. However, as the Company continues to be an issuer of listed debt it remains subject to certain provisions of the Companies Act 2006, Listing Rules and the Disclosure and Transparency Rules. In order to comply with these provisions, certain information about the Company's corporate governance is detailed in this report.

## Directors' report continued

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the process for the preparation of consolidated financial statements. During the year, no changes in risk management and internal control systems over financial reporting have occurred that have materially affected, or are reasonably likely to have materially affected, the Group's financial reporting.

### *Internal control framework*

Effective Corporate Governance remains key to the business. The Group continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. During the reporting period, the effectiveness of the framework was regularly reviewed by the Leadership Team.

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

The BA Board considered significant control matters raised by management and both the internal and external auditors, and it reported its findings to the IAG Audit Committee. If weaknesses were identified, the BA Board would ensure that management took appropriate action. No significant failings or weaknesses were identified during 2014.

### *Risk management*

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

During the year, the Risk Group consisted of the Leadership Team, the Head of Corporate Risk and Compliance and key senior executives. Meeting quarterly, it reviews the Group's key risks contained in the corporate risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Group also provides policy and guidance to those responsible for managing the individual risks and to the departmental risk leaders.

The management of each major area of corporate risk is subject to review by an appropriate 'assurance body'. This includes a review of the controls in place to mitigate the risks and the further actions being taken by management. The Risk Group reported quarterly to the BA Board to assist in the management of risk in accordance with the UK Corporate Governance Code (2014).

The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk. The outcome includes a heat map which plots each critical risk on an impact and probability scale. For each critical risk, mitigating actions exist and are actively managed and this process is iterative and refreshed on an ongoing basis. This report does not include the mitigating actions for the principal risks because of the sensitive commercial nature of some of management's plans. The principal risk and uncertainties are detailed further on pages 8 to 9 of the Strategic report.

### **Overseas branches**

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

### **Going concern**

The business activities, performance, strategy and risks of the Group are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in the financial review on pages 5 to 7 of the Strategic report, and further information is provided in note 26 of the financial statements.

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

### **Events after the balance sheet date**

On 28 January 2015, BA entered into a business transfer agreement with its wholly-owned subsidiary Avios Group (AGL) Limited ("AGL"). This transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in the amount of £1.6 billion fully paid up Class A Shares in AGL.

BA's existing holdings in AGL have been converted to Class A shares, while Iberia, which has entered into a similar transaction with AGL, received Class B shares in exchange for the transfer of the Iberia Plus programme to AGL. This has resulted in BA's shareholding being reduced on 28 January 2015 from 100% of the existing AGL business to 86% of the combined customer loyalty business.

Following the business restructure, BA now no longer has the power to affect the returns of AGL as it now falls within the governance structure of IAG. The voting rights relate to reserved matters which exclude the power to control the financial and operating decisions in AGL. This meant, from the date of the transaction, AGL has been de-recognised as a subsidiary in January 2015 and is now recognised as an associate of the Group at the fair value of the retained interest. This is in accordance with the requirement of IFRS 10: Consolidated Financial Statements.

On initial recognition of the retained investment, the Group has recognised an investment in associate at a value of £1.6 billion with a resulting gain on loss of control of a subsidiary recognised below operating profit of £1.5 billion being recognised in 2015. This has been measured as the difference between the fair value of the remaining interest and the deconsolidated net assets of AGL.

## Directors' report continued

### Events after the balance sheet date continued

Transactions between the Group and AGL following the restructure include paying AGL for Avios issued and receiving payment for redemption flights. Being an investment in associate, the Group began to recognise its share of post-tax profits or losses in AGL from the date control was lost and is presented below operating profit in accordance with the requirement of IAS 28: Investment in Associates.

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

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

The Company has granted rolling indemnities to the Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as officers of companies within the Group. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs. The indemnities were in force during the whole of the financial year or from the date of appointment in respect of Officers who joined during 2014 and remain in force.

The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the Directors of two companies, British Airways Pension Trustees Limited and British Airways Pension Trustees (No 2) Limited, that act as trustees of the Company's UK pension schemes. These indemnities were in force throughout the last financial year or from the date of appointment in respect of Officers who joined during 2014 and remain in force.

### Auditors

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

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

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

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

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

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

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

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

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

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

## Directors' responsibility statement pursuant to DTR 4

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

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

Approved by the Board and signed on its behalf by

Andrew Fleming  
Company Secretary  
26 February 2015  
**Company registration number - 1777777**



# British Airways Plc

## Independent auditor's report

We have audited the financial statements of British Airways Plc for the year ended 31 December 2014 which comprise the Group consolidated income statement, the Group statement of other comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statement of changes in equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

### Respective responsibilities of Directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

Debbie O'Hanlon (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
2 March 2015

## Group consolidated income statement

| For the year ended 31 December   |      | Group         |               |
|--|------|---------------|---------------|
| £ million  | Note | 2014          | 2013          |
| <b>CONTINUING OPERATIONS</b>   |      |               |               |
| Passenger revenue  |      | 10,452        | 10,129        |
| Cargo revenue  |      | 598           | 689           |
| Traffic revenue  |      | 11,050        | 10,818        |
| Other revenue  |      | 669           | 603           |
| <b>Total revenue</b>   | 3    | <b>11,719</b> | <b>11,421</b> |
| Employee costs   | 8    | 2,422         | 2,387         |
| Restructuring  | 8    | 39            | 5             |
| Depreciation, amortisation and impairment  | 6    | 831           | 722           |
| Aircraft operating lease costs   |      | 80            | 85            |
| Fuel, oil and emission costs   |      | 3,515         | 3,755         |
| Engineering and other aircraft costs   |      | 613           | 643           |
| Landing fees and en route charges  |      | 787           | 790           |
| Handling charges, catering and other operating costs                                   |      | 1,381         | 1,340         |
| Selling costs  |      | 449           | 439           |
| Currency differences   |      | 37            | 28            |
| Accommodation, ground equipment and IT costs   |      | 590           | 576           |
| <b>Total expenditure on operations before exceptional items</b>                        |      | <b>10,744</b> | <b>10,770</b> |
| <b>Operating profit before exceptional items</b>                                       |      | <b>975</b>    | <b>651</b>    |
| Exceptional items  | 5    |               | 57            |
| <b>Operating profit</b>  | 6    | <b>975</b>    | <b>708</b>    |
| (Losses) / gains on fuel derivatives not qualifying for hedge accounting               |      | (37)          | 17            |
| Finance costs  | 9    | (141)         | (176)         |
| Finance income   | 9    | 17            | 13            |
| Net financing expense relating to pensions   | 31b  | (3)           | (45)          |
| Retranslation of currency borrowings   |      | (1)           | 4             |
| Share of post-tax profits/(losses) in associates accounted for using the equity method | 17   | 39            | (65)          |
| Revaluation of convertible bond derivative liability                                   |      |               | (164)         |
| Gains relating to available-for-sale financial assets                                  |      | 10            | 8             |
| <b>Profit before tax from continuing operations</b>                                    |      | <b>859</b>    | <b>300</b>    |
| Tax  | 10   | (157)         | (16)          |
| <b>Profit after tax from continuing operations</b>                                     |      | <b>702</b>    | <b>284</b>    |
| <b>DISCONTINUED OPERATIONS</b>   |      |               |               |
| <b>Loss after tax from discontinued operations</b>                                     | 4    |               | (3)           |
| <b>Profit after tax</b>  |      | <b>702</b>    | <b>281</b>    |
| <b>Attributable to:</b>  |      |               |               |
| Equity holders of the parent   |      | 686           | 264           |
| Non-controlling interest   |      | 16            | 17            |
|  |      | <b>702</b>    | <b>281</b>    |

## Group statement of other comprehensive income

| For the year ended 31 December                                      |      |         | Group |
|---|------|---------|-------|
| £ million   | Note | 2014    | 2013  |
| Profit for the year   |      | 702     | 281   |
| Other comprehensive income:   |      |         |       |
| <b>Items that will not be re-classified to the income statement</b> |      |         |       |
| Pension remeasurements  | 31c  | (467)   | 628   |
| Income taxes  | 10   | 148     | (186) |
|   |      | (319)   | 442   |
| <b>Items that may be re-classified to the income statement</b>      |      |         |       |
| Exchange (losses)/gains   |      | (5)     | 1     |
| Net (loss)/gains on cash flow hedges                                | 30a  | (853)   | 128   |
| Share of other movements in reserves of associates                  | 17   | (72)    | 1     |
| Available-for-sale financial assets - marked to market              |      | 46      | 15    |
| Available-for-sale financial assets - recycled to income statement  |      | (9)     | (8)   |
| Income taxes  | 10   | 170     | (29)  |
|   |      | (723)   | 108   |
| <b>Total other comprehensive (loss)/income</b>                      |      | (1,042) | 550   |
| <b>Total comprehensive (loss)/income for the year (net of tax)</b>  |      | (340)   | 831   |
| Attributable to:  |      |         |       |
| Equity holders of the parent  |      | (356)   | 814   |
| Non-controlling interest  | 30   | 16      | 17    |
|   |      | (340)   | 831   |

## Balance sheets

| As at 31 December                           |      | Group         |               | Company       |               |
|---|------|---------------|---------------|---------------|---------------|
| £ million                                   | Note | 2014          | 2013          | 2014          | 2013          |
| <b>Non-current assets</b>                   |      |               |               |               |               |
| Property, plant and equipment:              |      |               |               |               |               |
| Fleet                                       | 12   | 6,930         | 6,456         | 6,646         | 6,166         |
| Property                                    | 12   | 808           | 816           | 769           | 776           |
| Equipment                                   | 12   | 252           | 215           | 231           | 193           |
|   |      | 7,990         | 7,487         | 7,646         | 7,135         |
| Intangibles:                                |      |               |               |               |               |
| Goodwill                                    | 15   | 40            | 40            |               |               |
| Landing rights                              | 15   | 667           | 668           | 643           | 642           |
| Emissions allowances                        | 15   | 26            | 26            | 26            | 26            |
| Software                                    | 15   | 216           | 147           | 216           | 147           |
|   |      | 949           | 881           | 885           | 815           |
| Investments in subsidiaries                 | 17   |               |               | 1,326         | 2,453         |
| Investments in associates                   | 17   | 76            | 115           |               |               |
| Available-for-sale financial assets         | 18   | 63            | 39            | 48            | 17            |
| Employee benefit assets                     | 31   | 673           | 407           | 673           | 407           |
| Derivative financial instruments            | 27   | 18            | 8             | 18            | 8             |
| Other non-current assets                    | 19   | 69            | 59            | 195           | 193           |
| <b>Total non-current assets</b>             |      | <b>9,838</b>  | <b>8,996</b>  | <b>10,791</b> | <b>11,028</b> |
| <b>Non-current assets held for sale</b>     | 14   | <b>5</b>      | <b>10</b>     | <b>5</b>      | <b>10</b>     |
| <b>Current assets and receivables</b>       |      |               |               |               |               |
| Inventories                                 |      | 133           | 110           | 129           | 109           |
| Trade receivables                           | 19   | 531           | 533           | 516           | 522           |
| Other current assets                        | 19   | 326           | 338           | 470           | 496           |
| Derivative financial instruments            | 27   | 70            | 84            | 72            | 84            |
| Other current interest-bearing deposits     | 20   | 1,849         | 1,220         | 1,849         | 1,220         |
| Cash and cash equivalents                   | 20   | 674           | 630           | 619           | 562           |
|   |      | 2,523         | 1,850         | 2,468         | 1,782         |
| <b>Total current assets and receivables</b> |      | <b>3,583</b>  | <b>2,915</b>  | <b>3,655</b>  | <b>2,993</b>  |
| <b>Total assets</b>                         |      | <b>13,426</b> | <b>11,921</b> | <b>14,451</b> | <b>14,031</b> |
| <b>Shareholders' equity</b>                 |      |               |               |               |               |
| Issued share capital                        | 28   | 290           | 290           | 290           | 290           |
| Share premium                               | 28   | 1,512         | 1,512         | 1,512         | 1,512         |
| Other reserves                              | 30   | 98            | 453           | (7)           | 463           |
| <b>Total shareholders' equity</b>           |      | <b>1,900</b>  | <b>2,255</b>  | <b>1,795</b>  | <b>2,265</b>  |
| Non-controlling interests                   | 30   | 200           | 200           |               |               |
| <b>Total equity</b>                         |      | <b>2,100</b>  | <b>2,455</b>  | <b>1,795</b>  | <b>2,265</b>  |
| <b>Non-current liabilities</b>              |      |               |               |               |               |
| Interest-bearing long-term borrowings       | 23   | 4,121         | 3,453         | 4,354         | 3,694         |
| Employee benefit obligations                | 31   | 1,042         | 619           | 1,019         | 607           |
| Provisions for deferred tax                 | 10   | 222           | 444           | 120           | 327           |
| Non-current provisions                      | 25   | 210           | 185           | 133           | 112           |
| Derivative financial instruments            | 27   | 139           | 11            | 139           | 11            |
| Other non-current liabilities               | 22   | 90            | 127           | 60            | 98            |
| <b>Total non-current liabilities</b>        |      | <b>5,824</b>  | <b>4,839</b>  | <b>5,825</b>  | <b>4,849</b>  |
| <b>Current liabilities</b>                  |      |               |               |               |               |
| Current portion of long-term borrowings     | 23   | 428           | 365           | 421           | 358           |
| Trade and other payables                    | 21   | 4,220         | 4,073         | 5,595         | 6,414         |
| Derivative financial instruments            | 27   | 691           | 51            | 693           | 51            |
| Current tax payable                         |      | 36            | 1             | 26            |               |
| Current provisions                          | 25   | 127           | 137           | 96            | 94            |
| <b>Total current liabilities</b>            |      | <b>5,502</b>  | <b>4,627</b>  | <b>6,831</b>  | <b>6,917</b>  |
| <b>Total equity and liabilities</b>         |      | <b>13,426</b> | <b>11,921</b> | <b>14,451</b> | <b>14,031</b> |

Approved by the Board and signed on its behalf by

Keith Williams  
Executive Chairman  
26 February 2015

Nick Swift  
Chief Financial Officer  
26 February 2015

## Cash flow statements

For the year ended 31 December

| £ million  | Note | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2014           | 2013           | 2014           | 2013           |
| <b>CONTINUING OPERATIONS</b>                                       |      |                |                |                |                |
| <b>Cash flow from operating activities</b>                         |      |                |                |                |                |
| Operating profit   |      | 975            | 708            | 910            | 661            |
| Depreciation, amortisation and impairment                          | 6    | 831            | 722            | 795            | 689            |
| Cash payments to pension schemes (net of service costs)            | 31d  | (312)          | (302)          | (311)          | (302)          |
| Movement in working capital and other non-cash movements           |      | 12             | 31             | 53             | 96             |
| Interest paid  |      | (113)          | (123)          | (94)           | (101)          |
| Taxation   |      | (21)           | (5)            | (22)           | (5)            |
| <b>Net cash generated from operating activities</b>                |      | <b>1,372</b>   | <b>1,031</b>   | <b>1,331</b>   | <b>1,038</b>   |
| <b>Cash flow used in investing activities</b>                      |      |                |                |                |                |
| Purchase of property, plant and equipment and intangible assets    |      | (1,494)        | (1,378)        | (1,470)        | (1,367)        |
| Investment in subsidiaries   | 17   |                |                | (10)           | (87)           |
| Repayment of loans from related parties                            |      |                | 105            |                | 105            |
| Sale of non-current assets   |      | 119            | 5              | 104            | 3              |
| Interest received  |      | 21             | 14             | 21             | 14             |
| Dividends received   |      |                |                | 6              | 9              |
| Other investing movements  |      | 4              | (2)            | 4              | (2)            |
| Increase in other current interest-bearing deposits                |      | (629)          | (102)          | (629)          | (104)          |
| <b>Net cash used in investing activities</b>                       |      | <b>(1,979)</b> | <b>(1,358)</b> | <b>(1,974)</b> | <b>(1,429)</b> |
| <b>Cash flow from financing activities</b>                         |      |                |                |                |                |
| Proceeds from long-term borrowings                                 |      | 1,391          | 997            | 1,391          | 997            |
| Repayments of borrowings   |      | (170)          | (194)          | (147)          | (173)          |
| Payment of finance lease liabilities                               |      | (564)          | (319)          | (580)          | (333)          |
| Distributions made to holders of perpetual securities              |      | (16)           | (17)           |                |                |
| <b>Net cash flow from financing activities</b>                     |      | <b>641</b>     | <b>467</b>     | <b>664</b>     | <b>491</b>     |
| Net change in cash and cash equivalents from continuing operations |      | 34             | 140            | 21             | 100            |
| <b>DISCONTINUED OPERATIONS</b>                                     |      |                |                |                |                |
| Net cash flow used in discontinued operations                      | 4    | (12)           | (36)           |                |                |
| Net change in cash and cash equivalents                            |      | 22             | 104            | 21             | 100            |
| Net foreign exchange differences                                   |      | 22             | 45             | 36             | 43             |
| Cash and cash equivalents at 1 January                             |      | 630            | 481            | 562            | 419            |
| <b>Cash and cash equivalents as at 31 December</b>                 | 20   | <b>674</b>     | <b>630</b>     | <b>619</b>     | <b>562</b>     |

## Statements of changes in equity

For the year ended 31 December 2014

|   |                |               |                          |                            |                          | Group        |
|---|----------------|---------------|--------------------------|----------------------------|--------------------------|--------------|
| £ million   | Issued capital | Share premium | Other reserves (note 30) | Total shareholders' equity | Non-controlling interest | Total equity |
| Balance at 1 January 2014                             | 290            | 1,512         | 453                      | 2,255                      | 200                      | 2,455        |
| Profit for the year                                   |                |               | 686                      | 686                        | 16                       | 702          |
| Other comprehensive income for the year               |                |               | (1,042)                  | (1,042)                    |                          | (1,042)      |
| Total comprehensive income for the year               |                |               | (356)                    | (356)                      | 16                       | (340)        |
| Cost of share-based payment (net of tax)              |                |               | 1                        | 1                          |                          | 1            |
| Distributions made to holders of perpetual securities |                |               |                          |                            | (16)                     | (16)         |
| <b>As at 31 December 2014</b>                         | <b>290</b>     | <b>1,512</b>  | <b>98</b>                | <b>1,900</b>               | <b>200</b>               | <b>2,100</b> |

For the year ended 31 December 2013

|   |                |               |                          |                            |                          | Group        |
|---|----------------|---------------|--------------------------|----------------------------|--------------------------|--------------|
| £ million   | Issued capital | Share premium | Other reserves (note 30) | Total shareholders' equity | Non-controlling interest | Total equity |
| Balance at 1 January 2013                             | 290            | 937           | (359)                    | 868                        | 200                      | 1,068        |
| Profit for the year                                   |                |               | 264                      | 264                        | 17                       | 281          |
| Other comprehensive income for the year               |                |               | 550                      | 550                        |                          | 550          |
| Total comprehensive income for the year               |                |               | 814                      | 814                        | 17                       | 831          |
| Issue of ordinary shares (note 28)                    |                | 575           |                          | 575                        |                          | 575          |
| Cost of share-based payment (net of tax)              |                |               | (2)                      | (2)                        |                          | (2)          |
| Distributions made to holders of perpetual securities |                |               |                          |                            | (17)                     | (17)         |
| <b>As at 31 December 2013</b>                         | <b>290</b>     | <b>1,512</b>  | <b>453</b>               | <b>2,255</b>               | <b>200</b>               | <b>2,455</b> |

For the year ended 31 December 2014

| For the year ended 31 December 2014      |                |               |                          | Company      |
|--|----------------|---------------|--------------------------|--------------|
| £ million                                | Issued capital | Share premium | Other reserves (note 30) | Total equity |
| Balance at 1 January 2014                | 290            | 1,512         | 463                      | 2,265        |
| Profit for the year                      |                |               | 483                      | 483          |
| Other comprehensive income for the year  |                |               | (954)                    | (954)        |
| Total comprehensive income for the year  |                |               | (471)                    | (471)        |
| Cost of share-based payment (net of tax) |                |               | 1                        | 1            |
| <b>As at 31 December 2014</b>            | <b>290</b>     | <b>1,512</b>  | <b>(7)</b>               | <b>1,795</b> |

For the year ended 31 December 2013

| For the year ended 31 December 2013      | Company        |               |                          |              |
|--|----------------|---------------|--------------------------|--------------|
| £ million                                | Issued capital | Share premium | Other reserves (note 30) | Total equity |
| Balance at 1 January 2013                | 290            | 937           | (375)                    | 852          |
| Profit for the year                      |                |               | 298                      | 298          |
| Other comprehensive income for the year  |                |               | 542                      | 542          |
| Total comprehensive income for the year  |                |               | 840                      | 840          |
| Issue of ordinary shares (note 28)       |                | 575           |                          | 575          |
| Cost of share-based payment (net of tax) |                |               | (2)                      | (2)          |
| As at 31 December 2013                   | 290            | 1,512         | 463                      | 2,265        |

## 1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 26 February 2015 and the balance sheets were signed on the Board's behalf by Keith Williams and Nick Swift. British Airways Plc is a public limited company incorporated and domiciled in England and Wales.

