



British Airways Plc

**Annual Report and Accounts
Year ended 31 December 2011**

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British Airways Plc

Officers and professional advisers

Directors

Sir Martin Broughton	(Chairman)
Alison Reed	(Deputy Chairman)
Keith Williams	(Chief Executive Officer)
Nick Swift	(Chief Financial Officer)
Andrew Crawley	
Frank van der Post	
Rafael Sánchez-Lozano Turmo	
Enrique Dupuy de Lôme	
Ken Smart	
Gavin Patterson	

Secretary

Alan Buchanan

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British Airways Plc

Directors' report and business review

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011. The comparative results, as presented in the Group financial statements, are the published financial statements for the nine months ended 31 December 2010.

Business review

British Airways ('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. BA also operates a worldwide air cargo business, largely in conjunction with its scheduled passenger services. Operating one of the most extensive international scheduled airline route networks, together with its joint business agreement, code share and franchise partners, BA flies to more than 400 destinations worldwide. BA's vision is to be the most admired airline across the world's key cities.

The business review is presented in the following three sections:

- Management review;
- Financial review; and
- Internal controls and risk management.

Management review

It has been a difficult few years for the aviation industry; 2011 was no exception with significant increases in fuel prices against the backdrop of a sluggish global economic recovery. BA has not been immune from the external factors affecting the aviation industry, but the Group has spent much of 2011 delivering strong financial and operational performance as well as establishing solid foundations for a bright future.

A merger between British Airways Plc ('the Company') and Iberia Líneas Aéreas de España S.A ('Iberia') completed on 21 January 2011. As a result of the merger, International Consolidated Airlines Group S.A. ('IAG') was formed to hold the interests of both existing airline groups. IAG started trading on the London Stock Exchange and in Spain, on 24 January 2011. On the same date IAG became the ultimate parent of the Company. BA and Iberia retain separate Boards of Directors and Leadership (key directorate heads) Teams, and retain responsibility for day-to-day operations. IAG is charged with the overall direction, strategy and management of the combined business.

Outstanding service and customer insight

Running a robust operation is key to meeting customer expectations and is a driver of customer satisfaction. The Group delivered strong operational performance during 2011, with record levels of punctuality and baggage performance achieved across BA's global network.

BA's colleagues have long been passionate about delivering outstanding customer service. During 2011 the Group brought a new dimension into this by introducing iPads for Cabin Service Directors, heightening the personalised service BA is able to offer. Further investments in new technology and process simplification will be made to improve the customer experience both on the ground and online.

T5c, a new satellite of Terminal 5 opened in May 2011. This has proved a great success and from 2013 will become home to BA's new Airbus A380 superjumbo fleet.

Investing selectively in the product

BA's product investment programme continued with significant refits to the Boeing 767 and Boeing 777-200 fleets getting under way. There were also enhancements to Club World and World Traveller Plus catering and further lounge refurbishments.

BA has continued to develop its ground operations with the opening of the new state-of-the-art check-in area at Gatwick Airport's North Terminal. This spacious facility uses the most advanced technology to give customers more control of their airport experience.

Passion and belief in the BA brand

September 2011 saw the launch of BA's biggest brand campaign in a decade, reaffirming the Group's promise "To Fly. To Serve", and underpinning investments in product and training. BA was recognised as the most improved brand of 2011 in the YouGov brand index. BA's role as official airline partner for the London 2012 Olympic and Paralympic Games will present the Group with opportunities for further brand strengthening.

Growing revenue through airline partnerships and commercial innovation

As the airline industry consolidates, strategic partnerships are key to the future success of BA. This is particularly true in the competitive and valuable North Atlantic market where the Joint Business Agreement with American Airlines and Iberia has made an impressive start. Since the launch of the Joint Business in October 2010, transatlantic customers have been benefiting from improved choice, service and network options. Members of all three frequent flier programmes are increasingly inclined to travel on their partner airlines thereby enjoying a wider range of departure times. During 2011 combined transatlantic revenues grew to just over \$8 billion with market share growing both in the premium and non-premium segments. At the same time unit revenues grew strongly and year one benefits were ahead of expectations.

British Airways Plc

Management review continued

Where appropriate BA will continue to seek to deepen other partnerships through the extension of codeshare relationships and the development of joint businesses. BA continues to be committed to the future development of the **oneworld** alliance. It has sponsored the introduction of the Russian airline, S7, and airberlin.