The Group and Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. IFRSs as adopted by the EU differ in certain respects from IFRSs as issued by the International Accounting Standards Board ('IASB'). References to 'IFRS' hereafter should be construed as references to IFRSs as adopted by the EU. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

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

## 2 Summary of significant accounting policies

### Basis of preparation

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

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

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

### Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, each made up to 31 December, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform with the Group's accounting policies.

Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All intra-group account balances, including intra-group profits, have been eliminated in preparing the consolidated financial statements. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated balance sheet.

The Directors have considered the Group's business activities, principal risks and uncertainties (as set out on pages 8 to 9), and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

### Revenue

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

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised at the time the service is provided in accordance with the invoice or contract.

### Revenue recognition – customer loyalty programmes

The Group operates two principal loyalty programmes; Executive Club and Avios. The principal customer loyalty programmes award travellers Avios points to redeem for various rewards primarily redemption travel, including flights, hotels and car hire. In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Avios 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 Avios points are issued.

In addition, Avios points are sold to commercial partners to use in loyalty activity. The fair value of the Avios points sold is deferred and recognised as revenue on redemption of the Avios points by the participants to whom the Avios points are issued. The cost of the redemption of the Avios points is recognised when the Avios points are redeemed.

The Group estimates the fair value of Avios points by reference to the fair value of the awards for which they could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed based on the results of statistical modelling. The fair value of the Avios point reflects the fair value of the range of available awards.

## 2 Summary of significant accounting policies continued

### Segmental reporting

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

### Intangible assets

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

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

#### a Goodwill

Where the cost of a business combination exceeds the fair value attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable. Any goodwill arising on the acquisition of equity accounted entities is included within the cost of those entities. 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### b Landing rights

Landing rights acquired from other airlines are capitalised at fair value on acquisition. Subsequently they are accounted for at cost less any accumulated impairment losses. Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

#### c Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding five years on a straight-line basis.

#### d Emissions allowances

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

### Property, plant and equipment

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

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.

#### a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction is capitalised and added to the cost of the asset concerned.

#### b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance lease or hire purchase arrangements, are depreciated at rates calculated to write down the cost to the estimated residual value over a depreciation period of between 18 and 25 years. For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to its residual value over the average remaining life of the related fleet. Major overhaul expenditure is depreciated over periods ranging from 26-78 months, according to the engine type.

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

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

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



## 2 Summary of significant accounting policies continued

### Property, plant and equipment continued

#### c Property and equipment

Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives, or in the case of leasehold properties over the duration of the leases if shorter, on a straight-line basis.

Property, with the exception of freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from four to 20 years, according to the type of equipment.

#### d Leased and hire purchase assets

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

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease.

#### Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be enacted within 12 months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Assets are not depreciated or amortised once classified as held for sale.

#### Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value, determined by the weighted average cost method.

#### Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in investment in associates in the consolidated balance sheet and its interest in their results is included in the income statement, below operating profit. The attributable results of those companies invested in or disposed of during the year are included for the period of ownership.

#### 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.

#### Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method.

#### Trade and other receivables

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

#### Employee benefits

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

#### a Pension obligations

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-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 calculation results in a net asset to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The cost of administering the Group's defined benefit pension plans is provided for when the services are received, whilst the cost of managing the plan investments is treated as part of the return on plan assets.

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

## 2 Summary of significant accounting policies continued

### Employee benefits continued

#### a Pension obligations continued

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

#### b Termination benefits

Termination benefits are payable 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 termination benefits 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 termination benefits as a result of an offer made to encourage voluntary redundancy.

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

### Share-based payments

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

### Taxation

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

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

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

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

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

### Provisions

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

### Foreign currency translation

Transactions in foreign currencies are initially recorded in the Group's functional currency, sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All other profits or losses arising on translation are dealt with through the income statement except where hedge accounting is applied.

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 period. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the income statement.

## 2 Summary of significant accounting policies continued

### Financial instruments

In accordance with IAS 39 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each period-end except for those financial instruments measured at fair value through the income statement.

#### a Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is insignificant. This category of financial assets includes trade and other receivables.

#### b Available-for-sale financial assets

Other equity investments (other than interests in associates) are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold, when the cumulative amount recognised in equity is recognised in the income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in equity is included 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. Where fair value cannot be reliably estimated, assets are carried at cost (disclosed in note 27b).

#### c Derivatives

Derivative financial instruments, comprising foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures), are measured at fair value on the Group balance sheet. The treatment of gains and losses arising from revaluation is described below in the accounting policy for cash flow hedges. The gains or losses related to derivatives not used as effective hedging instrument is recognised in the income statement.

#### d Financial liabilities measured at amortised cost

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

### Cash flow hedges

Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument, unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period are taken to equity in accordance with the requirements of IAS 39. Gains and losses taken to equity are reflected in the income statement when either the hedged cash flow impacts income or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euro and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

### Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset.

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

### Derecognition of financial assets and liabilities

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

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

### Exceptional items

Exceptional items (disclosed in note 5) are those that in management's view need to be disclosed by virtue of their size or incidence.

## 2 Summary of significant accounting policies continued

### Key accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

#### a Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 16.

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

#### b Pensions and other post-retirement benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. These assumptions are based on each scheme's specific factors and are reviewed by management at the end of each year. Any difference between these assumptions and the actual outcome will impact future net assets and net income. The assumptions as of 31 December 2014 are set out in note 31.

#### c Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value, whether it is significant or prolonged, to determine whether it is an impairment that should be recognised in the income statement.

#### d Passenger revenue recognition

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

In respect of customer loyalty programmes the fair value attributed to awarded points is deferred as a liability and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points are issued. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.

#### e Income taxes

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

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

The Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated to their residual values over their estimated useful lives.

## 2 Summary of significant accounting policies continued

### Key accounting estimates and judgements continued

#### g Lease classification

A lease is classified as a finance lease when substantially all the risk and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

#### Impact of new International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial period except as follows:

##### a Consolidation, joint arrangements and related disclosure

The new standards adopted are: IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interest in Other Entities'. IFRS 10 replaces the guidance on control and consolidation in IAS 27 and SIC-12-Consolidation-special purpose entities. IFRS 11 requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. IFRS 12 requires enhanced disclosure of the nature, risk and the financial effects associated with the Group's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation. The adoption of the new standard did not have a material impact on the Group's income statement or balance sheet nor did it have a material impact on the disclosures in relation to interest in other entities.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

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

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

##### a The new financial instruments standard

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 although this has not been endorsed by the EU, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. It is anticipated that the application of IFRS 9 will have an impact on the Group's income statement or balance sheet which is currently being assessed.

##### b Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted, although this has not been endorsed by the EU. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

##### c Amendment to IAS 19 Defined Benefit Plans: Employee Contributions

The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives. The amendment is effective for annual periods beginning on or after 1 July 2014 and has been endorsed by the EU. It is anticipated that the application of this amendment will have no significant impact on the Group's income statement or balance sheet.

## 2 Summary of significant accounting policies continued

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

#### d Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendment is effective for annual periods beginning on or after 1 January 2016 although this has not been endorsed by the EU. The Group is currently assessing the impact of the amendment.

#### e IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The amendment is effective for annual periods beginning on or after 1 January 2015. The impact of this amendment has been assessed and is not expected to be significant to the Group's income statement or balance sheet.

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

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

## 3 Segment information

### a Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Leadership Team makes resource allocation decisions based on route profitability, which considers aircraft type and route economics, based primarily by reference to passenger economics with limited reference to cargo demand. The objective in making resource allocation decisions is to optimise consolidated financial results. While the operations of certain subsidiaries are considered to be separate operating segments, their activities are considered to be sufficiently similar in nature to aggregate all segments. Whilst Avios Group (AGL) Limited and British Airways Holidays Limited offer additional products, their primary business is closely related to the airline business. The primary financial information reviewed by the Leadership Team is based on the consolidated results of the Group. Based on the way the Group aggregates its operating business, and the manner in which resource allocation decisions are made, the Group has only one reportable segment for financial reporting purposes, being the consolidated results of the Group.

### b Geographical analysis - by area of original sale

| £ million         | Group         |               |
|-------------------|---------------|---------------|
|                   | 2014          | 2013          |
| UK                | 5,492         | 5,125         |
| USA               | 2,131         | 2,080         |
| Rest of the world | 4,096         | 4,216         |
| <b>Revenue</b>    | <b>11,719</b> | <b>11,421</b> |

The total of non-current assets excluding available-for-sale financial assets, employee benefit assets, other non-current assets and derivative financial instruments located in the UK is £8,897 million (2013: £8,317 million) and the total of these non-current assets located in other countries is £123 million (2013: £176 million).

## 4 Discontinued operations

In 2014, total expenditure on discontinued operations of £nil (2013: £3 million) was incurred relating to additional costs in handing back former bmibaby aircraft to lessors. There was no finance income, finance expense or taxation relating to discontinued operations (2013: £nil), as such, the loss after tax was £nil (2013: £3 million) and is attributable entirely to equity holders of the parent. All cash flows used in discontinued operations relate to operating activities.

## 5 Exceptional items

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

|   | Group |           |
|---|-------|-----------|
| £ million                                       | 2014  | 2013      |
| Change in revenue estimate in BA Executive Club |       | (86)      |
| US PRMB plan amendment                          |       | 143       |
| <b>Exceptional items</b>                        |       | <b>57</b> |

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

|                          | Group |           |
|--------------------------|-------|-----------|
| £ million                | 2014  | 2013      |
| Passenger revenue        |       | (86)      |
| Employee costs           |       | 143       |
| <b>Exceptional items</b> |       | <b>57</b> |

During the year there were no items that, in management's view, need to be disclosed as exceptional by virtue of their size or incidence.

### Change in revenue estimate in BA Executive Club

During 2013, management revised estimates relating to frequent flyer revenue recognised on redemption. Historically, management information systems had provided a constraint on the reliability of revenue recognition at the point of departure. As part of a group-wide exercise to review the existing frequent flyer programmes, reporting was developed to better estimate the revenue that should be deferred to departure. This new management information was adopted during 2013, giving rise to a reduction in passenger revenue of £86 million that related to the liability for deferred revenue at 1 January 2013 (treated as exceptional) and an £8 million reduction in revenue in relation to 2013 redemptions (non-exceptional).

### US PRMB plan amendment

BA provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan ('US PRMB'). The Group made changes to the US PRMB plan during 2013 to bring the level of benefits in line with national trends in the US. This scheme is accounted for as a defined benefit plan which means that any reduction in benefit would result in the recognition of a past service gain when the plan amendment occurs. This change resulted in the recognition of a one-off gain in employee cost of £143 million during 2013.

## 6 Expenses by nature

### Operating profit is arrived at after charging:

Depreciation, amortisation and impairment of non-current assets:

|  | Group      |            |
|--|------------|------------|
| £ million  | 2014       | 2013       |
| Owned assets                                       | 581        | 498        |
| Finance leased aircraft                            | 192        | 152        |
| Other leasehold interests                          | 46         | 48         |
| Impairment charge on property, plant and equipment |            | 16         |
| Amortisation of intangible assets                  | 12         | 8          |
| <b>Depreciation, amortisation and impairment</b>   | <b>831</b> | <b>722</b> |

## 6 Expenses by nature continued

Operating lease costs:

|   | Group      |            |
|---|------------|------------|
| £ million   | 2014       | 2013       |
| Minimum lease rentals – aircraft                  | 80         | 85         |
| – property and equipment                          | 100        | 98         |
| Property and equipment sub-lease rentals received | (18)       | (17)       |
| <b>Operating lease costs</b>                      | <b>162</b> | <b>166</b> |

Cost of inventories:

|  | Group        |              |
|--|--------------|--------------|
| £ million  | 2014         | 2013         |
| <b>Cost of inventories recognised as an expense, mainly fuel</b> | <b>3,310</b> | <b>3,811</b> |

## 7 Auditor's remuneration

|   | Group    |          |
|---|----------|----------|
| £ million   | 2014     | 2013     |
| Fees payable to the Group's auditor for the audit of the annual report and accounts | 1        | 1        |
| Services relating to corporate finance transactions                                 |          | 1        |
| Other services  | 1        | 1        |
|   | <b>2</b> | <b>3</b> |

The audit fees payable to Ernst & Young LLP are approved by the BA Board having been reviewed in the context of other companies for cost effectiveness. The Board also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained.

'Other services' includes fees payable to Ernst & Young LLP with respect to the audit of subsidiaries, associates, other services pursuant to legislation and other services relating to taxation; individually these costs are less than £1 million.

Remuneration receivable by the Company's auditors for the supply of other services to the Company is not presented separately as this information is included in the Group auditors' remuneration.



## 8 Employee costs and numbers

### a Employee costs

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

| Number   | Group  |        | Company |        |
|----------|--------|--------|---------|--------|
|          | 2014   | 2013   | 2014    | 2013   |
| UK       | 38,085 | 36,453 | 35,694  | 34,079 |
| Overseas | 5,035  | 5,404  | 4,174   | 4,397  |
|          | 43,120 | 41,857 | 39,868  | 38,476 |

  

| £ million  | Group        |              | Company      |              |
|--|--------------|--------------|--------------|--------------|
|  | 2014         | 2013         | 2014         | 2013         |
| Wages and salaries                                 | 1,601        | 1,562        | 1,499        | 1,455        |
| Social security costs                              | 178          | 175          | 165          | 159          |
| Costs related to pension scheme benefits (note 31) | 216          | 221          | 210          | 215          |
| Other employee costs                               | 427          | 429          | 409          | 413          |
| Total employee costs excluding restructuring       | 2,422        | 2,387        | 2,283        | 2,242        |
| Restructuring                                      | 39           | 5            | 39           | 3            |
| <b>Total employee costs</b>                        | <b>2,461</b> | <b>2,392</b> | <b>2,322</b> | <b>2,245</b> |

Included in 'wages and salaries' is a total expense for share-based payments of £11 million (2013: £14 million) that arises from transactions accounted for as equity-settled share-based payment transactions (see note 29).

Other employee costs include allowances and accommodation for crew.

### b Directors' emoluments

| £ million               | Group |      |
|-------------------------|-------|------|
|                         | 2014  | 2013 |
| Directors' remuneration | 3     | 3    |

During the year, two Directors (2013: four) of the Company were employed and remunerated by IAG and their remuneration is not included in the table above.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £3,886,000 (2013: £3,009,000) and contributions to the Company's defined benefit scheme amounted to £nil (2013: £nil). The value of the accrued benefits in respect of his pension scheme at 31 December 2014 amounted to £3,375,000 (2013: £2,559,000).

During the year no Directors (2013: none) accrued benefits under a defined benefit pension scheme and three Directors (2013: two) accrued benefits under a defined contribution pension scheme. Pension contributions for the year totalled less than £1 million which are included in the table above.

None of the Directors held any direct interest in the shares of the Company and no Directors (2013: four) participated in Long Term Incentive Schemes of the Company that were in existence prior to the merger. In addition, six Directors (2013: seven) participated in IAG's Long Term Incentive Schemes.

During the year, two Directors (2013: four) exercised their rights under the British Airways Share Option Plans. During the year, six Directors exercised their awards (2013: none) under the IAG Long Term Incentive Schemes.

### c Remuneration of key management personnel

Compensation of key management personnel (which includes the Directors and Leadership Team of the Group but excludes the aggregate emoluments of the highest paid director):

| £ million                    | Group and Company |           |
|------------------------------|-------------------|-----------|
|                              | 2014              | 2013      |
| Short-term employee benefits | 6                 | 7         |
| Share-based payments         | 3                 | 3         |
| <b>At 31 December</b>        | <b>9</b>          | <b>10</b> |

## 9 Finance costs and income

### a Finance costs

|  | Group        |              |
|--|--------------|--------------|
| £ million  | 2014         | 2013         |
| On bank loans                                    | (20)         | (18)         |
| On finance leases                                | (81)         | (63)         |
| Acceleration of bond amortisation <sup>1</sup>   |              | (24)         |
| On other loans                                   | (40)         | (65)         |
| Interest expense                                 | (141)        | (170)        |
| Unwinding of discounting on provisions (note 25) | (3)          | (10)         |
| Capitalised interest <sup>2</sup>                | 2            | 4            |
| Change in fair value of cross currency swaps     | 1            |              |
| <b>Finance costs</b>                             | <b>(141)</b> | <b>(176)</b> |

<sup>1</sup> In August 2009, BA issued a £350 million 5.8% fixed interest convertible bond. The terms of the bond allowed conversion into IAG shares at an effective conversion price of £1.89 per share at the option of the holder on or before August 2014. BA also had an option to redeem the bonds early at their principal amount together with accrued but unpaid interest subject to specific conditions. During 2013 these conditions were met and BA called for the early redemption of the bond which resulted in full conversion. As a result, an acceleration of the amortised cost accounting was made resulting in a £24 million interest charge in 2013.

<sup>2</sup> Interest costs on progress payments are capitalised at a rate based on the London Interbank Offered Rate (LIBOR) plus the rate specific to the borrowings.

### b Finance income

|  | Group |      |
|--|-------|------|
| £ million  | 2014  | 2013 |
| Bank interest receivable (total interest income for financial assets not at fair value through the income statement) | 17    | 13   |

## 10 Tax

### a Tax on profit on ordinary activities

Tax charge in the income statement

|   | Group      |             |
|---|------------|-------------|
| £ million   | 2014       | 2013        |
| <b>Current income tax</b>   |            |             |
| UK corporation tax  | 108        | 61          |
| Overseas tax  | 1          | 1           |
| Current tax adjustments in respect of prior years - UK corporation tax                  | 16         | (6)         |
| <b>Total current income tax charge</b>  | <b>125</b> | <b>56</b>   |
| <b>Deferred tax arising on differences between the accounting and tax treatment of:</b> |            |             |
| Property, plant and equipment   | (9)        | (25)        |
| Employee defined benefit plans  | (2)        | 29          |
| Advance corporation tax   | 80         |             |
| Tax losses utilised   | 7          | 35          |
| Foreign exchange  | (2)        | (11)        |
| Deferred revenue in relation to loyalty reward programmes                               |            | 17          |
| Employee related provisions   | (6)        | 6           |
| Adjustments in respect of prior years   | (29)       | 6           |
| Effect of tax rate changes  | 1          | (103)       |
| Other items   | (8)        | 6           |
| <b>Total deferred tax charge/(credit)</b>   | <b>32</b>  | <b>(40)</b> |
| <b>Total charge in the income statement</b>   | <b>157</b> | <b>16</b>   |

## 10 Tax continued

### a Tax on profit on ordinary activities continued

|  | Group        |              |
|--|--------------|--------------|
| £ million  | 2014         | 2013         |
| Tax (credit) in other comprehensive income or directly in equity   |              |              |
| <b>Current tax related to items credited to statement of other comprehensive income</b>                  |              |              |
| Employee defined benefit plans   | (64)         | (57)         |
| <b>Current tax related to items credited to statement of changes in equity</b>                           |              |              |
| Share-based payments in issue  | (5)          | (2)          |
| <b>Deferred tax relating to items charged/(credited) to statement of other comprehensive income</b>      |              |              |
| Employee defined benefit plans   | (90)         | 227          |
| Foreign exchange   | (7)          |              |
| Net change on fair value cash flow hedges  | (176)        | 29           |
| Effect of tax rate changes <sup>1</sup>  | 19           | 16           |
| <b>Deferred tax relating to items credited to statement of changes in equity</b>                         |              |              |
| Share-based payments in issue  |              | (4)          |
| <b>Total tax (credit) relating to items reported in other comprehensive income or directly in equity</b> | <b>(323)</b> | <b>(209)</b> |

<sup>1</sup>In 2014 the effect of tax rate changes on items that will not be re-classified to the income statement was a £6 million charge (2013: £16 million) and the effect on items that may be re-classified to the income statement was a £13 million charge (2013: £nil).

### b Reconciliation of the total tax charge

|  | Group      |           |
|--|------------|-----------|
| £ million  | 2014       | 2013      |
| Profit before tax from continuing operations   | 859        | 300       |
| Accounting profit multiplied by standard rate of corporation tax in the UK of 21.5 per cent (2013: 23.25 per cent) | 185        | 70        |
| Effects of:  |            |           |
| Tax on associates' profits and dividends   | (9)        | 15        |
| Euro preferred securities accounted for as non-controlling interests   | (4)        | (4)       |
| Current year losses not recognised   | 1          | 2         |
| Pension fund accounting  | (4)        | (5)       |
| Convertible bond accounting  |            | 38        |
| Disposal and write down of investments   | (2)        |           |
| Adjustments in respect of prior years  | (13)       |           |
| Impact of changes in substantively enacted tax rates   | 1          | (103)     |
| Other non-deductible expenses  | 2          | 3         |
| <b>Tax charge in the income statement</b>  | <b>157</b> | <b>16</b> |

## 10 Tax continued

### c Deferred tax provision

| £ million                                       | Group      |            | Company    |            |
|---|------------|------------|------------|------------|
|   | 2014       | 2013       | 2014       | 2013       |
| Property, plant and equipment                   | 665        | 727        | 543        | 599        |
| Employee defined benefit plans                  | (195)      | (111)      | (190)      | (109)      |
| Exchange differences on funding liabilities     | 6          | 14         | 10         | 18         |
| Advance corporation tax paid                    |            | (94)       |            | (94)       |
| Tax losses carried forward                      | (66)       | (85)       | (66)       | (85)       |
| Fair value gains recognised on cash flow hedges | (159)      | 4          | (159)      | 4          |
| Share-based payments                            | (9)        | (9)        | (9)        | (9)        |
| Other items                                     | (20)       | (2)        | (9)        | 3          |
| <b>As at 31 December</b>                        | <b>222</b> | <b>444</b> | <b>120</b> | <b>327</b> |

### Movement in provision

| £ million   | Group      |            | Company    |            |
|---|------------|------------|------------|------------|
|   | 2014       | 2013       | 2014       | 2013       |
| Balance at 1 January  | 444        | 216        | 327        | 98         |
| Deferred tax charge/(credit) relating to income statement                     | 32         | (40)       | 45         | (38)       |
| Deferred tax (credit)/charge taken to statement of other comprehensive income | (254)      | 272        | (253)      | 271        |
| Deferred tax charge/(credit) taken to statement of changes in equity          |            | (4)        | 1          | (4)        |
| <b>As at 31 December</b>  | <b>222</b> | <b>444</b> | <b>120</b> | <b>327</b> |

### d Other taxes

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

| £ million             | Group        |              |
|-----------------------|--------------|--------------|
|                       | 2014         | 2013         |
| UK Air Passenger Duty | 646          | 600          |
| Other ticket taxes    | 371          | 372          |
| Payroll related taxes | 178          | 175          |
| <b>Total</b>          | <b>1,195</b> | <b>1,147</b> |

The UK Government announced the following changes that impact the amount of UK Air Passenger Duty paid: from 1 April 2015, the number of UK Air Passenger Duty destination bands will be reduced from four to two; whilst as of 1 May 2015, child exemption from Air Passenger Duty will be extended to include children under the age of 12 travelling in the lowest class of travel.

## **10 Tax continued**

### **e Factors that may affect future tax charges**

Following the change in ownership of the Group in 2011, UK pre-entry capital losses carried forward of £169 million (2013: £169 million) and post entry of £7m (2013: £nil) are held. The pre-entry losses are available for offset against certain future UK chargeable gains subject to the pre-entry losses legislation. No deferred tax asset has been recognised in respect of these capital losses as no further utilisation is currently anticipated. The Group has deferred taxation arising on chargeable gains by rollover and holdover relief claims that have reduced the tax basis of fixed assets by £69 million (2013: £69 million). No deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they could be offset against the UK capital losses carried forward. The Group also has an unrecognised deferred tax asset of £51m (2013: £51 million) arising from temporary differences in respect of future capital losses if UK properties that historically were eligible for industrial buildings allowances are realised at their residual value which is assumed to be nil.

The Group has overseas tax losses of £116 million (2013: £112 million) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated.

UK tax legislation largely exempts UK and overseas dividends received from UK tax and as there are no withholding taxes arising on the payment of such dividends, the timing difference on unremitted earnings of overseas subsidiaries is £nil (2013: £nil).

The main rate of corporation tax reduced from 23% to 21% effective from 1 April 2014. Further reductions were substantively enacted last year reducing the rate to 20% effective from 1 April 2015. The provision for deferred tax on temporary differences as at 31 December 2014 was calculated at 20% and the movement in the three months to April 2015 is not expected to be material.

## **11 Dividends**

The Directors have declared that no dividend will be paid for the year ended 31 December 2014 (2013: £nil).

## 12 Property, plant and equipment

### a Group

| £ million   |               |              |            | Group         |            |
|---|---------------|--------------|------------|---------------|------------|
|   | Fleet         | Property     | Equipment  | Total         |            |
| <b>Cost</b>                                       |               |              |            |               |            |
| Balance at 1 January 2013                         | 13,209        | 1,477        | 783        | 15,469        |            |
| Additions   | 1,188         | 40           | 46         | 1,274         |            |
| Disposals   | (295)         | (2)          | (6)        | (303)         |            |
| Reclassifications                                 | (132)         |              |            | (132)         |            |
| Balance as at 31 December 2013                    | 13,970        | 1,515        | 823        | 16,308        |            |
| Additions   | 1,304         | 47           | 73         | 1,424         |            |
| Disposals   | (456)         | (2)          | (3)        | (461)         |            |
| Reclassifications                                 | 3             |              |            | 3             |            |
| <b>As at 31 December 2014</b>                     | <b>14,821</b> | <b>1,560</b> | <b>893</b> | <b>17,274</b> |            |
| <b>Depreciation and impairment</b>                |               |              |            |               |            |
| Balance at 1 January 2013                         | 7,300         | 646          | 581        | 8,527         |            |
| Charge for the year                               | 610           | 55           | 33         | 698           |            |
| Impairment charge¹                                | 16            |              |            | 16            |            |
| Disposals   | (292)         | (2)          | (6)        | (300)         |            |
| Reclassifications                                 | (120)         |              |            | (120)         |            |
| Balance as at 31 December 2013                    | 7,514         | 699          | 608        | 8,821         |            |
| Charge for the year                               | 730           | 54           | 35         | 819           |            |
| Disposals   | (353)         | (1)          | (2)        | (356)         |            |
| <b>As at 31 December 2014</b>                     | <b>7,891</b>  | <b>752</b>   | <b>641</b> | <b>9,284</b>  |            |
| <b>Net book amounts</b>                           |               |              |            |               |            |
| <b>31 December 2014</b>                           | <b>6,930</b>  | <b>808</b>   | <b>252</b> | <b>7,990</b>  |            |
| 31 December 2013                                  | 6,456         | 816          | 215        | 7,487         |            |
| <b>Analysis as at 31 December 2014</b>            |               |              |            |               |            |
| Owned   | 3,148         | 743          | 159        | 4,050         |            |
| Finance leased                                    | 3,664         |              | 8          | 3,672         |            |
| Progress payments                                 | 118           | 65           | 85         | 268           |            |
|   | 6,930         | 808          | 252        | 7,990         |            |
| <b>Analysis as at 31 December 2013</b>            |               |              |            |               |            |
| Owned   | 3,346         | 766          | 176        | 4,288         |            |
| Finance leased                                    | 2,866         |              | 19         | 2,885         |            |
| Progress payments                                 | 244           | 50           | 20         | 314           |            |
|   | 6,456         | 816          | 215        | 7,487         |            |
|   |               |              |            |               |            |
| £ million   |               |              |            | Group         |            |
|   |               |              |            | 2014          | 2013       |
| <b>The net book amount of property comprises:</b> |               |              |            |               |            |
| Freehold  |               |              |            | 248           | 244        |
| Long-leasehold improvements                       |               |              |            | 282           | 269        |
| Short-leasehold improvements²                     |               |              |            | 278           | 303        |
| <b>As at 31 December</b>                          |               |              |            | <b>808</b>    | <b>816</b> |

<sup>1</sup> The impairment charge of £16 million in 2013 related to two Boeing 747-400 aircraft which were permanently written down to their realisable value.

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

At 31 December 2014, bank and other loans of the Group are secured on fleet assets with a cost of £920 million (2013: £2,094 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2013: £230 million).

## 12 Property, plant and equipment continued

### b Company

| £ million                              | Company       |              |            |               |
|--|---------------|--------------|------------|---------------|
|  | Fleet         | Property     | Equipment  | Total         |
| <b>Cost</b>                            |               |              |            |               |
| Balance at 1 January 2013              | 12,648        | 1,390        | 738        | 14,776        |
| Additions                              | 1,186         | 40           | 36         | 1,262         |
| Disposals                              | (291)         | (2)          | (4)        | (297)         |
| Reclassifications                      | (132)         |              |            | (132)         |
| Balance as at 31 December 2013         | 13,411        | 1,428        | 770        | 15,609        |
| Additions                              | 1,283         | 46           | 67         | 1,396         |
| Disposals                              | (454)         | (2)          | (1)        | (457)         |
| Reclassifications                      | 3             |              |            | 3             |
| <b>As at 31 December 2014</b>          | <b>14,243</b> | <b>1,472</b> | <b>836</b> | <b>16,551</b> |
| <b>Depreciation and impairment</b>     |               |              |            |               |
| Balance at 1 January 2013              | 7,051         | 601          | 553        | 8,205         |
| Charge for the year                    | 586           | 53           | 27         | 666           |
| Disposals                              | (288)         | (2)          | (3)        | (293)         |
| Impairment charge <sup>1</sup>         | 16            |              |            | 16            |
| Reclassifications                      | (120)         |              |            | (120)         |
| Balance as at 31 December 2013         | 7,245         | 652          | 577        | 8,474         |
| Charge for the year                    | 702           | 52           | 29         | 783           |
| Disposals                              | (350)         | (1)          | (1)        | (352)         |
| <b>As at 31 December 2014</b>          | <b>7,597</b>  | <b>703</b>   | <b>605</b> | <b>8,905</b>  |
| <b>Net book amounts</b>                |               |              |            |               |
| <b>31 December 2014</b>                | <b>6,646</b>  | <b>769</b>   | <b>231</b> | <b>7,646</b>  |
| 31 December 2013                       | 6,166         | 776          | 193        | 7,135         |
| <b>Analysis as at 31 December 2014</b> |               |              |            |               |
| Owned                                  | 2,878         | 704          | 138        | 3,720         |
| Finance leased                         | 3,650         |              | 8          | 3,658         |
| Progress payments                      | 118           | 65           | 85         | 268           |
|  | 6,646         | 769          | 231        | 7,646         |
| <b>Analysis as at 31 December 2013</b> |               |              |            |               |
| Owned                                  | 3,071         | 726          | 158        | 3,955         |
| Finance leased                         | 2,851         |              | 19         | 2,870         |
| Progress payments                      | 244           | 50           | 16         | 310           |
|  | 6,166         | 776          | 193        | 7,135         |

  

| £ million   | Company    |            |
|---|------------|------------|
|   | 2014       | 2013       |
| <b>The net book amount of property comprises:</b> |            |            |
| Freehold  | 209        | 204        |
| Long-leasehold improvements                       | 282        | 269        |
| Short-leasehold improvements <sup>2</sup>         | 278        | 303        |
| <b>As at 31 December</b>                          | <b>769</b> | <b>776</b> |

<sup>1</sup> The impairment charge in 2013 of £16 million related to two Boeing 747-400 aircraft which were permanently written down to their realisable value.

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

At 31 December 2014, bank and other loans of the Company are secured on fleet assets with a cost of £600 million (2013: £1,785 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2013: £230 million).

## 13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £6,658 million for the Group (2013: £6,914 million) and £6,651 million for the Company (2013: £6,894 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

The outstanding commitments include £6,613 million for the acquisition of 18 Airbus A350s (from 2018 to 2021), 34 Boeing 787s (from 2015 to 2021), 13 Airbus A320s (from 2018 to 2019), four Airbus A380s (from 2015 to 2016) and seven Airbus A321s (from 2018 to 2019).

## 14 Non-current assets held for sale

The non-current assets held for sale of £5 million in the Group and the Company represent Boeing 737-400 engines that have been stood down from use and are being marketed for sale. These are held at depreciated cost which is expected to be less than the fair value less costs to sell.

At 31 December 2013, the non-current assets held for sale of £10 million in the Group and the Company consisted of four Boeing 737-400 airframes, one Boeing 767-300 airframe and eight Boeing 737-400 engines.

Subsequent to 2013, plans for the use of the airframes were changed and they were reclassified as fleet assets for harvesting. During the year, two of the engines were sold and the remaining six engines continue to be held for sale.

## 15 Intangible assets

### a Group

| £ million                        |           |                |                      |            | Group        |
|----------------------------------|-----------|----------------|----------------------|------------|--------------|
|                                  | Goodwill  | Landing rights | Emissions allowances | Software   | Total        |
| <b>Cost</b>                      |           |                |                      |            |              |
| Balance at 1 January 2013        | 40        | 715            | 39                   | 241        | 1,035        |
| Additions                        |           | 12             | 10                   | 70         | 92           |
| Disposals                        |           |                | (23)                 |            | (23)         |
| Exchange differences             |           | 1              |                      |            | 1            |
| Balance as at 31 December 2013   | 40        | 728            | 26                   | 311        | 1,105        |
| Additions                        |           | 1              |                      | 81         | 82           |
| Exchange differences             |           | (2)            |                      |            | (2)          |
| <b>As at 31 December 2014</b>    | <b>40</b> | <b>727</b>     | <b>26</b>            | <b>392</b> | <b>1,185</b> |
| <b>Amortisation</b>              |           |                |                      |            |              |
| Balance at 1 January 2013        |           | 60             |                      | 156        | 216          |
| Charge for the year              |           |                |                      | 8          | 8            |
| Balance as at 31 December 2013   |           | 60             |                      | 164        | 224          |
| Charge for the year <sup>1</sup> |           |                |                      | 12         | 12           |
| <b>As at 31 December 2014</b>    |           | <b>60</b>      |                      | <b>176</b> | <b>236</b>   |
| <b>Net book amounts</b>          |           |                |                      |            |              |
| <b>31 December 2014</b>          | <b>40</b> | <b>667</b>     | <b>26</b>            | <b>216</b> | <b>949</b>   |
| 31 December 2013                 | 40        | 668            | 26                   | 147        | 881          |

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



## 15 Intangible assets continued

### b Company

| £ million                      | Company        |                      |            |              |
|--------------------------------|----------------|----------------------|------------|--------------|
|                                | Landing rights | Emissions allowances | Software   | Total        |
| <b>Cost</b>                    |                |                      |            |              |
| Balance at 1 January 2013      | 679            | 39                   | 240        | 958          |
| Additions                      | 12             | 10                   | 70         | 92           |
| Disposals                      |                | (23)                 |            | (23)         |
| Balance as at 31 December 2013 | 691            | 26                   | 310        | 1,027        |
| Additions                      | 1              |                      | 81         | 82           |
| <b>As at 31 December 2014</b>  | <b>692</b>     | <b>26</b>            | <b>391</b> | <b>1,109</b> |
| <b>Amortisation</b>            |                |                      |            |              |
| Balance at 1 January 2013      | 49             |                      | 156        | 205          |
| Charge for the year            |                |                      | 7          | 7            |
| Balance as at 31 December 2013 | 49             |                      | 163        | 212          |
| Charge for the year            |                |                      | 12         | 12           |
| <b>As at 31 December 2014</b>  | <b>49</b>      |                      | <b>175</b> | <b>224</b>   |
| <b>Net book amounts</b>        |                |                      |            |              |
| <b>31 December 2014</b>        | <b>643</b>     | <b>26</b>            | <b>216</b> | <b>885</b>   |
| 31 December 2013               | 642            | 26                   | 147        | 815          |

## 16 Impairment of property, plant, equipment and intangible assets

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

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

### a Network airline operations

| £ million                  | 2014                 |                |          |       | 2013                 |                |          |       |
|----------------------------|----------------------|----------------|----------|-------|----------------------|----------------|----------|-------|
|                            | Emissions allowances | Landing rights | Goodwill | Total | Emissions allowances | Landing rights | Goodwill | Total |
| Network airline operations | 26                   | 646            | 40       | 712   | 26                   | 642            | 40       | 708   |

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

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

## 16 Impairment of property, plant, equipment and intangible assets continued

### a Network airline operations continued

#### Key assumptions

|   | 2014          | 2013          |
|---|---------------|---------------|
| Pre-tax discount rate (derived from the long-term weighted average cost of capital) | 10.0%         | 10.0%         |
| Long-term growth rate   | 2.5%          | 2.5%          |
| Fuel price range per barrel <sup>1</sup>  | \$100 - \$110 | \$100 - \$110 |

<sup>1</sup> Fuel price assumptions reflect the market conditions at the time management's forecasts were approved.

### b OpenSkies

|   |                | 2014  |                | 2013  |
|---|----------------|-------|----------------|-------|
| £ million   | Landing rights | Total | Landing rights | Total |
| Carrying value of OpenSkies' intangible assets <sup>1</sup> | 21             | 21    | 26             | 26    |

<sup>1</sup> Included within total intangible assets allocated to the OpenSkies CGU are £18 million (2013: £20 million) of indefinite life intangible assets.

The recoverable amount of the OpenSkies CGU has been measured on its value in use, using a discounted cash flow model. Cash flow projections are based on the forecast approved by the Board covering a one-year period. Cash flows for the next four years have been projected in line with expected growth using the latest one year forecast approved by the Board. This includes consideration of historic and future growth in the countries that OpenSkies operates. Cash flows beyond the five-year period are projected to increase in line with the long-term growth rate of the main economies in which OpenSkies operates. The pre-tax discount rate applied to the cash flow projections is derived from OpenSkies' post-tax weighted average cost of capital, adjusted for the risks specific to the assets.