In September 2011, the Executive Club programme was relaunched with the introduction of Avios, the new IAG reward currency. This exciting innovation, possible as the result of the merger, features a series of enhancements designed to give customers increased recognition, improved service and more rewards.

Aircraft, technology and infrastructure

Without a modern fleet, a balanced global network, efficient technology and the correct infrastructure in place, the Group's growth plans would be restricted. During 2011 BA introduced new Boeing 777-300 and Embraer E190 aircraft, as well as some replacement Airbus A320 aircraft into the fleet. Two new aircraft types, the Airbus A380 and Boeing 787 Dreamliner, will be delivered between 2013 and 2017. These form part of the €5 billion that the Group plans to invest over the next five years.

BA continues to be concerned about discussions within the UK about how the country is going to develop a coherent long term aviation strategy, following the decision in 2010 to halt plans for a third runway at Heathrow. While the Government begins to evaluate a range of options, many hub competitors around the world continue to invest heavily in their airport and runway infrastructure. Heathrow's position in the international league table of hub airports is at risk.

Competitive cost base

BA needs to ensure it has the financial strength and resilience to support the planned investment programme. The Group's biggest single cost continues to be fuel, accounting for around one third of the Group's total costs. Given the sustained high price of fuel, BA's focus on controllable costs becomes even more imperative. BA achieved structural change in its cost base in recent years, and efforts continue with suppliers to establish long-term relationships which also deliver the best possible value for money.

IAG has committed to deliver €400 million in synergies across the combined business within five years. Significant progress has been made on synergy delivery during 2011. Along with corresponding work at Iberia, this has led to an upward revision of the IAG target to €500 million.

Setting the standard for responsible aviation

BA has led the industry in adopting a responsible approach to the environmental impact of aviation. This is not only imperative for the environment, but is the right financial approach when faced with high fuel costs, and an increasingly important consideration for BA's customers. The Group's approach is threefold; reducing net carbon emissions by 50 per cent by 2050, campaigning for a single, appropriate and competitively non-distorting regulatory regime and minimising local community effects from air quality and noise.

BA is working to establish Europe's first sustainable bio-jet plant with US energy company Solena, which will power some of BA's planes from 2015. In addition, BA is working on an alternative fuel testing programme in partnership with Rolls-Royce as well as investing in new aircraft that produce 30 per cent less carbon emissions than the aircraft they will replace.

Culture and capabilities for success

For BA to achieve its strategic vision, it is heavily reliant on colleagues working as one team to deliver outstanding customer service and business performance. A comprehensive people strategy has been developed that will transform the way colleagues are led, developed, rewarded and engaged.

In May 2011, BA reached a settlement with Unite in the long-running dispute over cabin crew issues. This agreement allowed the Group to make essential structural changes and support future growth.

BA launched its future pilots programme in July 2011, which is the Group's largest pilot recruitment programme in ten years. The Group aims to recruit 800 new pilots by 2016 in preparation for the delivery of its next generation aircraft. More than 1,500 cabin crew were recruited at Heathrow during the period, working to a new set of rosters which serve a mixture of longhaul and shorthaul destinations. The Group also continues to run a wide range of apprenticeships and graduate recruitment schemes in areas such as engineering, ground operations, cargo and head office.

Outlook

A binding agreement for BA to acquire British Midland Limited ('bmi') at a cost of £172.5 million was announced on 22 December 2011, subject to regulatory approval. Consolidation offers BA and IAG the opportunity to expand, deliver synergies and provide major improvements for customers.

The Group's growth is hampered by the continued rises in Air Passenger Duty ('APD'). The decision to increase APD on 1 April 2012 resulted in a reduction in the Group's growth plans in 2012 and continues to cost jobs in the UK. The UK has by far the highest aviation taxes in the world and this, coupled with the decision not to invest in airport infrastructure, creates a uniquely damaging constraint for UK-based operators.

Preparation for the arrival of BA's new Boeing 787 and Airbus A380 aircraft in 2013 will be accelerated. This will include provision of enhanced IT, a significant programme of operational training and development with BAA of Heathrow's infrastructure.