The impairment review of OpenSkies resulted in no impairment during the year (2013: no impairment).

The recoverable amount of the assets within OpenSkies exceeds the carrying value by £3 million (2013: £3 million). If the discount rate were increased by 70 basis points (2013: 60 basis points) or the operating margin were to decrease by 8 per cent (2013: 9 per cent), the headroom would amount to £nil.

#### Key assumptions

|   | 2014          | 2013          |
|---|---------------|---------------|
| Pre-tax discount rate (derived from the long-term weighted average cost of capital) | 10.0%         | 10.0%         |
| Long-term growth rate   | 2.0%          | 2.1%          |
| Fuel price range per barrel <sup>1</sup>  | \$100 - \$110 | \$100 - \$110 |

<sup>1</sup> Fuel price assumptions reflect the market conditions at the time management's forecasts were approved.

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

### c Impairment of fleet

During the year ended 31 December 2013 two Boeing 747-400 aircraft were written down to their net realisable value and an impairment charge of £16 million was realised. One of the aircraft was permanently stood down in December 2013, whilst the other was permanently stood down in January 2014.

## 17 Investments

### a Group

#### Investment in associates

| £ million                            | 2014      | Group<br>2013 |
|--------------------------------------|-----------|---------------|
| Balance at 1 January                 | 115       | 174           |
| Exchange differences                 | (6)       | 5             |
| Share of attributable results        | 39        | (65)          |
| Share of movements on other reserves | (72)      | 1             |
| <b>As at 31 December</b>             | <b>76</b> | <b>115</b>    |

|  | Percentage of equity owned | Principal activities | Holding         | Country of incorporation and principal operations |
|--|----------------------------|----------------------|-----------------|---|
| IB Opco Holding S.L. ('Iberia') <sup>1</sup> | 13.55                      | Airline operations   | Ordinary shares | Spain   |

<sup>1</sup> Held by a subsidiary company

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

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

| £ million  | 2014       | Group<br>2013 |
|--|------------|---------------|
| Non-current assets                                 | 2,433      | 2,974         |
| Current assets                                     | 1,541      | 1,432         |
| Current liabilities                                | (1,705)    | (1,963)       |
| Non-current liabilities                            | (1,770)    | (1,653)       |
| <b>Net equity</b>                                  | <b>499</b> | <b>790</b>    |
| Group's carrying amount of the investment          | 68         | 107           |
| Goodwill attributable to investments in associates | 8          | 8             |
| <b>Total investment in associate</b>               | <b>76</b>  | <b>115</b>    |
| Revenues   | 3,228      | 3,483         |
| Operating costs                                    | (3,544)    | (3,906)       |
| Other income and costs (including tax)             | 594        | 358           |
| <b>Net profit/(loss) after tax</b>                 | <b>278</b> | <b>(65)</b>   |

## 17 Investments continued

### b Company

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

| £ million                | Cost         | Provisions   | Company       |               |
|--------------------------|--------------|--------------|---------------|---------------|
|                          |              |              | Total<br>2014 | Total<br>2013 |
| Balance at 1 January     | 3,586        | (1,133)      | 2,453         | 2,372         |
| Exchange differences     | (9)          |              | (9)           | 5             |
| Additions                | 10           |              | 10            | 87            |
| Disposals <sup>1</sup>   | (1,309)      | 280          | (1,029)       |               |
| Provision <sup>2</sup>   |              | (99)         | (99)          | (11)          |
| <b>As at 31 December</b> | <b>2,278</b> | <b>(952)</b> | <b>1,326</b>  | <b>2,453</b>  |

<sup>1</sup> BA has de-recognised several investments in subsidiaries (including Speedbird Cash Management Limited which makes up a significant portion of the disposal) in the year following liquidation.

<sup>2</sup> The charge during the year of £99 million (2013: £11 million) relates mainly to the £89 million impairment in the Company's investment in AGL as the recoverable amount of the existing customer loyalty programme, which excludes the BA Executive Club and the Iberia Plus programmes, is expected to be lower than the carrying amount of the investment.

The Group and Company's principal investments in subsidiaries, associates and other investments are listed on pages 74 and 76.

## 18 Available-for-sale financial assets

| £ million                                      | Group     |           | Company   |           |
|--|-----------|-----------|-----------|-----------|
|  | 2014      | 2013      | 2014      | 2013      |
| <b>Listed securities</b>                       |           |           |           |           |
| International Consolidated Airlines Group S.A. | 4         | 7         | 4         | 7         |
| Flybe Group Plc                                |           | 12        |           |           |
| Comair Limited                                 | 15        | 10        |           |           |
| <b>Unlisted securities (see note 27b)</b>      | <b>44</b> | <b>10</b> | <b>44</b> | <b>10</b> |
| <b>Available-for-sale financial assets</b>     | <b>63</b> | <b>39</b> | <b>48</b> | <b>17</b> |

## 19 Trade receivables and other assets

Other non-current assets are set out below:

| £ million                       | Group     |           | Company    |            |
|---------------------------------|-----------|-----------|------------|------------|
|                                 | 2014      | 2013      | 2014       | 2013       |
| Prepayments and accrued income  | 17        | 13        |            |            |
| Other debtors                   | 52        | 46        | 61         | 46         |
| Amounts owed by subsidiaries    |           |           | 134        | 147        |
| <b>Other non-current assets</b> | <b>69</b> | <b>59</b> | <b>195</b> | <b>193</b> |

Trade receivables and other current assets are set out below:

| £ million   | Group      |            | Company    |              |
|---|------------|------------|------------|--------------|
|   | 2014       | 2013       | 2014       | 2013         |
| Trade receivables                                 | 550        | 552        | 535        | 541          |
| Provision for doubtful receivables                | (19)       | (19)       | (19)       | (19)         |
| Net trade receivables                             | 531        | 533        | 516        | 522          |
| Prepayments and accrued income                    | 255        | 238        | 153        | 146          |
| Other debtors                                     | 71         | 100        | 74         | 98           |
| Amounts owed by subsidiaries                      |            |            | 243        | 252          |
| <b>Trade receivables and other current assets</b> | <b>857</b> | <b>871</b> | <b>986</b> | <b>1,018</b> |

During the period the Group wrote £2 million (2013: £2 million) of receivables off against the provision (Company - 2014: £2 million; 2013: £2 million).

The ageing analysis of trade receivables is as follows:

| £ million                     | Group      |            | Company    |            |
|-------------------------------|------------|------------|------------|------------|
|                               | 2014       | 2013       | 2014       | 2013       |
| Neither past due nor impaired | 456        | 466        | 442        | 458        |
| Past due but not impaired:    |            |            |            |            |
| < 30 days                     | 33         | 34         | 32         | 32         |
| 30 - 60 days                  | 12         | 15         | 12         | 15         |
| > 60 days                     | 30         | 18         | 30         | 17         |
| <b>Net trade receivables</b>  | <b>531</b> | <b>533</b> | <b>516</b> | <b>522</b> |

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

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

### a Cash and cash equivalents

| £ million   | Group |       | Company |       |
|---|-------|-------|---------|-------|
|   | 2014  | 2013  | 2014    | 2013  |
| Cash at bank and in hand  | 649   | 606   | 594     | 538   |
| Short-term deposits falling due within three months                 | 25    | 24    | 25      | 24    |
| Cash and cash equivalents   | 674   | 630   | 619     | 562   |
| Other current interest-bearing deposits maturing after three months | 1,849 | 1,220 | 1,849   | 1,220 |

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates. The fair value of cash and cash equivalents is £674 million for the Group (2013: £630 million) and £619 million for the Company (2013: £562 million).

At 31 December 2014, the Group and Company had no outstanding bank overdrafts (2013: £nil).

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

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

| £ million  | Group   |         |
|--|---------|---------|
|  | 2014    | 2013    |
| Increase in cash and cash equivalents from continuing operations           | 34      | 140     |
| Net cash flow used in discontinued operations                              | (12)    | (36)    |
| Increase in other current interest-bearing deposits                        | 629     | 102     |
| Net cash outflow from decrease in debt and lease financing                 | 734     | 513     |
| New loans and finance leases taken out and hire purchase arrangements made | (1,391) | (997)   |
| Conversion of convertible bond to equity                                   |         | 349     |
| (Increase)/decrease in net debt resulting from cash flow                   | (6)     | 71      |
| Exchange differences and other non-cash movements                          | (52)    | 54      |
| (Increase)/decrease in net debt during the year                            | (58)    | 125     |
| Net debt at 1 January  | (1,968) | (2,093) |
| Net debt as at 31 December   | (2,026) | (1,968) |

## 21 Trade and other payables

| £ million                                 | Group        |              | Company      |              |
|---|--------------|--------------|--------------|--------------|
|   | 2014         | 2013         | 2014         | 2013         |
| Trade creditors                           | 911          | 940          | 867          | 898          |
| Amounts owed to subsidiary companies      |              |              | 1,699        | 2,704        |
| Other creditors                           | 514          | 404          | 509          | 399          |
| Other taxation and social security        | 34           | 35           | 32           | 32           |
| Sales in advance of carriage              | 1,572        | 1,453        | 1,475        | 1,369        |
| Accruals and deferred income <sup>1</sup> | 1,189        | 1,241        | 1,013        | 1,012        |
| <b>As at 31 December</b>                  | <b>4,220</b> | <b>4,073</b> | <b>5,595</b> | <b>6,414</b> |

<sup>1</sup> Includes deferred income from customer loyalty programmes of £1,015 million (2013: £985 million) for the Group and £869 million (2013: £813 million) for the Company.

## 22 Other non-current liabilities

| £ million                    | Group     |            | Company   |           |
|------------------------------|-----------|------------|-----------|-----------|
|                              | 2014      | 2013       | 2014      | 2013      |
| Accruals and deferred income | 90        | 127        | 60        | 98        |
| <b>As at 31 December</b>     | <b>90</b> | <b>127</b> | <b>60</b> | <b>98</b> |

## 23 Long-term borrowings

| £ million                         | Group        |              | Company      |              |
|-----------------------------------|--------------|--------------|--------------|--------------|
|                                   | 2014         | 2013         | 2014         | 2013         |
| <b>a Current</b>                  |              |              |              |              |
| Bank and other loans <sup>1</sup> | 112          | 141          | 71           | 105          |
| Finance leases <sup>2</sup>       | 316          | 224          | 335          | 240          |
| Loans from subsidiaries           |              |              | 15           | 13           |
| <b>As at 31 December</b>          | <b>428</b>   | <b>365</b>   | <b>421</b>   | <b>358</b>   |
| <b>b Non-current</b>              |              |              |              |              |
| Bank and other loans <sup>1</sup> | 570          | 692          | 352          | 454          |
| Finance leases <sup>2</sup>       | 3,551        | 2,761        | 3,632        | 2,861        |
| Loans from subsidiaries           |              |              | 370          | 379          |
| <b>As at 31 December</b>          | <b>4,121</b> | <b>3,453</b> | <b>4,354</b> | <b>3,694</b> |

<sup>1</sup> Bank and other loans are repayable up to the year 2026. Bank and other loans of the Group amounting to £425 million (2013: £554 million) and bank loans of the Company amounting to £166 million (2013: £280 million) are secured on aircraft. Finance leases and hire purchase arrangements are all secured on aircraft or other property, plant and equipment.

<sup>2</sup> Included in finance leases for the Company is £107 million (2013: £126 million) of finance leases with subsidiaries of the Group, of which £21 million (2013: £19 million) is classified as current.

## 23 Long-term borrowings continued

### c Bank and other loans

Bank and other loans comprise the following:

| £ million  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 2014       | 2013       | 2014       | 2013       |
| £250 million fixed rate 8.75 per cent eurobonds 2016 (i)                   | 249        | 249        | 249        | 249        |
| Floating rate sterling mortgage loans secured on aircraft (ii)             | 98         | 119        | 70         | 87         |
| Floating rate US dollar mortgage loans secured on aircraft (iii)           | 53         | 65         | 49         | 57         |
| Fixed rate sterling mortgage loans secured on aircraft (iv)                | 91         | 107        |            |            |
| Floating rate Japanese yen mortgage loans secured on aircraft (v)          |            | 84         |            | 84         |
| Floating rate US dollar mortgage loans secured on plant and equipment (vi) |            | 15         |            | 15         |
| Floating rate euro mortgage loan secured on aircraft (vii)                 | 47         | 52         | 47         | 52         |
| Fixed rate US dollar mortgage loan secured on aircraft (viii)              | 136        | 127        |            |            |
| European Investment Bank sterling loans secured on property (ix)           | 8          | 15         | 8          | 15         |
|  | <b>682</b> | <b>833</b> | <b>423</b> | <b>559</b> |
| Less: current instalments due on bank and other loans                      | 112        | 141        | 71         | 105        |
| <b>Non-current bank and other loans as at 31 December</b>                  | <b>570</b> | <b>692</b> | <b>352</b> | <b>454</b> |

- (i) £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment on 23 August 2016.
- (ii) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.08 per cent and 1.25 per cent. The loans are repayable between 2015 and 2019.
- (iii) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest between 1.22 and 2.73 per cent. The loans are repayable between 2015 and 2017.
- (iv) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 6.1 per cent and 6.3 per cent. The loans are repayable between 2016 and 2018.
- (v) Floating rate Japanese yen mortgage loans were secured on specific aircraft assets of the Group and were repaid in 2014.
- (vi) Floating rate US dollar mortgage loans were secured on certain plant and equipment of the Group and were repaid in 2014.
- (vii) The floating rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 0.59 per cent. The loan is repayable in 2024.
- (viii) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear interest of between 3.81 per cent and 4.76 per cent and are repayable between 2021 and 2026.
- (ix) European Investment Bank sterling loan is secured on certain property assets of the Group and bears interest of 0.69 per cent. The loan is repayable in 2017.



## 23 Long-term borrowings continued

### d Total loans, finance leases and hire purchase arrangements

| £ million                           | Group        |              | Company      |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | 2014         | 2013         | 2014         | 2013         |
| <b>Loans:</b>                       |              |              |              |              |
| Bank:                               |              |              |              |              |
| US dollar                           | \$295        | \$338        | \$76         | \$117        |
| euro                                | €60          | €62          | €60          | €62          |
| Japanese yen                        |              | ¥14,259      |              | ¥14,259      |
| Sterling                            | £198         | £240         | £79          | £102         |
|                                     | 433          | 584          | 174          | 310          |
| Fixed rate bonds:                   |              |              |              |              |
| Sterling                            | £249         | £249         | £249         | £249         |
| Loans from subsidiary undertakings: |              |              |              |              |
| US dollar                           |              |              | \$233        | \$229        |
| euro                                |              |              | €300         | €300         |
|                                     |              |              | 385          | 392          |
| <b>Finance leases:</b>              |              |              |              |              |
| US dollar                           | \$3,209      | \$2,701      | 3,197        | \$2,685      |
| euro                                | €1,071       | €416         | €1,071       | €416         |
| Japanese yen                        | ¥37,104      | ¥18,557      | ¥37,104      | ¥18,557      |
| Sterling                            | £771         | £874         | £878         | £1,000       |
|                                     | 3,867        | 2,985        | 3,967        | 3,101        |
| <b>As at 31 December</b>            | <b>4,549</b> | <b>3,818</b> | <b>4,775</b> | <b>4,052</b> |

### e Obligations under finance leases and hire purchase contracts

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

| £ million   | Group        |              | Company      |              |
|---|--------------|--------------|--------------|--------------|
|   | 2014         | 2013         | 2014         | 2013         |
| Future minimum payments due:  |              |              |              |              |
| Within one year   | 408          | 289          | 431          | 312          |
| After more than one year but within five years  | 1,788        | 1,531        | 1,878        | 1,628        |
| In five years or more   | 2,308        | 1,531        | 2,308        | 1,547        |
|   | 4,504        | 3,351        | 4,617        | 3,487        |
| Less: finance charges   | 637          | 366          | 650          | 386          |
| Present value of minimum lease and hire purchase payments                             | 3,867        | 2,985        | 3,967        | 3,101        |
| The present value of minimum lease and hire purchase payments is analysed as follows: |              |              |              |              |
| Within one year   | 316          | 224          | 335          | 240          |
| After more than one year but within five years  | 1,507        | 1,343        | 1,588        | 1,427        |
| In five years or more   | 2,044        | 1,418        | 2,044        | 1,434        |
| <b>As at 31 December</b>  | <b>3,867</b> | <b>2,985</b> | <b>3,967</b> | <b>3,101</b> |

## 24 Operating lease commitments

The Group has entered into commercial leases on certain properties and aircraft. These leases have durations ranging from five years for aircraft to 132 years for ground leases. Certain leases contain options for renewal.

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

### a Fleet

| £ million                  | Group      |            | Company    |            |
|----------------------------|------------|------------|------------|------------|
|                            | 2014       | 2013       | 2014       | 2013       |
| Within one year            | 125        | 98         | 118        | 93         |
| Between one and five years | 415        | 353        | 399        | 349        |
| Over five years            | 195        | 206        | 194        | 206        |
| <b>As at 31 December</b>   | <b>735</b> | <b>657</b> | <b>711</b> | <b>648</b> |

### b Property

| £ million                  | Group        |              | Company      |              |
|----------------------------|--------------|--------------|--------------|--------------|
|                            | 2014         | 2013         | 2014         | 2013         |
| Within one year            | 83           | 85           | 80           | 82           |
| Between one and five years | 230          | 249          | 223          | 241          |
| Over five years            | 1,594        | 1,641        | 1,594        | 1,641        |
| <b>As at 31 December</b>   | <b>1,907</b> | <b>1,975</b> | <b>1,897</b> | <b>1,964</b> |

### c Sub-leasing

The Group and Company sub-lease surplus rental properties and aircraft assets held under non-cancellable operating leases to third parties and subsidiary companies. These leases have remaining terms of one to 23 years. Future minimum rentals receivable under non-cancellable operating leases are as follows:

| £ million                  | Group     |           | Company   |           |
|----------------------------|-----------|-----------|-----------|-----------|
|                            | 2014      | 2013      | 2014      | 2013      |
| Within one year            | 4         | 5         | 4         | 5         |
| Between one and five years | 4         | 7         | 4         | 7         |
| Over five years            | 2         | 2         | 2         | 2         |
| <b>As at 31 December</b>   | <b>10</b> | <b>14</b> | <b>10</b> | <b>14</b> |

## 25 Provisions for liabilities

|                               |                          |               |              |           | Group      |
|-------------------------------|--------------------------|---------------|--------------|-----------|------------|
| £ million                     | Restoration and handback | Restructuring | Legal claims | Other     | Total      |
| Balance at 1 January 2014     |                          |               |              |           |            |
| Current                       | 32                       | 14            | 25           | 66        | 137        |
| Non-current                   | 156                      |               | 1            | 28        | 185        |
|                               | 188                      | 14            | 26           | 94        | 322        |
| Arising during the year       | 38                       | 41            |              | 42        | 121        |
| Utilised                      | (19)                     | (11)          | (15)         | (33)      | (78)       |
| Release of unused amounts     | (4)                      | (2)           | (7)          | (22)      | (35)       |
| Exchange differences          | 3                        |               |              | 1         | 4          |
| Unwinding of discount         | 1                        |               |              | 2         | 3          |
| <b>As at 31 December 2014</b> | <b>207</b>               | <b>42</b>     | <b>4</b>     | <b>84</b> | <b>337</b> |
| Analysis:                     |                          |               |              |           |            |
| Current                       | 19                       | 42            | 3            | 63        | 127        |
| Non-current                   | 188                      |               | 1            | 21        | 210        |
|                               | 207                      | 42            | 4            | 84        | 337        |

  

|                               |                          |               |              |           | Company    |
|-------------------------------|--------------------------|---------------|--------------|-----------|------------|
| £ million                     | Restoration and handback | Restructuring | Legal claims | Other     | Total      |
| Balance at 1 January 2014     |                          |               |              |           |            |
| Current                       | 15                       | 13            | 25           | 41        | 94         |
| Non-current                   | 100                      |               | 1            | 11        | 112        |
|                               | 115                      | 13            | 26           | 52        | 206        |
| Arising during the year       | 16                       | 41            |              | 39        | 96         |
| Utilised                      | (3)                      | (10)          | (15)         | (23)      | (51)       |
| Release of unused amounts     | (2)                      | (2)           | (7)          | (12)      | (23)       |
| Exchange differences          |                          |               |              |           |            |
| Unwinding of discount         | 1                        |               |              |           | 1          |
| <b>As at 31 December 2014</b> | <b>127</b>               | <b>42</b>     | <b>4</b>     | <b>56</b> | <b>229</b> |
| Analysis:                     |                          |               |              |           |            |
| Current                       | 6                        | 42            | 3            | 45        | 96         |
| Non-current                   | 121                      |               | 1            | 11        | 133        |
|                               | 127                      | 42            | 4            | 56        | 229        |

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

The Group is subject to investigations into cargo and/or passenger fuel surcharges and related litigation in various jurisdictions and during the year £7 million was paid in relation to these (2013: £28 million). The Group is also subject to multi-party claims from groups of employees on a number of matters relating to its operations including claims for additional holiday pay and for age discrimination. During the year settlements were reached with regards to some of these claims. The final amount required to pay the remaining claims and fines is subject to uncertainty.

Other provisions include: compensation due to customers whose flights were significantly delayed, unless the airline can prove that the delay was caused by circumstances beyond its control; a provision for the EU Emissions Trading Scheme that represents the excess of BA's CO<sub>2</sub> emitted on a flight within the EU in excess of the EU Emission Allowances granted; and provisions relating to unfavourable contracts.

## 26 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Group Treasury carries out financial risk management under governance approved by the Board. Group Treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

### a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy, as approved by the IAG Management Committee, is to hedge between 70 per cent and 100 per cent of fuel consumption for the next quarter; an average of 45 per cent between quarters two and five (with an average flexibility of plus 15/minus 10 per cent); and 10 per cent between quarters six and eight, with the flexibility to hedge up to 20 per cent in quarters nine to twelve.

In implementing the strategy, the fuel risk management programme allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

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

|  |  |                               | Group and Company                          |  |                               |
|--|--|-------------------------------|--|--|-------------------------------|
| 2014                                       |  |                               | 2013                                       |  |                               |
| Increase/(decrease) in fuel price per cent | Effect on profit before tax<br>£ million | Effect on equity<br>£ million | Increase/(decrease) in fuel price per cent | Effect on profit before tax<br>£ million | Effect on equity<br>£ million |
|  | Increase/(decrease)                      | Increase/(decrease)           |  | Increase/(decrease)                      | Increase/(decrease)           |
| 30   | (6)                                      | 496                           | 30   | (4)                                      | 632                           |
| (30)                                       | 8  | (508)                         | (30)                                       | (20)                                     | (552)                         |

## 26 Financial risk management objectives and policies continued

### b Foreign currency risk

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

The Group can experience adverse or beneficial effects arising from foreign exchange rate movements. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US dollars or pounds sterling. Forward foreign exchange contracts and currency options are used to cover near-term future revenues and operating payments in a variety of currencies.

The Group has substantial liabilities denominated in US dollar, euro and yen.

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

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

|             | Strengthening/<br>(weakening)<br>in US dollar<br>rate<br>per cent | Effect on<br>profit<br>before tax<br>£ million | Effect on<br>equity<br>£ million | Strengthening/<br>(weakening)<br>in euro rate<br>per cent | Effect on<br>profit<br>before tax<br>£ million | Effect on<br>equity<br>£ million | Strengthening/<br>(weakening)<br>in yen rate<br>per cent | Effect on<br>profit<br>before tax<br>£ million | Effect on<br>equity<br>£ million |
|-------------|---|--|----------------------------------|---|--|----------------------------------|--|--|----------------------------------|
| Group       | Increase<br>/(decrease)   | Increase<br>/(decrease)                        | Increase<br>/(decrease)          | Increase<br>/(decrease)                                   | Increase<br>/(decrease)                        | Increase<br>/(decrease)          | Increase<br>/(decrease)                                  | Increase<br>/(decrease)                        | Increase<br>/(decrease)          |
| <b>2014</b> | <b>10</b><br><b>(10)</b>  | <b>(2)</b><br><b>2</b>                         | <b>(158)</b><br><b>154</b>       | <b>10</b><br><b>(10)</b>                                  | <b>2</b><br><b>(2)</b>                         | <b>(127)</b><br><b>120</b>       | <b>10</b><br><b>(10)</b>                                 | <b>(2)</b><br><b>2</b>                         | <b>(19)</b><br><b>19</b>         |
| <i>2013</i> | <i>10</i><br><i>(10)</i>  | <i>9</i><br><i>(9)</i>                         | <i>10</i><br><i>(6)</i>          | <i>10</i><br><i>(10)</i>                                  | <i>(2)</i><br><i>2</i>                         | <i>(108)</i><br><i>116</i>       | <i>10</i><br><i>(10)</i>                                 | <i>(3)</i><br><i>3</i>                         | <i>(18)</i><br><i>18</i>         |

### c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been a £1 million favourable (2013: £1 million adverse) impact on the Group and Company's shareholders' equity and income statement. A 50 basis point decrease in interest rates would have resulted in a £1 million adverse (2013: £1 million favourable) impact on shareholders equity and the income statement for both the Group and the Company.

## 26 Financial risk management objectives and policies continued

### d Credit risk

The Group is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable. However, the Group has policies and procedures in place to ensure credit risk is limited by placing credit limits on each counterparty. The Group continuously monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities, which include placing money market deposits, fuel hedging and foreign currency transactions could lead to a concentration of different credit risks on the same counterparty. This risk is managed by the allocation of an overall exposure limit for the counterparty that is then allocated down to specific treasury activities for that party. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings and credit default swap levels. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 27.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 32.

### e Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Company's long-term corporate debt ratings as at 31 December 2014 assigned by Moody's and Standard and Poor's, respectively, were Ba3 and BB. The Group has adequate cash reserves to meet operating requirements for the next 12 months.

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

At 31 December 2014 the Group and Company had unused overdraft facilities of £10 million (2013: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 December 2014 (2013: £25 million).

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

| million                                    | 31 December 2014 |              |
|--|------------------|--------------|
|  | Currency         | £ equivalent |
| US dollar facility expiring October 2015   | \$805            | 515          |
| Euro facility expiring November 2015       | €262             | 206          |
| Renminbi facility expiring November 2015   | RMB750           | 77           |
| US dollar facility expiring September 2016 | \$644            | 412          |
| US dollar facility expiring October 2016   | \$509            | 325          |
| US dollar facility expiring December 2021  | \$1,164          | 745          |

Financing facilities sourced from the prior year issuance of the Group's EETC (\$927 million) and related JOLCO facility (\$369 million) were fully drawn down as at 31 December 2014.

| million                                     | 31 December 2013 |              |
|---|------------------|--------------|
|   | Currency         | £ equivalent |
| US dollar facilities expiring December 2014 | \$936            | 573          |
| US dollar facility expiring October 2015    | \$805            | 493          |
| US dollar facility expiring September 2016  | \$805            | 493          |
| US dollar facility expiring October 2016    | \$509            | 311          |
| US dollar facility expiring December 2021   | \$1,164          | 712          |

## 26 Financial risk management objectives and policies continued

### e Liquidity risk continued

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

| £ million                                   | Group           |               |              |                |                   |
|---|-----------------|---------------|--------------|----------------|-------------------|
|   | Within 6 months | 6 - 12 months | 1 - 2 years  | 2 - 5 years    | More than 5 years |
| <b>Financial Assets</b>                     |                 |               |              |                | <b>Total 2014</b> |
| Cash and cash equivalents                   | 674             |               |              |                | 674               |
| Other current interest-bearing deposits     | 1,213           | 636           |              |                | 1,849             |
| Trade receivables                           | 531             |               |              |                | 531               |
| Other current assets                        | 84              |               |              |                | 84                |
| Other non-current assets                    |                 |               | 52           |                | 52                |
| Derivative financial instruments:           |                 |               |              |                |                   |
| Forward currency contracts                  | 38              | 28            | 18           |                | 84                |
| Currency option contracts                   | 1               | 3             |              |                | 4                 |
| <b>Financial Liabilities</b>                |                 |               |              |                |                   |
| Interest-bearing loans and borrowings:      |                 |               |              |                |                   |
| Finance lease and hire purchase obligations | (207)           | (201)         | (411)        | (1,377)        | (2,308)           |
| Fixed rate borrowings                       | (28)            | (38)          | (340)        | (97)           | (56)              |
| Floating rate borrowings                    | (29)            | (54)          | (62)         | (34)           | (33)              |
| Trade and other payables                    | (1,505)         |               |              |                |                   |
| Derivative financial instruments:           |                 |               |              |                |                   |
| Fuel derivatives                            | (447)           | (244)         | (139)        |                |                   |
| <b>As at 31 December</b>                    | <b>325</b>      | <b>130</b>    | <b>(882)</b> | <b>(1,508)</b> | <b>(2,397)</b>    |

| £ million                                   | Group           |               |              |                |                   |
|---|-----------------|---------------|--------------|----------------|-------------------|
|   | Within 6 months | 6 - 12 months | 1 - 2 years  | 2 - 5 years    | More than 5 years |
| <b>Financial Assets</b>                     |                 |               |              |                | <b>Total 2013</b> |
| Cash and cash equivalents                   | 630             |               |              |                | 630               |
| Other current interest-bearing deposits     | 594             | 634           |              |                | 1,228             |
| Trade receivables                           | 533             |               |              |                | 533               |
| Other current assets                        | 94              |               |              |                | 94                |
| Other non-current assets                    |                 |               | 46           |                | 46                |
| Derivative financial instruments:           |                 |               |              |                |                   |
| Forward currency contracts                  | 1               | 1             |              |                | 2                 |
| Fuel derivatives                            | 60              | 23            | 7            |                | 90                |
| <b>Financial Liabilities</b>                |                 |               |              |                |                   |
| Interest-bearing loans and borrowings:      |                 |               |              |                |                   |
| Finance lease and hire purchase obligations | (139)           | (150)         | (439)        | (1,092)        | (1,531)           |
| Fixed rate borrowings                       | (27)            | (35)          | (63)         | (408)          | (61)              |
| Floating rate borrowings                    | (72)            | (44)          | (110)        | (90)           | (43)              |
| Trade and other payables                    | (1,614)         |               |              |                |                   |
| Derivative financial instruments:           |                 |               |              |                |                   |
| Cross currency swaps                        |                 |               | (1)          | (1)            |                   |
| Forward currency contracts                  | (28)            | (17)          | (7)          |                |                   |
| Fuel derivatives                            | (1)             |               |              |                |                   |
| Currency option contracts                   | (2)             | (3)           | (2)          |                |                   |
| <b>As at 31 December</b>                    | <b>29</b>       | <b>409</b>    | <b>(569)</b> | <b>(1,591)</b> | <b>(1,635)</b>    |

## 26 Financial risk management objectives and policies continued

### e Liquidity risk continued

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

|   | Company         |               |              |                |                   |                |
|---|-----------------|---------------|--------------|----------------|-------------------|----------------|
| £ million                                   | Within 6 months | 6 - 12 months | 1 - 2 years  | 2 - 5 years    | More than 5 years | Total 2014     |
| <b>Financial Assets</b>                     |                 |               |              |                |                   |                |
| Cash and cash equivalents                   | 619             |               |              |                |                   | 619            |
| Other current interest-bearing deposits     | 1,213           | 636           |              |                |                   | 1,849          |
| Trade receivables                           | 516             |               |              |                |                   | 516            |
| Other current assets                        | 353             |               |              |                |                   | 353            |
| Other non-current assets                    |                 |               | 195          |                |                   | 195            |
| Derivative financial instruments:           |                 |               |              |                |                   |                |
| Forward currency contracts                  | 38              | 28            | 18           |                |                   | 84             |
| Currency option contracts                   | 1               | 3             |              |                |                   | 4              |
| <b>Financial Liabilities</b>                |                 |               |              |                |                   |                |
| Interest-bearing loans and borrowings:      |                 |               |              |                |                   |                |
| Finance lease and hire purchase obligations | (218)           | (213)         | (436)        | (1,442)        | (2,308)           | (4,617)        |
| Fixed rate borrowings                       | (11)            | (11)          | (271)        |                |                   | (293)          |
| Floating rate borrowings                    | (21)            | (52)          | (52)         | (20)           | (34)              | (179)          |
| Trade and other payables                    | (3,132)         |               |              |                |                   | (3,132)        |
| Derivative financial instruments:           |                 |               |              |                |                   |                |
| Fuel derivatives                            | (447)           | (244)         | (139)        |                |                   | (830)          |
| <b>As at 31 December</b>                    | <b>(1,089)</b>  | <b>147</b>    | <b>(685)</b> | <b>(1,462)</b> | <b>(2,342)</b>    | <b>(5,431)</b> |

|   |                 |               |             |             |                   | Company    |
|---|-----------------|---------------|-------------|-------------|-------------------|------------|
| £ million                                   | Within 6 months | 6 - 12 months | 1 - 2 years | 2 - 5 years | More than 5 years | Total 2013 |
| <b>Financial Assets</b>                     |                 |               |             |             |                   |            |
| Cash and cash equivalents                   | 562             |               |             |             |                   | 562        |
| Other current interest-bearing deposits     | 594             | 634           |             |             |                   | 1,228      |
| Trade receivables                           | 522             |               |             |             |                   | 522        |
| Other current assets                        | 345             |               |             |             |                   | 345        |
| Other non-current assets                    |                 |               | 193         |             |                   | 193        |
| Derivative financial instruments:           |                 |               |             |             |                   |            |
| Forward currency contracts                  | 1               | 1             |             |             |                   | 2          |
| Fuel derivatives                            | 60              | 23            | 7           |             |                   | 90         |
| <b>Financial Liabilities</b>                |                 |               |             |             |                   |            |
| Interest-bearing loans and borrowings:      |                 |               |             |             |                   |            |
| Finance lease and hire purchase obligations | (150)           | (162)         | (462)       | (1,166)     | (1,547)           | (3,487)    |
| Fixed rate borrowings                       | (28)            | (29)          | (57)        | (378)       | (661)             | (1,153)    |
| Floating rate borrowings                    | (65)            | (42)          | (101)       | (70)        | (40)              | (318)      |
| Trade and other payables                    | (4,077)         |               |             |             |                   | (4,077)    |
| Derivative financial instruments:           |                 |               |             |             |                   |            |
| Cross currency swaps                        |                 |               | (1)         | (1)         |                   | (2)        |
| Forward currency contracts                  | (28)            | (17)          | (7)         |             |                   | (52)       |
| Fuel derivatives                            | (1)             |               |             |             |                   | (1)        |
| Currency option contracts                   | (2)             | (3)           | (2)         |             |                   | (7)        |
| As at 31 December                           | (2,267)         | 405           | (430)       | (1,615)     | (2,248)           | (6,155)    |



## 26 Financial risk management objectives and policies continued

### f Master netting or similar agreements

The Group enters into derivative transactions under master netting agreements. 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. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated. The termination value is assessed and only a single amount is payable in settlement of all transactions.

Certain transactions do not meet the criteria for offsetting in the balance sheet. This is because the Group does not have any current legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

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

| £ million                    | Group and Company                    |  |   |   |              |
|------------------------------|--------------------------------------|--|---|---|--------------|
|                              | Gross value of financial instruments | Financial instruments that are offset under netting agreements | Net amounts of financial instruments in the balance sheet | Related financial instruments that are not offset | Net amount   |
| <b>31 December 2014</b>      |                                      |  |   |   |              |
| <b>Financial assets</b>      |                                      |  |   |   |              |
| - Forward currency contracts | 84                                   |  | 84  |   | 84           |
| - Currency option contracts  | 4                                    |  | 4   |   | 4            |
| - Fuel derivatives           | 4                                    | (4)  |   |   |              |
|                              | 92                                   | (4)  | 88  |   | <b>88</b>    |
| <b>Financial liabilities</b> |                                      |  |   |   |              |
| - Fuel derivatives           | (834)                                | 4  | (830)   |   | <b>(830)</b> |
|                              | (834)                                | 4  | (830)   |   | <b>(830)</b> |
|                              | <b>(742)</b>                         |  | <b>(742)</b>  |   | <b>(742)</b> |

| £ million                    | Group and Company                    |  |   |   |            |
|------------------------------|--------------------------------------|--|---|---|------------|
|                              | Gross value of financial instruments | Financial instruments that are offset under netting agreements | Net amounts of financial instruments in the balance sheet | Related financial instruments that are not offset | Net amount |
| <b>31 December 2013</b>      |                                      |  |   |   |            |
| <b>Financial assets</b>      |                                      |  |   |   |            |
| - Forward currency contracts | 2                                    |  | 2   | (2)   |            |
| - Currency option contracts  | 2                                    | (2)  |   |   |            |
| - Fuel derivatives           | 110                                  | (20)   | 90  | (1)   | 89         |
|                              | 114                                  | (22)   | 92  | (3)   | 89         |
| <b>Financial liabilities</b> |                                      |  |   |   |            |
| - Forward currency contracts | (52)                                 |  | (52)  | 2   | (50)       |
| - Currency option contracts  | (9)                                  | 2  | (7)   |   | (7)        |
| - Cross currency swaps       | (2)                                  |  | (2)   |   | (2)        |
| - Fuel derivatives           | (21)                                 | 20   | (1)   | 1   |            |
|                              | (84)                                 | 22   | (62)  | 3   | (59)       |
|                              | 30                                   |  | 30  |   | 30         |

### g Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, net debt as a percentage of total capital. Net debt is defined as the total borrowings, finance leases and hire purchase liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts. Total capital is defined as the total of capital, reserves, non-controlling interests (see note 30a) and net debt.

## 27 Financial instruments

### a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2014 and 31 December 2013 by nature and classification for measurement purposes is as follows:

#### At 31 December 2014

| £ million                              | Financial assets      |                              |                    | Non-financial assets | Group                 |
|--|-----------------------|------------------------------|--------------------|----------------------|-----------------------|
|  | Loans and receivables | Derivatives used for hedging | Available for sale |                      | Total carrying amount |
| <b>Non-current financial assets</b>    |                       |                              |                    |                      |                       |
| Available-for-sale financial assets    |                       |                              | 63                 |                      | 63                    |
| Derivative financial instruments       |                       | 18                           |                    |                      | 18                    |
| Other non-current assets <sup>1</sup>  | 52                    |                              |                    | 17                   | 69                    |
| <b>Current financial assets</b>        |                       |                              |                    |                      |                       |
| Trade receivables                      | 531                   |                              |                    |                      | 531                   |
| Derivative financial instruments       |                       | 70                           |                    |                      | 70                    |
| Other current assets <sup>1</sup>      | 84                    |                              |                    | 242                  | 326                   |
| Other current interest-bearing deposit | 1,849                 |                              |                    |                      | 1,849                 |
| Cash and cash equivalents              | 674                   |                              |                    |                      | 674                   |

<sup>1</sup> Within the Company, total other non-current assets are £195 million, all of which are classified as loans and receivables. Total other current assets in the Company were £470 million, of which £328 million were considered loans and receivables and £142 million were non-financial assets.

| £ million                                | Financial liabilities |                              | Non-financial liabilities | Group                 |
|--|-----------------------|------------------------------|---------------------------|-----------------------|
|  | Loans and payables    | Derivatives used for hedging |                           | Total carrying amount |
| <b>Non-current financial liabilities</b> |                       |                              |                           |                       |
| Interest-bearing long-term borrowings    | 4,121                 |                              |                           | <b>4,121</b>          |
| Derivative financial instruments         |                       | 139                          |                           | <b>139</b>            |
| Other long-term liabilities¹             | 4                     |                              | 86                        | <b>90</b>             |
| <b>Current financial liabilities</b>     |                       |                              |                           |                       |
| Current portion of long-term borrowings  | 428                   |                              |                           | <b>428</b>            |
| Trade and other payables¹                | 1,505                 |                              | 2,715                     | <b>4,220</b>          |
| Derivative financial instruments         |                       | 691                          |                           | <b>691</b>            |

<sup>1</sup> Within the Company, total other long-term liabilities were £60 million, all of which are classified as non-financial liabilities. Total trade and other payables in the Company were £5,595 million, of which £3,132 million were loans and payables and £2,463 million were non-financial liabilities.