British Airways Plc

Financial review

As a consequence of the merger the accounting reference date was changed during 2010, from 31 March to 31 December. The Group's financial statements presented on pages 14 to 80 summarise the 12 months to 31 December 2011, with comparative results for the nine months to 31 December 2010.

In order to provide more meaningful comparison, the financial review focuses on a comparison of the 12 months to 31 December 2011 with the same period in the prior year.

Summary financial performance

£ million	2011	2010	Better/ (worse) %	2010
	12 months	12 months		Nine months
Passenger revenue	8,721	7,454	17.0	5,831
Total revenue	9,987	8,537	17.0	6,683
Operating profit	518	197	nm	342
Profit/(loss) before tax	679	(32)	nm	157
Profit/(loss) after tax	672	(10)	nm	170

nm = not meaningful

	2011	2010	Better/ (worse)	2010
	12 months	12 months		Nine months
Available seat kilometres (ASK) (m)	150,152	136,721	9.8%	104,415
Revenue passenger kilometres (RPK) (m)	117,348	106,082	10.6%	81,971
Passenger load factor (%)	78.2	77.6	0.6 pts	78.5
Passenger revenue per RPK (p)	7.43	7.03	5.7%	7.11
Passenger revenue per ASK (p)	5.81	5.45	6.6%	5.58
Non-fuel unit costs per ASK (p)	4.14	4.32	4.2%	4.28

Revenue

Revenue for the year was £9,987 million, up 17.0 per cent over the previous year. This included a 17.0 per cent growth in passenger revenue and an 8.8 per cent growth in cargo revenue.

Passenger revenue was up by £1,267 million, despite a challenging economic environment. The Group increased the amount of flying in the year, with capacity (measured by available seat kilometres) growing 9.8 per cent. Passenger yields improved year on year, up 5.7 per cent. The Group also benefited from not having significant disruption in 2011 as experienced during 2010.

The Group's cargo revenue grew by £60 million as a result of the impact of increased demand, strong premium product yields and higher levels of fuel surcharges, as the price of oil increased.

British Airways Plc

Financial review continued

Operating costs

£ million	2011 12 months	2010 12 months	Better/ (worse) %	2010 Nine months
Employee costs	2,153	2,022	(6.5)	1,547
Restructuring	12	29	58.6	6
Depreciation, amortisation and impairment	683	758	9.9	570
Aircraft operating lease costs	73	68	(7.4)	51
Fuel and oil costs	3,246	2,428	(33.7)	1,869
Engineering and other aircraft costs	543	545	0.4	412
Landing fees and en route charges	691	605	(14.2)	464
Handling charges, catering and other operating costs	1,052	990	(6.3)	765
Selling costs	436	315	(38.4)	235
Currency differences	13		nm	(1)
Accommodation, ground equipment and IT costs	567	580	2.2	423
Total Group expenditure on operations	9,469	8,340	(13.5)	6,341
Total Group expenditure excluding fuel	6,223	5,912	(5.3)	4,472

nm = not meaningful

Fuel costs topped £3 billion during the year as the price of oil continued to increase, up 33.7 per cent year on year.

The Group continued to drive down its cost base during 2011. Non-fuel unit costs (total expenditure excluding fuel per ASK) fell by 4.2 per cent. The merger with Iberia is on track to deliver substantial synergies, and IAG increased its target to €500 million by year five.

Non-operating income and expenditure

Pensions financing income was £160 million for the year, compared to a financing expense of £15 million in the prior year. In 2011 there were lower interest costs on scheme liabilities, higher expected returns on scheme assets, the effect of the asset ceiling and a significant reduction in the amortisation of actuarial losses in excess of the corridor.

During the financial year to 31 March 2010, BA issued a £350 million fixed rate 5.8 per cent convertible bond. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG. As a result, the equity portion of the Group's convertible bond was reclassified during 2011 to a derivative financial liability. This derivative liability is revalued at each balance sheet date, which resulted in a credit of £169 million in the year to 31 December 2011.

Taxation

The tax charge for the year ended 31 December 2011 was £7 million. This consists of a current tax charge of £8 million and a deferred tax credit of £1 million.

The tax charge included a £72 million credit through the income statement due to legislation enacted during the year reducing the main rate of corporation tax from 27 per cent to 25 per cent from 1 April 2012, non-taxable gains of £169 million (tax effect £45 million) arising from accounting for the convertible bond, £61 million due to the effect of IFRIC 14 pension accounting and a credit of £14 million relating to prior year adjustments to the tax charge. Excluding these items the effective tax rate for the year was 29 per cent.

The deferred tax balance at 31 December 2011 was £778 million. The year on year movement was primarily related to the tax effect of the utilisation of trading losses brought forward by BA and pension funding temporary differences offset by the reversal of temporary differences on fixed assets and the corporation tax rate reductions.

Capital expenditure

Total capital expenditure in the year amounted to £769 million. This comprised £643 million fleet related spend (aircraft, spares, modifications and refurbishments, net of refund of progress payments), £59 million on property and equipment and £67 million on landing rights and other intangible assets. During the period the Group took delivery of three Airbus A320 aircraft, two Boeing 777-300 aircraft and two Embraer E190 aircraft.

Liquidity

The Group's liquidity position remains strong with over £1.8 billion of cash and cash equivalents. In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £1,265 million, further committed general facilities of £377 million, unused overdraft facilities of £10 million and undrawn uncommitted money market lines of £25 million. Note 22 to the financial statements provides detailed analysis and explanation of the cash flow position. Capital expenditure commitments are outlined in note 13 to the financial statements.

British Airways Plc

Internal control and risk management

Corporate Governance

Since 21 January 2011, the Company is no longer required to comply with the Combined Code. However, as the Company remains an issuer of debt, it will remain subject to certain provisions of the Companies Act 2006, Listing Rules and Disclosure and Transparency Rules. In order to comply with these provisions, certain information about the Company's corporate governance is detailed in this report.

Internal control over financial reporting

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for the preparation of consolidated accounts. 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 control function which operates internationally, and to 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, was approved by the IAG Audit Committee quarterly.

The BA Board considered significant control matters raised by management and both the internal and external auditors and they reported their findings to the IAG Audit Committee. Where weaknesses were identified, the BA Board ensured that management took appropriate action. No significant failings or weaknesses were identified during 2011.

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 the BA Board in the management of risk in accordance with the UK Corporate Governance Code (2010).

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

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 on a centralised basis and operate within clearly defined parameters.

The financial risks faced by the Group are covered in more detail in note 28 to the financial statements.

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.

The Directors of the Group believe that the risks and uncertainties described below are the ones that may have the most significant impact on the long-term value of BA. 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.

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Internal control and risk management continued

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. Some competitors have cost structures that are lower than BA or have other competitive advantages such as being supported by government intervention or benefiting from insolvency protection. 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 will 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 merger with Iberia and the Joint Business Agreement with American Airlines and Iberia for transatlantic routes includes delivery risks such as realising planned revenue and cost synergies. The delivery of synergies is inherently subject to revenue leakage and programme management risks. The Leadership Team have robust integration and Joint Business Agreement programmes which address these risks. Any additional consolidation by the Group, such as bmi, adds to existing integration risks, including delivering value from the transactions.

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, whilst creating growth opportunities for the Company, 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 operational and financial performance.

Continued plans by the UK Government to significantly increase Air Passenger Duty, at the same time as the commencement of the European Union Emissions Trading Scheme, coupled with the potential for other environmental taxes imposed in other jurisdictions, 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. BA continues to promote the expansion of the airport to create extra capacity and reduce delays, enabling Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt.

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 Leadership Team regularly monitors customer satisfaction through the global monthly Think Customer Survey, alongside ongoing research and development of the BA product, in order to mitigate this risk. BA has committed to substantial investment in 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. The Eurozone fiscal crisis increases the risk to economic conditions and stability.

The operational complexities inherent in the Group's business, together with the highly regulated and commercially competitive environment of the airline industry, leave the Group exposed to a number of significant risks. A focus on mitigating those risks has been maintained although many remain outside of the Groups control - for example changes in governmental regulation, acts of terrorism, adverse weather, pandemics and the availability of funding from the financial markets.

The Revenue Projection Group regularly reviews the Group's revenue forecast. The results of these reviews are discussed with management and the appropriate action taken.

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.

British Airways Plc

Internal control and risk management continued

Failure of a critical IT system

The Group is dependent on IT systems for most of the principal business processes. The failure of a key system may cause significant disruption to operations and/or 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 swine flu or other infectious disease, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. During the swine flu pandemic the business continuity plan was implemented.