## 27 Financial instruments continued

### a Financial assets and liabilities by category continued

At 31 December 2013

| <i>£ million</i>                        | <i>Financial assets</i>      |                                     |                           | <i>Group</i>                 |
|---|------------------------------|-------------------------------------|---------------------------|------------------------------|
|   | <i>Loans and receivables</i> | <i>Derivatives used for hedging</i> | <i>Available for sale</i> | <i>Total carrying amount</i> |
| <b>Non-current financial assets</b>     |                              |                                     |                           |                              |
| Available-for-sale financial assets     |                              |                                     | 39                        | 39                           |
| Derivative financial instruments        |                              | 8                                   |                           | 8                            |
| Other non-current assets <sup>1</sup>   | 46                           |                                     |                           | 59                           |
| <b>Current financial assets</b>         |                              |                                     |                           |                              |
| Trade receivables                       | 533                          |                                     |                           | 533                          |
| Derivative financial instruments        |                              | 84                                  |                           | 84                           |
| Other current assets <sup>1</sup>       | 94                           |                                     |                           | 338                          |
| Other current interest-bearing deposits | 1,220                        |                                     |                           | 1,220                        |
| Cash and cash equivalents               | 630                          |                                     |                           | 630                          |

<sup>1</sup> Within the Company, total other non-current assets are £193 million, all of which are classified as loans and receivables. Total other current assets in the Company are £496 million, of which £345 million are considered loans and receivables and £151 million are non-financial assets.

| <i>£ million</i>                         | <i>Financial liabilities</i> |                                     |                                  | <i>Group</i>                 |
|--|------------------------------|-------------------------------------|----------------------------------|------------------------------|
|  | <i>Loans and payables</i>    | <i>Derivatives used for hedging</i> | <i>Non-financial liabilities</i> | <i>Total carrying amount</i> |
| <b>Non-current financial liabilities</b> |                              |                                     |                                  |                              |
| Interest-bearing long-term borrowings    | 3,453                        |                                     |                                  | 3,453                        |
| Derivative financial instruments         |                              | 11                                  |                                  | 11                           |
| Other long-term liabilities <sup>1</sup> | 4                            |                                     | 123                              | 127                          |
| <b>Current financial liabilities</b>     |                              |                                     |                                  |                              |
| Current portion of long-term borrowings  | 365                          |                                     |                                  | 365                          |
| Trade and other payables <sup>1</sup>    | 1,614                        |                                     | 2,459                            | 4,073                        |
| Derivative financial instruments         |                              | 51                                  |                                  | 51                           |

<sup>1</sup> Within the Company, the total of other long-term liabilities were £98 million, all of which are classified as non-financial liabilities. Total trade and other payables in the Company were £6,414 million, of which £4,077 million are considered loans and payables and £2,337 million are non-financial liabilities.

## 27 Financial instruments continued

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2014 are set out below:

| £ million   | Fair value |         |         |       | Group          |
|---|------------|---------|---------|-------|----------------|
|   | Level 1    | Level 2 | Level 3 | Total | Carrying value |
|   |            |         |         |       | Total          |
| <b>Financial assets:</b>                            |            |         |         |       |                |
| Available-for-sale financial assets <sup>1</sup>    | 19         |         | 44      | 63    | 63             |
| Forward currency contracts <sup>2</sup>             |            | 84      |         | 84    | 84             |
| Currency option contracts <sup>2</sup>              |            | 4       |         | 4     | 4              |
| <b>Financial liabilities:</b>                       |            |         |         |       |                |
| Interest-bearing loans and borrowings: <sup>1</sup> |            |         |         |       |                |
| Finance lease and hire purchase obligations         |            | 4,101   |         | 4,101 | 3,867          |
| Fixed rate borrowings                               | 273        | 247     |         | 520   | 476            |
| Floating rate borrowings                            |            | 206     |         | 206   | 206            |
| Cross currency swaps <sup>3</sup>                   |            | 1       |         | 1     | 1              |
| Fuel derivatives <sup>3</sup>                       |            | 830     |         | 830   | 830            |

<sup>1</sup> Within the Company, available-for-sale financial assets of £48 million are fair valued at £48 million (Level 1: £4 million and Level 3: £44 million), finance lease and hire purchase obligations of £3,967 million are fair valued at £4,211 million (Level 2), fixed rate borrowings of £634 million are fair valued at £674 million (Level 1: £508 million and Level 2: £166 million) and floating rate borrowings of £174 million are fair valued at £174 million (Level 2).

<sup>2</sup> Current portion of derivative financial assets is £70 million.

<sup>3</sup> Current portion of derivative financial liabilities is £691 million.

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2013 are set out below:

| £ million   | Fair value |         |         |       | Group          |
|---|------------|---------|---------|-------|----------------|
|   | Level 1    | Level 2 | Level 3 | Total | Carrying value |
|   |            |         |         |       | Total          |
| <b>Financial assets:</b>                            |            |         |         |       |                |
| Available-for-sale financial assets <sup>1</sup>    | 29         |         | 10      | 39    | 39             |
| Forward currency contracts <sup>2</sup>             |            | 2       |         | 2     | 2              |
| Fuel derivatives <sup>2</sup>                       |            | 90      |         | 90    | 90             |
| <b>Financial liabilities:</b>                       |            |         |         |       |                |
| Interest-bearing loans and borrowings: <sup>1</sup> |            |         |         |       |                |
| Finance lease and hire purchase obligations         |            | 3,125   |         | 3,125 | 2,985          |
| Fixed rate borrowings                               | 282        | 255     |         | 537   | 483            |
| Floating rate borrowings                            |            | 350     |         | 350   | 350            |
| Cross currency swaps <sup>3</sup>                   |            | 2       |         | 2     | 2              |
| Fuel derivatives <sup>3</sup>                       |            | 1       |         | 1     | 1              |
| Forward currency contracts <sup>3</sup>             |            | 52      |         | 52    | 52             |
| Currency option contracts <sup>3</sup>              |            | 7       |         | 7     | 7              |

<sup>1</sup> Within the Company, available-for-sale financial assets of £17 million are fair valued at £17 million (Level 1: £7 million and Level 3: £10 million), finance lease and hire purchase obligations of £3,101 million are fair valued at £3,254 million (Level 2), fixed rate borrowings of £641 million are fair valued at £671 million (Level 1: £517 million and Level 2: £155 million) and floating rate borrowings of £310 million are fair valued at £310 million (Level 2).

<sup>2</sup> Current portion of derivative financial assets is £84 million.

<sup>3</sup> Current portion of derivative financial liabilities is £51 million.

## 27 Financial instruments continued

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

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

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

#### Available-for-sale financial assets and loan notes

Listed fixed asset investments (Level 1) are stated at market value as at 31 December 2014. For unquoted investments (Level 3) where the fair value cannot be measured reliably, the investment is stated at historic cost less accumulated impairment losses.

#### Forward currency transactions and over-the-counter (OTC) fuel derivatives

These derivatives are entered into with various counter-parties, principally financial institutions with investment grade ratings. These are measured at the market value of instruments with similar terms and conditions at the balance sheet date (Level 2) using forward pricing models. Changes in counterparty and own credit risk are deemed to be not significant.

#### Bank and other loans, finance leases, hire purchase arrangements and the non-Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

The fair value of the Group's interest-bearing borrowings and loans including leases, are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2014 (Level 2).

#### Euro-sterling bond 2016

This is stated at quoted market value (Level 1).

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

### c Level 3 financial assets reconciliation

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

| £ million  | Group     |           | Company   |           |
|--|-----------|-----------|-----------|-----------|
|  | 2014      | 2013      | 2014      | 2013      |
| Balance at 1 January   | 10        | 16        | 10        | 16        |
| Repayment of loan notes (classified as available-for-sale financial assets)        | (5)       | (5)       | (5)       | (5)       |
| Interest accrued on loan notes (classified as available-for-sale financial assets) | 1         | 1         | 1         | 1         |
| Fair value uplift on available-for-sale financial asset <sup>1</sup>               | 38        |           | 38        |           |
| Sale of available-for-sale financial asset   |           | (2)       |           | (2)       |
| <b>As at 31 December</b>   | <b>44</b> | <b>10</b> | <b>44</b> | <b>10</b> |

<sup>1</sup> During 2014 certain shareholders disposed of their combined interest in The Airline Group Limited, allowing the Group to estimate the fair value of the investment held which resulted in a fair value uplift of £38m in the year ended 31 December 2014.

## 27 Financial instruments continued

### d Cash flow hedges

At 31 December 2014 the Group and Company had four principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency, hedging future foreign exchange risk;
- A hedge of certain short-term revenue receipts by foreign exchange contracts, hedging future foreign exchange risk;
- A hedge of certain short-term foreign currency operational payments by forward exchange contracts, hedging future foreign exchange risk; and
- A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts, hedging future fuel price risk.

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

| £ million                                  | Group and Company |             |           |           |                   | Total<br>2014 |
|--|-------------------|-------------|-----------|-----------|-------------------|---------------|
|  | Within 6 months   | 6-12 months | 1-2 years | 2-5 years | More than 5 years |               |
| Debt repayments to hedge future revenue    | 12                | 5           | 12        | 39        | (35)              | 33            |
| Forward contracts to hedge future payments | (40)              | (30)        | (17)      |           |                   | (87)          |
| Hedges of future fuel purchases            | 451               | 276         | 156       |           |                   | 883           |
|  | 423               | 251         | 151       | 39        | (35)              | 829           |
| Related deferred tax (credit)              |                   |             |           |           |                   | (165)         |
| <b>Total amount included within equity</b> |                   |             |           |           |                   | <b>664</b>    |

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

|  |              | Group and Company |
|--|--------------|-------------------|
| million  |              | Notional amount   |
| To hedge future currency revenues against US dollars |              | \$730             |
| To hedge future operating payments in US dollars     |              | \$1,483           |
| Hedges of future fuel purchases                      |              | \$4,090           |
| Debt repayments to hedge future revenue              | - US dollars | \$3,307           |
|  | - euro       | €1,130            |
|  | - yen        | ¥34,335           |

### 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.

## 27 Financial instruments continued

### d Cash flow hedges continued

| Group and Company                          |                        |                      |                    |                    |                          |                   |
|--|------------------------|----------------------|--------------------|--------------------|--------------------------|-------------------|
| <i>£ million</i>                           | <i>Within 6 months</i> | <i>6 - 12 months</i> | <i>1 - 2 years</i> | <i>2 - 5 years</i> | <i>More than 5 years</i> | <i>Total 2013</i> |
| Debt repayments to hedge future revenue    | 12                     | 7                    | 12                 | 24                 | (57)                     | (2)               |
| Forward contracts to hedge future payments | 27                     | 19                   | 9                  |                    |                          | 55                |
| Hedges of future fuel purchases            | (52)                   | (20)                 | (5)                |                    |                          | (77)              |
|  | (13)                   | 6                    | 16                 | 24                 | (57)                     | (24)              |
| Related deferred tax charge                | 2                      | (1)                  | (3)                | (5)                | 12                       | 5                 |
| <b>Total amount included within equity</b> |                        |                      |                    |                    |                          | <b>(19)</b>       |

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

| Group and Company                                     |                        |
|---|------------------------|
| <i>million</i>  | <i>Notional amount</i> |
| To hedge future currency revenues against US dollars  | \$1,225                |
| To hedge future operating payments against US dollars | \$1,530                |
| Hedges of future fuel purchases                       | \$3,574                |
| Debt repayments to hedge future revenue               | \$2,832                |
| - US dollars  | € 478                  |
| - euro  | ¥30,177                |
| - yen   |                        |

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a loss of £37 million (2013: £17 million gain). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases.

## 28 Share capital and share premium

| Group and Company                                       |                       |            |                       |            |
|---|-----------------------|------------|-----------------------|------------|
|   | 2014                  |            | 2013                  |            |
|   | 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> |

| Group and Company               |              |              |
|---------------------------------|--------------|--------------|
| <i>£ million</i>                | <b>2014</b>  | <i>2013</i>  |
| Share premium as at 31 December | <b>1,512</b> | <i>1,512</i> |

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.

## 29 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement of specified performance targets by the BA Group for BA granted options and by the IAG Group for IAG granted shares.

The share-based payments charge has been recorded as part of 'employee costs' (note 8) in the income statement as follows:

| £ million   | 2014      | 2013      |
|---|-----------|-----------|
| BA granted schemes (a)  |           | 5         |
| IPSP and IDBP schemes recharged from IAG (b)                        | 11        | 9         |
| <b>Total share-based payments charge recorded in employee costs</b> | <b>11</b> | <b>14</b> |

### a BA granted schemes

The share-based payment charge for BA granted schemes relates to the British Airways Performance Share Plan 2005 (PSP) – based on Total Shareholder Return performance conditions – and the British Airways Deferred Share Plan 2005 (DSP) – based on a service condition which requires employees to remain in employment for three years after the grant date. Shares issued under both the PSP and the DSP are at no cost to the employee. During 2013, the remaining PSP options lapsed as the performance conditions were not met. For the DSP options, the service condition was met and all outstanding options were exercised.

The Group also has the British Airways Share Option Plan 1999 (SOP), from which options granted in 2004 and 2005 have vested and can be exercised at a set option exercise price at any time until the 10<sup>th</sup> anniversary of the date of grant.

Outstanding options from BA granted schemes are set out below:

|  | Outstanding number of shares (millions)     |          |                    |      |
|--|---|----------|--------------------|------|
|  | Options with an exercise price <sup>3</sup> |          | Options at no cost |      |
|  | 2014  | 2013     | 2014               | 2013 |
| As at 1 January                        | 3   | 5        |                    | 11   |
| Exercised during the year <sup>1</sup> | (2)   | (2)      |                    | (5)  |
| Expired/cancelled                      |   |          |                    | (6)  |
| <b>As at 31 December<sup>2</sup></b>   | <b>1</b>                                    | <b>3</b> |                    |      |
| Of which exercisable                   | 1   | 3        |                    |      |

<sup>1</sup> The average share price at the date of exercise for options exercised was £4.13 (2013: £3.02).

<sup>2</sup> The weighted average remaining life of options is six months (2013: 1.08 years).

<sup>3</sup> The shares outstanding at the year-end have an exercise price of £2.76 (2013: between £2.62 and £2.76).

BA settles all options exercised with IAG shares, held in the balance sheet as 'available-for-sale financial assets'. The Group monitors the number of listed IAG ordinary shares held against the exposure to exercisable options, investing in additional shares at appropriate intervals. At 31 December 2014, 1 million shares were held (2013: 1.8 million).

### b IPSP and IDBP schemes recharged from IAG

BA participates in two IAG share-based payment schemes, with awards to BA employees being made in plans operated by IAG that represent rights over its ordinary shares. The costs of these awards are recharged from IAG based on their determination of award fair values. The amount outstanding at the year end is disclosed in note 33 (related party transactions). A brief description of the schemes is set out below:

#### i) IAG Performance Share Plan

The IAG Performance Share Plan 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. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made in 2011 will vest based 70 per cent on meeting Total Shareholder Return (TSR) performance conditions over three financial years and 30 per cent on achievement of IAG synergy targets. The awards made between 2012 and 2013 will vest based 50 per cent on meeting IAG's TSR performance relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. No payment is required from individuals when the shares are awarded.

#### ii) IAG Incentive Award Deferral Plan

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



## 30 Other reserves and non-controlling interests

### a Group

| £ million  | Retained earnings | Unrealised gains and losses | Currency translation | Equity portion of convertible bond | Total        | Group Non-controlling interests <sup>1</sup> |
|--|-------------------|-----------------------------|----------------------|------------------------------------|--------------|--|
| Restated balance at 1 January 2013                                     | (181)             | (73)                        | 32                   | (137)                              | (359)        | 200  |
| Profit for the year  | 264               |                             |                      |                                    | 264          | 17   |
| Exchange gains   |                   |                             | 1                    |                                    | 1            |  |
| Fair value of cash flow hedges transferred to passenger revenue        |                   | 53                          |                      |                                    | 53           |  |
| Fair value of cash flow hedges transferred to fuel and oil costs       |                   | (21)                        |                      |                                    | (21)         |  |
| Fair value of cash flow hedges transferred to currency differences     |                   | 5                           |                      |                                    | 5            |  |
| Net change in fair value of cash flow hedges                           |                   | 91                          |                      |                                    | 91           |  |
| Share of movements in reserves of associates                           | 1                 |                             |                      |                                    | 1            |  |
| Available-for-sale financial assets - marked to market                 |                   | 15                          |                      |                                    | 15           |  |
| Available-for-sale financial assets - recycled to the income statement |                   | (8)                         |                      |                                    | (8)          |  |
| Pension remeasurements   | 628               |                             |                      |                                    | 628          |  |
| Cost of share-based payments   | (8)               |                             |                      |                                    | (8)          |  |
| Income tax   | (180)             | (29)                        |                      |                                    | (209)        |  |
| Distributions made to holders of perpetual securities                  |                   |                             |                      |                                    |              | (17)   |
| Transfers between reserves   | (137)             |                             |                      | 137                                |              |  |
| <b>Total income and expense for the year</b>                           | <b>568</b>        | <b>106</b>                  | <b>1</b>             | <b>137</b>                         | <b>812</b>   |  |
| <b>Balance at 1 January 2014</b>                                       | <b>387</b>        | <b>33</b>                   | <b>33</b>            |                                    | <b>453</b>   | <b>200</b>                                   |
| Profit for the year  | 686               |                             |                      |                                    | 686          | 16   |
| Exchange losses  |                   |                             | (5)                  |                                    | (5)          |  |
| Fair value of cash flow hedges transferred to passenger revenue        |                   | 17                          |                      |                                    | 17           |  |
| Fair value of cash flow hedges transferred to fuel and oil costs       |                   | 56                          |                      |                                    | 56           |  |
| Fair value of cash flow hedges transferred to currency differences     |                   | 32                          |                      |                                    | 32           |  |
| Net change in fair value of cash flow hedges <sup>2</sup>              |                   | (958)                       |                      |                                    | (958)        |  |
| Share of movement in reserves of associates                            | (72)              |                             |                      |                                    | (72)         |  |
| Available-for-sale financial assets - marked to market                 |                   | 46                          |                      |                                    | 46           |  |
| Available-for-sale financial assets - recycled to the income statement |                   | (9)                         |                      |                                    | (9)          |  |
| Pension remeasurements   | (467)             |                             |                      |                                    | (467)        |  |
| Cost of share-based payments   | (4)               |                             |                      |                                    | (4)          |  |
| Income tax   | 153               | 170                         |                      |                                    | 323          |  |
| Distributions made to holders of perpetual securities                  |                   |                             |                      |                                    |              | (16)   |
| <b>Total income and expense for the year</b>                           | <b>296</b>        | <b>(646)</b>                | <b>(5)</b>           |                                    | <b>(355)</b> |  |
| <b>As at 31 December 2014</b>  | <b>683</b>        | <b>(613)</b>                | <b>28</b>            |                                    | <b>98</b>    | <b>200</b>                                   |

<sup>1</sup> Non-controlling interests comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Limited, a wholly-owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinated guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company. Refer to Note 26g for the disclosure of the Group's Capital risk management.