Landing fees and security charges

Under the Airports Act 1986 the CAA has to set price caps on airport charges generally every five years at airports designated by the Secretary of State. Heathrow and Gatwick are currently designated airports. There is a risk that charges and development plans agreed during the ongoing review significantly increase the cost of operating at the London hubs, or commit to future infrastructure investment in a way that benefits other airport users ahead of the Group's interests.

Safety/security incident

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 Operations Control Incident 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, 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 robust business continuity plans to mitigate these risks to the extent feasible.

Key supplier risk

The Group is dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations may cause significant disruption to operations. A close relationship is maintained with key suppliers in order to ensure awareness of any potential supply chain disruption. A continuous monitoring system of key suppliers has been implemented through the development of a supplier risk application.

Financial

Debt funding

The Group carries substantial debt that needs to be repaid or refinanced. The ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing. The Finance Committee regularly reviews the Group's financial position and seeks to diversify the sources of funding utilised by the Group.

Fuel price, currency and interest rate fluctuation

The Group used approximately 5.5 million tonnes of jet fuel in 2011. 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 Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies. 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 and selling the surplus or buying the shortfall of its currency obligations.

The Group is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of counterparties may result in financial losses. The approach to risk management is set out in note 28 of the financial statements.

The Group's Hedging Committee regularly reviews the Group's fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken.

Pensions

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

Compliance and regulatory

Governance

The governance structure of the IAG Group (BA's parent company) put in place at the time of the merger between BA and Iberia has a number of complex features, including nationality structures to protect BA and Iberia's route and operating licenses and assurances to preserve the specific interests of those companies. Although complex, the structure worked well during 2011 and synergy targets have been exceeded.

Compliance with Competition, Bribery and Corruption Law

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

British Airways Plc

Directors' report

Principal Activities

The main activities of British Airways Plc ('BA') and its subsidiary undertakings (the 'Group') are the operation of international and domestic scheduled air services for the carriage of passengers, freight and mail and the provision of ancillary services.

A review of the Group's business and future developments is detailed further on pages 2 to 3 of the business review.

Results and Dividends

The operating profit for the year ended 31 December 2011 amounted to £518 million (nine months ended 31 December 2010: £342 million). The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2011 (nine months ended 31 December 2010: £nil).

Directors

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

Sir Martin Broughton	
Alison Reed	
Keith Williams	
Nick Swift	appointed 20 June 2011
Andrew Crawley	appointed 21 January 2011
Frank van der Post	appointed 17 January 2011
Enrique Dupuy de Lôme	appointed 21 January 2011
Rafael Sánchez-Lozano Turmo	
Ken Smart	
Gavin Patterson	appointed 1 February 2011
Willie Walsh	resigned 21 January 2011
Baroness Kingsmill	resigned 21 January 2011
Baroness Symons	resigned 21 January 2011
Jim Lawrence	resigned 21 January 2011
Maarten van den Bergh	resigned 21 January 2011

Company secretary

Alan Buchanan served as the company secretary throughout the year.

Employment policies

The employment policies in place aim to balance rights of employees and the responsibilities of the Company in order to drive the Group's 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.

The Group continues to drive genuine and effective engagement with colleagues to put the customer at the forefront of everything it does and to maintain a high performing organisation. The Group'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 Company. Regular briefings are run across the airline and other communication channels include live on-line forums, a personalised intranet, mobile SMS messaging, video messages and a range of Group wide and local newsletters.

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

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Directors' report continued

As a responsible Company, disability is taken very seriously and applications are welcomed from individuals with disabilities. The Group 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. If such adjustments cannot be made for any reason, an alternative suitable role and re-training will be considered through our Careerlink redeployment service. Training for employees is increasingly provided on-line and accessibility to e-learning is constantly reviewed. All front line employees are trained in disability awareness to increase their knowledge about disabled colleagues and customers.

Diversity and inclusion is integrally linked to the Group's values and ensuring that the customer is at the heart of everything that it does. The Group aims to harness different perspectives, views and beliefs to create an inspirational and innovative place to work. Mandatory training on diversity and inclusion principles, and how to avoid discrimination, continues for all colleagues and managers.