<sup>2</sup> Significant fair value losses during the year relate to the impact of the average decline in fuel price on fuel derivative contracts outstanding as of 31 December 2014. The amounts held in equity and the period in which cash flows are expected to occur are summarised in Note 27d.

#### 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 available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

#### Currency translation reserve

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

#### Equity portion of convertible bond

Following the conversion of the £350 million 5.8% convertible bond in 2013, £137 million was transferred from other reserves to retained earnings.

## 30 Other reserves and non-controlling interests continued

### b Company

| £ million  | Company           |                             |                                    |              |
|--|-------------------|-----------------------------|------------------------------------|--------------|
|  | Retained earnings | Unrealised gains and losses | Equity portion of convertible bond | Total        |
| Restated balance at 1 January 2013                                     | (162)             | (76)                        | (137)                              | (375)        |
| Profit for the year  | 298               |                             |                                    | 298          |
| Fair value of cash flow hedges transferred to passenger revenue        |                   | 53                          |                                    | 53           |
| Fair value of cash flow hedges transferred to fuel and oil costs       |                   | (21)                        |                                    | (21)         |
| Fair value of cash flow hedges transferred to currency differences     |                   | 5                           |                                    | 5            |
| Net change in fair value of cash flow hedges                           |                   | 91                          |                                    | 91           |
| Movement in investments  |                   | (3)                         |                                    | (3)          |
| Pension remeasurements <sup>1</sup>                                    | 632               |                             |                                    | 632          |
| Cost of share-based payments   | (8)               |                             |                                    | (8)          |
| Income tax   | (180)             | (29)                        |                                    | (209)        |
| Transfers between reserves   | (137)             |                             | 137                                |              |
| <b>Total income and expense for the year</b>                           | <b>605</b>        | <b>96</b>                   | <b>137</b>                         | <b>838</b>   |
| Balance at 1 January 2014  | 443               | 20                          |                                    | 463          |
| Profit for the year  | 483               |                             |                                    | 483          |
| Fair value of cash flow hedges transferred to passenger revenue        |                   | 17                          |                                    | 17           |
| Fair value of cash flow hedges transferred to fuel and oil costs       |                   | 56                          |                                    | 56           |
| Fair value of cash flow hedges transferred to currency differences     |                   | 32                          |                                    | 32           |
| Net change in fair value of cash flow hedges <sup>1</sup>              |                   | (958)                       |                                    | (958)        |
| Available-for-sale financial assets - marked to market                 |                   | 38                          |                                    | 38           |
| Available-for-sale financial assets - recycled to the income statement |                   | (1)                         |                                    | (1)          |
| Pension remeasurements <sup>2</sup>                                    | (454)             |                             |                                    | (454)        |
| Cost of share-based payments   | (4)               |                             |                                    | (4)          |
| Income tax   | 151               | 170                         |                                    | 321          |
| Transfers between reserves   |                   |                             |                                    |              |
| <b>Total income and expense for the year</b>                           | <b>176</b>        | <b>(646)</b>                |                                    | <b>(470)</b> |
| <b>As at 31 December 2014</b>  | <b>619</b>        | <b>(626)</b>                |                                    | <b>(7)</b>   |

<sup>1</sup> Significant fair value losses during the year relate to the impact of the average decline in fuel price on fuel derivative contracts outstanding as of 31 December 2014. The amounts held in equity and the period in which cash flows are expected to occur are summarised in Note 27d.

<sup>2</sup> Refer to note 2 'Summary of significant accounting policies' for more information with regards to the adoption of revised IAS 19 'Employee Benefits'.

See note 30a for a description of the reserves.

## 31 Employee benefits

The Company operates two principal funded 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. APS has been closed to new members since 1984 and NAPS closed to new members in 2003. The Company's principal defined contribution scheme is the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 16 employed by the Company and certain subsidiary undertakings in the UK may become members.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the Government, which are based on the Consumer Price Index (CPI). Benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year. In NAPS, annual pensionable pay increases for active members are capped at RPI.

The Trustees of APS have purported to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. This would be expected to reduce the APS accounting surplus by £12 million. BA has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme (which at 31 March 2012 had a £680 million deficit under the Pension Regulator's funding regime). BA is also concerned about the residual unhedged risk (refer to Note 31d) in the scheme, which will be increased by the addition of new unfunded benefits, to which the Company may ultimately be exposed as the principal employer and sponsor of the scheme. BA is committed to an existing recovery plan, which sees BA deficit payments of £55 million per annum until March 2023. Legal proceedings have been commenced to determine the legitimacy of the additional discretionary increase, the outcome of which will not be known until at least the first half of 2016. This discretionary increase has not been reflected in the accounting assumptions used. Had the £12 million been recorded in 2014, it would have been classified in 'other comprehensive income' as an actuarial loss arising from a change of assumption.

## 31 Employee benefits continued

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two Schemes is common. Most Main Board and Committee meetings are held in tandem, although each Trustee Board reaches its decisions independently. There are three Committees which are separately responsible for the governance, operation and investments of each Scheme. British Airways Pension Trustees Limited holds the assets of both Schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (the 'triennial valuation') rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed at 31 March 2012 (see note 31i).

The actuarial valuations performed as at 31 March 2012 are different to the valuation performed under IAS 19: Employee Benefits as of 31 December 2014 due mainly to timing difference of the measurement dates and to the scheme specific assumptions used in the actuarial valuation vs. IAS guidance used in the accounting valuation assumptions.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan ('US PRMB').

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

Disclosures for post-retirement benefits are presented on a consolidated basis and include a net pension liability of £23 million (2013: £12 million) relating to British Airways Holidays Limited, with the remainder relating to the Company.

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

| £ million                                | As at 31 December 2014 |          |                    |          |
|--|------------------------|----------|--------------------|----------|
|  | APS                    | NAPS     | Other <sup>1</sup> | Total    |
| Scheme assets at fair value              | 7,509                  | 12,750   | 334                | 20,593   |
| Present value of scheme liabilities      | (6,446)                | (13,484) | (626)              | (20,556) |
| Net pension asset/(liability)            | 1,063                  | (734)    | (292)              | 37       |
| Effect of the asset ceiling <sup>2</sup> | (395)                  |          |                    | (395)    |
| Other employee benefit obligations       |                        |          | (11)               | (11)     |
|  | 668                    | (734)    | (303)              | (369)    |
| Represented by:                          |                        |          |                    |          |
| Employee benefit assets                  |                        |          |                    | 673      |
| Employee benefit obligations             |                        |          |                    | (1,042)  |
|  |                        |          |                    | (369)    |

  

| £ million                                | As at 31 December 2013 |          |                    |          |
|--|------------------------|----------|--------------------|----------|
|  | APS                    | NAPS     | Other <sup>1</sup> | Total    |
| Scheme assets at fair value              | 6,918                  | 11,611   | 322                | 18,851   |
| Present value of scheme liabilities      | (6,318)                | (12,026) | (510)              | (18,854) |
| Net pension asset / (liability)          | 600                    | (415)    | (188)              | (3)      |
| Effect of the asset ceiling <sup>2</sup> | (198)                  |          |                    | (198)    |
| Other employee benefit obligations       |                        |          | (11)               | (11)     |
|  | 402                    | (415)    | (199)              | (212)    |
| Represented by:                          |                        |          |                    |          |
| Employee benefit assets                  |                        |          |                    | 407      |
| Employee benefit obligations             |                        |          |                    | (619)    |
|  |                        |          |                    | (212)    |

<sup>1</sup> The present value of scheme liabilities for the US PRMB was £65 million at 31 December 2014 (£58 million as at 31 December 2013).

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

## 31 Employee benefits continued

### b Pension costs charged/(credited) to the consolidated income statement

Pension costs charged/(credited) to operating profit:

| £ million   | 2014 | 2013  |
|---|------|-------|
| Defined benefit plans:                                |      |       |
| Current service cost <sup>1</sup>                     | 164  | 174   |
| Past service cost <sup>2</sup>                        |      | (143) |
|   | 164  | 31    |
| Defined contribution plans                            | 50   | 47    |
| Pension costs recorded as employee costs <sup>2</sup> | 214  | 78    |

<sup>1</sup> Includes £1 million (2013: £2 million) relating to the US post-retirement medical benefit plan.

<sup>2</sup> The credit to 'past service cost' of £143 million in 2013 was treated as an exceptional item (note 5) and as such employee costs per note 8 were £221 million in 2013. The past service cost was a gain resulting from amendments made by the Company during the year to the US PRMB plan, which resulted in changes to the benefits payable to plan members as well as a discontinuance of the plan, with the plan being phased out over the next nine years.

Pension costs charged/(credited) as finance costs:

| £ million   | 2014       | 2013        |
|---|------------|-------------|
| Interest income on scheme assets                  | 856        | 756         |
| Interest expense on scheme liabilities            | (850)      | (791)       |
| Interest expense on asset ceiling                 | (9)        | (10)        |
| <b>Net financing expense relating to pensions</b> | <b>(3)</b> | <b>(45)</b> |

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

| £ million   | 2014         | 2013       |
|---|--------------|------------|
| Return on plan assets excluding interest income                         | 1,083        | 697        |
| Remeasurement of plan liabilities from changes in financial assumptions | (1,487)      | (117)      |
| Remeasurement of experience gains/(losses)                              | 138          | (6)        |
| Remeasurement of the APS asset ceiling                                  | (188)        | 54         |
| Exchange differences  | (13)         |            |
| <b>Pension remeasurements</b>   | <b>(467)</b> | <b>628</b> |

### d Fair value of scheme assets

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

| £ million                                       | 2014          | 2013          |
|---|---------------|---------------|
| As at 1 January                                 | 18,851        | 17,557        |
| Interest income                                 | 856           | 756           |
| Return on plan assets excluding interest income | 1,083         | 697           |
| Employer contributions <sup>1 2</sup>           | 476           | 476           |
| Employee contributions                          | 86            | 86            |
| Benefits paid                                   | (764)         | (713)         |
| Exchange differences                            | 5             | (8)           |
| <b>As at 31 December</b>                        | <b>20,593</b> | <b>18,851</b> |

<sup>1</sup> Includes employer contributions to APS of £67 million (2013: £63 million) and to NAPS of £396 million (2013: £396 million), of which deficit funding payments represented £61 million for APS (2013: £55 million) and £185 million for NAPS (2013: £208 million).

<sup>2</sup> Cash payments to pension schemes (net of service costs) reflected in the consolidated cash flow statement were £312 million (2013: £302 million), being the employer contributions of £476 million (2013: £476 million) less the current service cost of £164 million (2013: £174 million) as set out in note 31b.

## 31 Employee benefits continued

### d Fair value of scheme assets continued

Scheme assets as at 31 December comprise:

| £million                                     | 2014   | 2013   |
|--|--------|--------|
| <b>Return seeking investments - equities</b> |        |        |
| UK   | 1,967  | 2,113  |
| Overseas                                     | 5,089  | 4,513  |
|  | 7,056  | 6,626  |
| <b>Return seeking investments - other</b>    |        |        |
| Private equity                               | 605    | 580    |
| Property                                     | 1,426  | 1,296  |
| Alternative investments                      | 730    | 650    |
|  | 2,761  | 2,526  |
| <b>Liability matching investments</b>        |        |        |
| UK Fixed bonds                               | 2,816  | 2,296  |
| Overseas Fixed bonds                         | 161    | 212    |
| UK Index-Linked bonds                        | 4,889  | 3,967  |
| Overseas Index-Linked bonds                  | 109    | 362    |
|  | 7,975  | 6,837  |
| <b>Other</b>                                 |        |        |
| Cash and cash equivalents                    | 1,051  | 854    |
| Derivatives                                  | (201)  | 24     |
| Insurance contract                           | 1,469  | 1,406  |
| Longevity swap                               | (37)   | (43)   |
| Other  | 519    | 621    |
|  | 20,593 | 18,851 |

All equities and bonds have quoted prices in active markets.

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

| £ million                                     | As at 31 December 2014 |        | As at 31 December 2013 |        |
|---|------------------------|--------|------------------------|--------|
|   | APS                    | NAPS   | APS                    | NAPS   |
| Return seeking investments                    | 1,348                  | 8,304  | 1,395                  | 7,586  |
| Liability matching investments                | 4,455                  | 3,437  | 3,869                  | 2,891  |
|   | 5,803                  | 11,741 | 5,264                  | 10,477 |
| Insurance contract and related longevity swap | 1,415                  |        | 1,346                  |        |
| Other   | 291                    | 1,009  | 308                    | 1,134  |
| Fair value of scheme assets                   | 7,509                  | 12,750 | 6,918                  | 11,611 |

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

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At 31 December 2014 the benchmark for APS was 21.2% (2013: 23.7%) in return seeking assets and 78.8% (2013: 76.3%) in liability matching investments; and for NAPS the benchmark was 68% (2013: 68%) in return seeking assets and 32% (2013: 32%) 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.

In addition to this, APS has an insurance contract with Rothesay Life which now covers 24 per cent (2013: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2013: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

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

The asset-liability matching strategy in respect of the Group's other schemes have been determined in accordance with local best practice.

## 31 Employee benefits continued

### e Present value of scheme liabilities

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

| £ million                                | 2014          | 2013          |
|--|---------------|---------------|
| As at 1 January                          | 18,854        | 18,544        |
| Current service cost                     | 164           | 174           |
| Past service cost                        |               | (143)         |
| Interest expense                         | 850           | 791           |
| Remeasurements – financial assumptions   | 1,487         | 117           |
| Remeasurements – demographic assumptions | (138)         | 6             |
| Benefits paid                            | (764)         | (713)         |
| Employee contributions                   | 86            | 86            |
| Exchange differences                     | 17            | (8)           |
| <b>As at 31 December</b>                 | <b>20,556</b> | <b>18,854</b> |

The defined benefit obligation comprises £75 million (2013: £67 million) arising from unfunded plans and £20,481 million (2013: £18,787 million) from plans that are wholly or partly funded.

### f Effect of the asset ceiling

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

| £ million                | 2014       | 2013       |
|--------------------------|------------|------------|
| As at 1 January          | 198        | 242        |
| Interest expense         | 9          | 10         |
| Remeasurements           | 188        | (54)       |
| <b>As at 31 December</b> | <b>395</b> | <b>198</b> |

### g Actuarial assumptions

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

| Per cent per annum                                   | 2014 |      |               | 2013 |      |               |
|--|------|------|---------------|------|------|---------------|
|  | APS  | NAPS | Other schemes | APS  | NAPS | Other schemes |
| Discount rate  | 3.45 | 3.80 | 3.4 – 4.1     | 4.40 | 4.70 | 4.5 – 4.9     |
| Rate of increase in pensionable pay <sup>1</sup>     | 2.85 | 2.95 | 3.5 – 4.0     | 3.25 | 3.30 | 3.5 – 4.3     |
| Rate of increase of pensions in payment <sup>3</sup> | 1.85 | 1.95 | 1.5 – 3.5     | 2.50 | 2.55 | 1.5 – 3.3     |
| RPI rate of inflation <sup>2</sup>                   | 2.85 | 2.95 | 3.0 – 3.1     | 3.25 | 3.30 | 3.0 – 3.5     |
| CPI rate of inflation <sup>2</sup>                   | 1.85 | 1.95 | 2.1 – 3.0     | 2.50 | 2.55 | 2.5 – 3.0     |

<sup>1</sup> Rate of increase in salaries is assumed to be in line with the RPI rate of inflation.

<sup>2</sup> The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. The inflation assumptions are used to determine the rate of increase for pensions in payment and the rate of increase in deferred pensions where there is such an increase.

<sup>3</sup> It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS. However, the Trustees have purported to grant an additional discretionary increase of 20 basis points in relation to 2013/14 payments, a decision that BA has challenged, has not reflected in the IAS 19 assumptions and has commenced legal proceedings to determine the legitimacy of the additional increase.

Rate of increase in healthcare costs is based on medical trend rates of 7.5 per cent grading down to 5.0 per cent over five years (2013: 8.0 per cent to 5.0 per cent over six years).

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

|                                  | UK   |      |
|----------------------------------|------|------|
| Mortality Assumptions            | 2014 | 2013 |
| Life expectancy at age 60 for a: |      |      |
| - male currently aged 60         | 28.3 | 28.3 |
| - male currently aged 40         | 29.8 | 29.7 |
| - female currently aged 60       | 29.8 | 29.7 |
| - female currently aged 40       | 32.3 | 32.2 |

At 31 December 2014, the weighted-average duration of the defined benefit obligation was 12 years for APS (2013: 12 years) and 19 years for NAPS (2013: 19 years). In the US, mortality rates were based on the RP-14 mortality tables.

## 31 Employee benefits continued

### h Sensitivity analysis

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

| £ million  | Increase in net pension liability |
|--|-----------------------------------|
| Discount rate (decrease of 10 basis points)                  | 333                               |
| Future salary growth (increase of 10 basis points)           | 61                                |
| Future pension growth (increase of 10 basis points)          | 256                               |
| Future mortality rate - one year increase in life expectancy | 557                               |

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

### i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2012 using assumptions and methodologies agreed between the Company and Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to £680 million and £2,660 million respectively. In order to address the deficits in the schemes, BA has also committed to the following undiscounted deficit payments:

| £ million   | APS        | NAPS         |
|---|------------|--------------|
| Within 12 months  | 55         | 35           |
| 2-5 years   | 220        | 715          |
| 5-10 years  | 179        | 1,336        |
| More than 10 years                                      |            | 384          |
| <b>Total expected deficit payments for APS and NAPS</b> | <b>454</b> | <b>2,470</b> |

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

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

In total, the Group expects to pay £248 million in employer contributions and deficit payments to its post-retirement benefit plans in 2015. This includes expected employer contributions of £62 million to APS (of which £55 million relates to the funding shortfall) and £168 million to NAPS (of which £35 million relates to the funding shortfall). This excludes any additional deficit contributions which may be required if BA declares a dividend.

## 32 Contingent liabilities and guarantees

### a Contingent Liabilities

The Group and the Company have contingent liabilities which at 31 December 2014 amounted to £66 million (2013: £58 million). These contingent liabilities include claims and litigation related to operations and tax affairs.

#### *Regulatory proceedings and litigation*

The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined BA and ten other airline groups for participating in a cartel in respect of air cargo prices. The European Commission's decision is currently the subject of appeal, but has led to a large number of claimants seeking, in proceedings brought in the English courts and elsewhere, to recover damages from BA and the other airlines which they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which BA will vigorously defend. BA has, or will, join in to the proceedings the other airlines alleged to have participated in cartel activity to obtain a contribution to such damages, if any, awarded.

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

On the basis of latest information obtained and advice from legal counsel, we are currently unable to determine whether the Group has an existing obligation as a result of the past event.

#### *Taxation*

The Group files income and other tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's tax returns which contain matters that could be subject to differing interpretations of applicable tax laws and regulations. The resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

### b Guarantees

#### *Bank guarantees*

The Group and Company have issued bank guarantees totalling £34 million (2013: £35 million) and £33 million (2013: £34 million) respectively.