Suppliers

The Group continues to maintain supplier and creditor payment performance around the target of 90 per cent paid in accordance with mutually agreed terms. The number of days' purchases in creditors at 31 December 2011 is calculated in accordance with the provisions of the Companies Act 2006 and was 38 days (2010: 36 days).

Political Donations

The Group does not make political donations or incur political expenditure and has no intention of doing so. The amount of political donations made during the year to 31 December 2011 was £nil (nine months ended 31 December 2010: £nil).

Community Investment

Charitable donations by the Group amounted to £5.1 million (nine months ended 31 December 2010: £0.8 million).

During 2011, the Group worked with 56 community and conservation organisations (nine months ended 31 December 2010: 75). There is also an extensive education programme for children and young people at the Community Learning Centre at Heathrow, with the number of visitors to the centre reaching 69,343 since it opened in 1999 (2010: 63,376). The Flying Start partnership with Comic Relief raised £1,946,596 during the year (six months ended 31 December 2010: £335,000, the partnership commenced in July 2010).

The Group continues to be a member of both the London Benchmarking Group (LBG) and Business in the Community. The LBG's model is used to assess our total contribution to the community. Some 3,138 current and retired colleagues donated to charity through the payroll giving scheme in the 12 months ended 31 December 2011 (nine months ended 31 December 2010: 3,269), raising over £591,819 for the Group's chosen charities (nine months ended 31 December 2010: £445,824). The top three charities were Highflight, which is a charity for young people with disabilities who want to learn to fly or have a flight experience, Cancer Research UK and Sreepur Village, Bangladesh, a project for abandoned women and children.

Internal controls and risk management

Details of the Group's internal control and risk management policies can be found on page 6 in the internal control and risk management section of the business review.

Principal risks and uncertainties

The Group's principal risks and uncertainties are set out on pages 6 to 8 in the internal control and risk management section of the business review.

Overseas branches

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

Going Concern

The 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 4 to 5, and further information is provided in note 2 of the financial statements.

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

Subsequent events

On 22 December 2011, the Company entered into a binding agreement with Deutsche Lufthansa AG ('Lufthansa') for the acquisition of the shares of British Midland Limited ('bmi') for consideration of £172.5 million. Under the agreement £60 million of the purchase price will be paid in four instalments to Lufthansa pre-completion. At 31 December 2011 one instalment of £15 million has been paid, with the remaining three instalments totalling £45 million disclosed within capital commitments.

The acquisition is expected to complete during the first half of 2012, subject to regulatory clearance from the European Commission and other bodies. Under the terms of the agreement the Company is liable to pay a termination fee of £10 million if phase one EU regulatory approval is not achieved by 31 March 2012, and if either party elects to terminate the agreement.

British Airways Plc

Directors' report continued

Directors' and Officers' liability insurance and indemnities

The Company purchased insurance against Directors' and Officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and Officers. Since 21 January 2011, IAG has held an equivalent policy covering the IAG Group.

The Company has granted rolling indemnities to the Chairman, the Executive and the external Non-executive 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 Directors who joined the Board during 2011 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 Directors who joined the Board during 2011 and remain in force.

Auditors

In accordance with Section 489 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 annual report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards (IFRS) as adopted by the EU.

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 proper 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.

British Airways Plc

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 EU, 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 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

Alan Buchanan
Company Secretary
29 March 2012
Company registration number - 1777777

British Airways Plc

Independent auditors' report

We have audited the financial statements of British Airways Plc for the year ended 31 December 2011 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 statements of changes in equity and the related notes 1 to 37. 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 & Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication 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 2011 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages six to eight in the Annual Report & Accounts with respect to internal control and risk management system in relation to financial reporting processes and about share capital structures 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:

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

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

Richard Wilson (Senior statutory auditor)