#### *Pensions and perpetual preferred securities*

The Group and the Company have provided collaterals on certain payments to the Company's pension scheme, Airways Pensions Scheme ('APS'), triggered in the event of BA's insolvency, which at 31 December 2014 amounted to £250 million (2013: £250 million). In addition, a guarantee amounting to £230 million (2013: £230 million) secured by certain aircraft (see note 12) was issued by a third party in favour of APS which is also triggered in the event of insolvency.

The Company has also issued guarantees in respect of the fixed perpetual preferred securities issued by a subsidiary undertaking which amounted to £236 million (2013: £252 million) and in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 30 for details of the guarantee provided in respect of the fixed perpetual securities and note 36 in respect of the audit exemption guarantee.



### 33 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2014 with related parties.

| £ million  | Group |      | Company |       |
|--|-------|------|---------|-------|
|  | 2014  | 2013 | 2014    | 2013  |
| <b>Parent<sup>1</sup>:</b>                                   |       |      |         |       |
| Sales to/purchases on behalf of IAG                          | 38    | 12   | 38      | 12    |
| Purchases from IAG   | 50    | 23   | 50      | 23    |
| Amounts owed by IAG  | 17    | 1    | 17      | 1     |
| Amounts owed to IAG  | 13    | 13   | 13      | 13    |
| <b>Subsidiary undertakings of the parent:</b>                |       |      |         |       |
| Sales to subsidiary undertakings of the parent               | 29    | 26   | 29      | 26    |
| Purchases on behalf of subsidiary undertakings of the parent | 29    | 23   | 29      | 23    |
| Amounts owed by subsidiary undertakings of the parent        | 8     |      | 8       |       |
| Amounts owed to subsidiary undertakings of the parent        | 9     | 1    | 9       | 1     |
| <b>Associates<sup>2</sup>:</b>                               |       |      |         |       |
| Sales to associates  | 36    | 65   | 33      | 64    |
| Purchases from associates                                    | 136   | 178  | 136     | 178   |
| Amounts owed by associates                                   | 11    | 9    | 8       | 8     |
| Amounts owed to associates                                   | 31    | 17   | 31      | 17    |
| <b>Subsidiaries<sup>3</sup>:</b>                             |       |      |         |       |
| Sales to subsidiaries  |       |      | 361     | 252   |
| Purchases from subsidiaries                                  |       |      | 231     | 237   |
| Amounts owed by subsidiaries                                 |       |      | 391     | 399   |
| Amounts owed to subsidiaries                                 |       |      | 2,191   | 3,222 |

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

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

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

In addition, costs borne by the Company on behalf of the Group's retirement benefit plans amounted to £5 million in relation to the Pension Protection Fund levy (2013: £5 million).

Neither the Group nor Company have provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2014 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2013: £nil).

#### Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or officers of the Company at 31 December 2014 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.

## 34 Post balance sheet event

On 28 January 2015, BA entered into a business transfer agreement with its wholly-owned subsidiary Avios Group (AGL) Limited ("AGL"). This transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in the amount of £1.6 billion fully paid up Class A Shares in AGL.

BA's existing holdings in AGL have been converted to Class A shares, while Iberia, which has entered into a similar transaction with AGL, received Class B shares in exchange for the transfer of the Iberia Plus programme to AGL. This has resulted in BA's shareholding being reduced on 28 January 2015 from 100% of the existing AGL business to 86% of the combined customer loyalty business.

Following the business restructure, BA now no longer has the power to affect the returns of AGL as it now falls within the governance structure of IAG. The voting rights relate to reserved matters which exclude the power to control the financial and operating decisions in AGL. This meant, from the date of the transaction, AGL has been de-recognised as a subsidiary in January 2015 and is now recognised as an associate of the Group at the fair value of the retained interest. This is in accordance with the requirement of IFRS 10: Consolidated Financial Statements.

On initial recognition of the retained investment, the Group has recognised an investment in associate at a value of £1.6 billion with a resulting gain on loss of control of a subsidiary recognised below operating profit of £1.5 billion being recognised in 2015. This has been measured as the difference between the fair value of the remaining interest and the deconsolidated net assets of AGL.

Transactions between the Group and AGL following the restructure include paying AGL for Avios issued and receiving payment for redemption flights. Being an investment in associate, the Group began to recognise its share of post-tax profits or losses in AGL from the date control was lost and is presented below operating profit in accordance with the requirement of IAS 28: Investment in Associates.

## 35 Foreign currency translation rates

| £1 equals    | As at 31 December |      | Average for the year ended 31 December |      |
|--------------|-------------------|------|--|------|
|              | 2014              | 2013 | 2014                                   | 2013 |
| US dollar    | 1.56              | 1.63 | 1.65                                   | 1.56 |
| euro         | 1.27              | 1.19 | 1.24                                   | 1.18 |
| Japanese yen | 186               | 169  | 173                                    | 151  |

## 36 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2014 by virtue of section 479A of the Companies Act 2006: British Airways Leasing Limited (04150220), BA and AA Holdings Limited (03840072), British Airways 777 Leasing Limited (04954270), BritAir Holdings Limited (03537574), British Airways (BA) Limited (07990613), British Airways Associated Companies Limited (00590083), BA European Limited (06346489), British Airways Avionic Engineering Limited (02775232), British Airways Interior Engineering Limited (03109109), British Airways Maintenance Cardiff Limited (02204178), The Plimsoll Line Limited (01967358) and Teleflight Limited (03918190).

## Operating and financial statistics

Not forming part of the audited financial statements

|   |      | 12 months to 31 December |         |         |
|---|------|--------------------------|---------|---------|
| Total Group continuing operations   |      | 2014                     | 2013    | 2012    |
| <b>Traffic and capacity</b>   |      |                          |         |         |
| Revenue passenger km (RPK)  | m    | 138,431                  | 131,333 | 126,436 |
| Available seat km (ASK)   | m    | 170,917                  | 161,444 | 158,247 |
| Passenger load factor   | %    | 81.0                     | 81.3    | 79.9    |
| Cargo tonne km (CTK)  | m    | 4,458                    | 4,646   | 4,891   |
| Total revenue tonne km (RTK)  | m    | 18,198                   | 17,767  | 17,597  |
| Total available tonne km (ATK)  | m    | 25,185                   | 24,536  | 24,152  |
| Overall load factor   | %    | 72.3                     | 72.4    | 72.9    |
| Passengers carried  | '000 | 41,516                   | 39,960  | 37,580  |
| Tonnes of cargo carried   | '000 | 706                      | 733     | 788     |
| <b>Operations</b>   |      |                          |         |         |
| Average manpower equivalent (MPE)   |      | 39,710                   | 38,592  | 38,761  |
| ASKs per MPE  |      | 4,304                    | 4,183   | 4,083   |
| Aircraft in service at year end   |      | 279                      | 278     | 273     |
| Aircraft utilisation (average hours per aircraft per day)                       |      | 10.44                    | 10.61   | 10.89   |
| Punctuality - within 15 minutes   | %    | 79                       | 76      | 79      |
| Regularity  | %    | 99.2                     | 98.6    | 98.9    |
| <b>Financial</b>  |      |                          |         |         |
| Passenger revenue per RPK   | p    | 7.55                     | 7.71    | 7.51    |
| Passenger revenue per ASK   | p    | 6.12                     | 6.27    | 6.00    |
| Cargo revenue per CTK   | p    | 13.41                    | 14.82   | 15.07   |
| Average fuel price (US cents/US gallon)   |      | 301.50                   | 314.84  | 317.85  |
| Operating margin  | %    | 8.3                      | 6.2     | 2.2     |
| Operating margin before exceptional items                                       | %    | 8.3                      | 5.7     | 2.5     |
| Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR) | m    | 1,886                    | 1,515   | 1,051   |
| Net debt/total capital ratio <sup>1</sup>                                       | %    | 48.1                     | 44.5    | 66.2    |
| Total traffic revenue per ATK   | p    | 43.9                     | 44.1    | 42.4    |
| Total traffic revenue per ASK   | p    | 6.5                      | 6.7     | 6.47    |
| Total expenditure before exceptional items on operations per ASK                | p    | 6.29                     | 6.67    | 6.67    |
| Total expenditure before exceptional items on operations excluding fuel per ASK | p    | 4.23                     | 4.35    | 4.32    |
| Total expenditure before exceptional items on operations per ATK                | p    | 42.6                     | 43.9    | 43.7    |

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

## Fleet Table

### Number in service with Group companies at 31 December 2014

|   | On Balance Sheet<br>fixed assets | Off Balance Sheet<br>operating leases | Total<br>December<br>2014 | Total<br>December<br>2013 | Changes since<br>December<br>2013 | Future<br>deliveries<br>(Note 5) | Options<br>(Note 6) |
|---|----------------------------------|---------------------------------------|---------------------------|---------------------------|-----------------------------------|----------------------------------|---------------------|
| <b>CONTINUING AIRLINE OPERATIONS (Note 1)</b> |                                  |                                       |                           |                           |                                   |                                  |                     |
| Airbus A318                                   | 2                                |                                       | 2                         | 2                         |                                   |                                  |                     |
| Airbus A319                                   | 31                               | 13                                    | 44                        | 44                        |                                   |                                  |                     |
| Airbus A320                                   | 40                               | 19                                    | 59                        | 50                        | 9                                 | 21                               | 50                  |
| Airbus A321                                   | 14                               | 4                                     | 18                        | 18                        |                                   | 7                                |                     |
| Airbus A330                                   |                                  |                                       |                           |                           |                                   |                                  |                     |
| Airbus A350                                   |                                  |                                       |                           |                           |                                   | 18                               | 36                  |
| Airbus A380                                   | 8                                |                                       | 8                         | 3                         | 5                                 | 4                                | 7                   |
| Boeing 737-400 (Note 2)                       | 5                                |                                       | 5                         | 15                        | (10)                              |                                  |                     |
| Boeing 747-400 (Note 3)                       | 43                               |                                       | 43                        | 51                        | (8)                               |                                  |                     |
| Boeing 757-200                                | 1                                | 2                                     | 3                         | 3                         |                                   |                                  |                     |
| Boeing 767-300 (Note 4)                       | 14                               |                                       | 14                        | 20                        | (6)                               |                                  |                     |
| Boeing 777-200                                | 41                               | 5                                     | 46                        | 46                        |                                   |                                  |                     |
| Boeing 777-300                                | 9                                | 3                                     | 12                        | 8                         | 4                                 |                                  |                     |
| Boeing 787                                    | 8                                |                                       | 8                         | 4                         | 4                                 | 34                               | 16                  |
| Embraer E170                                  | 6                                |                                       | 6                         | 6                         |                                   |                                  |                     |
| Embraer E190                                  | 9                                | 2                                     | 11                        | 8                         | 3                                 |                                  | 15                  |
| <b>TOTAL CONTINUING OPERATIONS</b>            | <b>231</b>                       | <b>48</b>                             | <b>279</b>                | <b>278</b>                | <b>1</b>                          | <b>84</b>                        | <b>124</b>          |

#### Notes:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.
2. Two Boeing B737-400 aircraft were permanently stood down from service during the period and eight Boeing B737-400 aircraft were temporarily stood down during the period.
3. One Boeing B747-400 aircraft was permanently stood down from service during the period and seven Boeing B747-400 aircraft were temporarily stood down during the period.
4. Two Boeing B767-300 aircraft were permanently stood down from service during the period and four Boeing B747-300 aircraft were temporarily stood down during the period.
5. Future deliveries have decreased by 5. Nine Airbus A320s, five Airbus A380s, four Boeing B777-300s, four Boeing B787-8s and three Embraer E-190s were delivered during the period. Thirteen Airbus A320 options and seven Airbus A321 options were converted to firm orders.
6. Options have decreased by 20. Thirteen Airbus A320 options and seven Airbus A321 options were converted to firm orders

### DISCONTINUED AIRLINE OPERATIONS

As part of the bmi acquisition, 12 Boeing B737-300 aircraft and two Boeing B737-500 aircraft were acquired, on 'off balance sheet operating leases'. At 31 December 2012, these were stood down in advance of handback. During 2013, nine Boeing B737-300 and two Boeing B737-500 aircraft were returned to the lessor. During 2014 the remaining planes were returned to the lessor (three Boeing B737-300).

## Principal investments

At 31 December 2014

### Investments in subsidiaries

The following table includes those principal investments which impact the results or assets of the Group.

These subsidiaries are wholly-owned except where indicated.

|  | Principal activities | Country of incorporation and registration and principal operations |
|--|----------------------|--|
| Avios Group (AGL) Limited                          | Airline marketing    | England  |
| BA and AA Holdings Limited                         | Holding company      | England  |
| BA Cityflyer Limited                               | Airline operations   | England  |
| BritAir Holdings Limited                           | Holding company      | England  |
| British Airways 777 Leasing Limited                | Aircraft financing   | England  |
| British Airways Avionic Engineering Limited        | Aircraft maintenance | England  |
| British Airways Ejets Leasing Limited <sup>1</sup> | Aircraft financing   | Bermuda  |
| British Airways Holdings Limited                   | Airline finance      | Jersey   |
| British Airways Holidays Limited                   | Package holidays     | England  |
| British Airways Interior Engineering Limited       | Aircraft maintenance | England  |
| British Airways Leasing Limited                    | Aircraft financing   | England  |
| British Airways Maintenance Cardiff Limited        | Aircraft maintenance | England  |
| British Midland Airways Limited <sup>1</sup>       | Airline operations   | England  |
| OpenSkies SASU <sup>1</sup>                        | Airline operations   | France   |
| Speedbird Insurance Company Limited                | Insurance            | Bermuda  |
| The Plimsoll Line Limited                          | Holding company      | England  |

### Investments in associates

|                                   | Percentage of equity owned | Principal activities | Country of incorporation and principal operations |
|-----------------------------------|----------------------------|----------------------|---|
| IB Opco Holding S.L. <sup>1</sup> | 13.55                      | Airline operations   | Spain   |

### Available-for-sale investments

|  | Percentage of equity owned | Principal activities                | Country of incorporation and principal operations |
|--|----------------------------|-------------------------------------|---|
| Comair Limited <sup>1</sup>                    | 12.26                      | Airline operations                  | South Africa                                      |
| International Consolidated Airlines Group S.A. | 0.1                        | Airline operations                  | Spain   |
| The Airline Group Limited                      | 16.7                       | Air traffic control holding company | England   |

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

## Glossary

|                                    |  |
|------------------------------------|--|
| Airline operations                 | This includes British Airways Plc, BA Cityflyer Limited, Flyline Tele Sales & Services GmbH, OpenSkies SASU and British Midland Airways Limited.   |
| Available seat kilometres (ASK)    | The number of seats available for sale multiplied by the distance flown.   |
| Available tonne kilometres (ATK)   | The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.                |
| Cargo tonne kilometres (CTK)       | The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.   |
| Continuing operations              | The segments of the business that are considered to be normal, and expects to operate in the foreseeable future.                                   |
| Discontinued operations            | A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale.                                 |
| EBITDAR                            | Earnings before interest, tax, depreciation, amortisation and aircraft rentals.  |
| Exceptional items                  | Those items that in management's view need to be separately disclosed by virtue of their size or incidence.  |
| Gain on bargain purchase           | The excess of fair value of net assets over the consideration paid.  |
| JOLCO                              | Japanese operating lease with call option.   |
| Load factor                        | The percentage relationship of revenue load carried to capacity available.   |
| Manpower equivalent                | Number of employees adjusted for part-time workers, overtime and contractors.  |
| Merger                             | The combining of two or more entities through a purchase acquisition.  |
| Merger effective date              | 21 January 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group.                             |
| Net debt                           | Loans, finance leases and hire purchase arrangements net of other current interest-bearing deposits and cash and cash equivalents less overdrafts. |
| Net debt/total capital ratio       | Net debt as a ratio of total capital.  |
| nm                                 | Not meaningful.  |
| n/a                                | Not applicable.  |
| Operating margin                   | Operating profit/(loss) as a percentage of revenue.  |
| Overall load factor                | RTK expressed as a percentage of ATK.  |
| Passenger load factor              | RPK expressed as a percentage of ASK.  |
| EETC                               | This is the enhanced equipment trust certificate borrowing facility obtained in 2013 and secured on related aircraft upon drawdown.                |
| Punctuality                        | The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.  |
| Regularity                         | The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.                                      |
| Revenue passenger kilometres (RPK) | The number of revenue passengers carried multiplied by the distance flown.   |
| Passenger revenue per ASK          | Passenger revenue divided by ASK.  |
| Passenger revenue per RPK          | Passenger revenue divided by RPK.  |
| Revenue tonne kilometres (RTK)     | The revenue load in tonnes multiplied by the distance flown.   |
| Total capital                      | Total equity plus net debt.  |
| Total Group revenue per ASK        | Total Group revenue divided by ASK.  |
| Total traffic revenue per ASK      | Revenue from total traffic divided by ASK.   |
| Total traffic revenue per ATK      | Revenue from total traffic divided by ATK.   |

## Subsidiary Undertakings of British Airways Plc at 31 December 2014

The holdings disclosed concern ordinary shares unless otherwise stated.

| Name of company  | Country of incorporation |
|--|--------------------------|
| Avios Group (AGL) Limited (formerly The Mileage Company Limited) | England                  |
| Avios South Africa Proprietary Limited                           | South Africa             |
| BA and AA Holdings Limited                                       | England                  |
| BA Call Centre India Private Limited (callBA)                    | India                    |
| BA Cityflyer Limited   | England                  |
| BA European Limited  | England                  |
| BA Number One Limited  | England                  |
| BA Number Two Limited  | Jersey                   |
| bmibaby Limited  | England                  |
| BritAir Holdings Limited   | England                  |
| British Airways (BA) Limited                                     | England                  |
| British Airways 777 Leasing Limited                              | England                  |
| British Airways Associated Companies Limited                     | England                  |
| British Airways Avionic Engineering Limited                      | England                  |
| British Airways Capital Limited                                  | Jersey                   |
| British Airways Ejets Leasing Limited                            | Bermuda                  |
| British Airways Employee Benefits Trustees (Jersey) Limited      | Jersey                   |
| British Airways Finance (Jersey) Limited Partnership             | Jersey                   |
| British Airways Holdings BV                                      | Netherlands              |
| British Airways Holdings Limited                                 | Jersey                   |
| British Airways Holidays Limited                                 | England                  |
| British Airways Interior Engineering Limited                     | England                  |
| British Airways Leasing Limited                                  | England                  |
| British Airways Maintenance Cardiff Limited                      | England                  |
| British Airways Pension Trustees (No 2) Limited                  | England                  |
| British Airways Plc Employee Share Ownership Trust               | Jersey                   |
| British Mediterranean Airways Limited                            | England                  |
| British Midland Airways Limited                                  | England                  |
| British Midland Limited  | England                  |
| Deutsche BA Holding GmbH   | Germany                  |
| Diamond Insurance Company Limited                                | Isle of Man              |
| Flyline Tele Sales & Services GmbH                               | Germany                  |
| Illiad Inc   | USA                      |
| OpenSkies SASU   | France                   |
| Overseas Air Travel Limited                                      | England                  |
| Remotereport Trading Limited                                     | England                  |
| Speedbird Insurance Company Limited                              | Bermuda                  |
| Teleflight Limited   | England                  |
| The Plimsoll Line Limited  | England                  |

### Associated holdings

| Name of company                              | Equity owned | Country of incorporation |
|--|--------------|--------------------------|
| Dunwoody Airline Services (Holdings) Limited | 40%          | England                  |
| IB Opco Holding S.L                          | 13.55%       | Spain                    |