For and on behalf of Ernst & Young LLP,

Statutory auditor

London

29 March 2012

British Airways Plc

Group consolidated income statement

£ million	Note	Group	
		12 months to 31 December 2011	Nine months to 31 December 2010
Traffic revenue			
Passenger		8,721	5,831
Cargo		739	531
		9,460	6,362
Other revenue		527	321
Revenue	3	9,987	6,683
Employee costs	6	2,153	1,547
Restructuring	4	12	6
Depreciation, amortisation and impairment	4	683	570
Aircraft operating lease costs		73	51
Fuel and oil costs		3,246	1,869
Engineering and other aircraft costs		543	412
Landing fees and en route charges		691	464
Handling charges, catering and other operating costs		1,052	765
Selling costs		436	235
Currency differences		13	(1)
Accommodation, ground equipment and IT costs		567	423
Total expenditure on operations		9,469	6,341
Operating profit	4	518	342
Fuel derivative losses		(11)	(2)
Finance costs	7	(161)	(125)
Finance income	7	32	18
Net financing income/(expense) relating to pensions	7	160	(49)
Retranslation credits/(charges) on currency borrowings	7	2	(12)
Loss on sale of property, plant and equipment and investments	8	(3)	(3)
Share of post-tax (losses)/profits in associates accounted for using the equity method	17	(6)	6
Revaluation of convertible bond derivative liability		169	
Net charge relating to available-for-sale financial assets	9	(21)	(18)
Profit before tax		679	157
Tax	10	(7)	13
Profit after tax		672	170
Attributable to:			
Equity holders of the parent		654	157
Non-controlling interest		18	13
		672	170

British Airways Plc

Statement of other comprehensive income

£ million	Note	Group	
		12 months to 31 December 2011	Nine months to 31 December 2010
Net profit for the period		672	170
Other comprehensive income:			
Exchange losses	32	(4)	(8)
Net (losses)/gains on cash flow hedges	32	(39)	84
Impact of changes in substantively enacted tax rates	32	(4)	
Share of other movements in reserves of associates	17	(2)	48
Net movement on available-for-sale financial assets	32	(13)	
Total comprehensive income for the period (net of tax)		610	294
Attributable to:			
Equity holders of the parent		592	281
Non-controlling interest		18	13
		610	294

British Airways Plc

Balance sheets

£ million	Note	Group		Company	
		2011	2010	2011	2010
Non-current assets					
Property, plant and equipment:					
Fleet	12	5,765	5,758	5,488	5,491
Property	12	856	885	811	838
Equipment	12	207	221	193	214
		6,828	6,864	6,492	6,543
Intangibles:					
Goodwill	15	40	40		
Landing rights	15	242	209	215	181
Emissions allowances	15	12		12	
Software	15	53	37	52	36
		347	286	279	217
Investments in subsidiaries	17			2,304	2,333
Investments in associates	17	232	244		
Available-for-sale financial assets	18	39	65	24	18
Employee benefit assets	33	1,100	575	1,100	575
Derivative financial instruments	29	6	19	6	19
Other non-current assets		28	40	167	163
Total non-current assets		8,580	8,093	10,372	9,868
Non-current assets held for sale	14	15	33	15	33
Current assets and receivables					
Inventories	19	139	98	137	96
Trade receivables	20	460	384	448	368
Other current assets	21	273	260	409	377
Derivative financial instruments	29	73	132	74	132
Other current interest-bearing deposits	22	1,259	1,173	1,242	1,153
Cash and cash equivalents	22	570	779	530	753
		1,829	1,952	1,772	1,906
Total current assets and receivables		2,774	2,826	2,840	2,879
Total assets		11,369	10,952	13,227	12,780
Shareholders' equity					
Issued share capital	30	290	288	290	288
Share premium		937	937	937	937
Investment in own shares			(3)		(3)
Other reserves	32	1,355	978	931	590
Total shareholders' equity		2,582	2,200	2,158	1,812
Non-controlling interests	32	200	200		
Total equity		2,782	2,400	2,158	1,812
Non-current liabilities					
Interest-bearing long-term borrowings	25	3,358	3,496	3,596	3,737
Employee benefit obligations	33	232	219	226	211
Provisions for deferred tax	10	778	788	733	751
Other provisions	27	179	164	170	139
Derivative financial instruments	29	62	4	62	4
Other long-term liabilities	24	295	306	258	265
Total non-current liabilities		4,904	4,977	5,045	5,107
Current liabilities					
Current portion of long-term borrowings	25	385	457	384	456
Trade and other payables	23	3,117	2,815	5,473	5,103
Derivative financial instruments	29	21	10	22	11
Current tax payable		12	10	6	11
Short-term provisions	27	148	283	139	280
Total current liabilities		3,683	3,575	6,024	5,861
Total equity and liabilities		11,369	10,952	13,227	12,780

Nick Swift
29 March 2012

Keith Williams
29 March 2012

British Airways Plc

Cash flow statements

£ million	Note	Group		Company	
		12 months to 31 December 2011	Nine months to 31 December 2010	12 months to 31 December 2011	Nine months to 31 December 2010
Cash flow from operating activities					
Operating profit		518	342	490	355
Depreciation, amortisation and impairment		683	570	652	539
Operating cash flow before working capital changes		1,201	912	1,142	894
Movement in inventories, trade and other receivables		(460)	12	(501)	(62)
Movement in trade and other payables and provisions		404	(28)	438	(134)
Payments in respect of restructuring		(11)	(14)	(11)	(14)
Payments in settlement of competition investigation		(147)	(3)	(147)	(3)
Other non-cash movement					(1)
Cash generated from operations		987	879	921	680
Interest paid		(147)	(87)	(124)	(72)
Taxation		(4)			
Net cash generated from operating activities		836	792	797	608
Cash flow from investing activities					
Purchase of property, plant and equipment	12	(702)	(510)	(661)	(440)
Purchase of intangible assets	15	(67)	(35)	(67)	(35)
Purchase of shares in available-for-sale financial assets		(16)	(10)	(16)	
Investment in subsidiary				(32)	
Loan made to parent		(21)		(21)	
Repayment of loan from parent		10		10	
Proceeds from sale of available-for-sale financial assets			1		
Proceeds from sale of non-current assets held for sale, property, plant and equipment		24	43	24	36
Proceeds received from loan notes		4	4	4	4
Interest received		28	17	28	16
Dividends received					102
Increase in other current interest-bearing deposits		(86)	(245)	(89)	(245)
Net cash used in investing activities		(826)	(735)	(820)	(562)
Cash flow from financing activities					
Proceeds from long-term borrowings		236	368	236	368
Repayments of borrowings		(188)	(100)	(173)	(89)
Payment of finance lease liabilities		(296)	(349)	(310)	(358)
Issue of share capital		1		1	
Distributions made to holders of perpetual securities		(18)	(13)		
Net cash flow from financing activities		(265)	(94)	(246)	(79)
Net decrease in cash and cash equivalents		(255)	(37)	(269)	(33)
Net foreign exchange differences		46	30	46	30
Cash and cash equivalents at beginning of period		779	786	753	756
Cash and cash equivalents at period end	22	570	779	530	753

British Airways Plc

Statements of changes in equity

For the year ended 31 December 2011

£ million							Group
	Issued capital	Share premium	Investment in own shares	Other reserves (note 32)	Total shareholders' equity	Non-controlling interest	Total equity
At 1 January 2011	288	937	(3)	978	2,200	200	2,400
Total comprehensive income for the period (net of tax)				592	592	18	610
Cost of share-based payment net of recharges				11	11		11
Exercise of share options			1	(5)	(4)		(4)
Transfer of investment in own shares to available-for-sale financial asset			2		2		2
Issue of share capital	291				291		291
Cancellation of shares	(289)				(289)		(289)
Revaluation and reclassification of equity portion of convertible bond				(221)	(221)		(221)
Distributions made to holders of perpetual securities						(18)	(18)
At 31 December 2011	290	937	-	1,355	2,582	200	2,782

For the nine months to 31 December 2010

£ million							Group
	Issued capital	Share premium	Investment in own shares	Other reserves (note 32)	Total shareholders' equity	Non-controlling interest	Total equity
At 1 April 2010	288	937	(4)	692	1,913	200	2,113
Total comprehensive income for the period (net of tax)				281	281	13	294
Cost of share-based payment				6	6		6
Exercise of share options			1	(1)			
Distributions made to holders of perpetual securities						(13)	(13)
At 31 December 2010	288	937	(3)	978	2,200	200	2,400

For the year ended 31 December 2011

£ million						Company
	Issued capital	Share premium	Investment in own shares	Other reserves (note 32)	Total equity	
At 1 January 2011	288	937	(3)	590	1,812	
Total comprehensive income for the year (net of tax)				556	556	
Cost of share based payment net of recharges				11	11	
Exercise of share options				(5)	(4)	
Transfer of investment in own shares to available-for-sale financial assets				2	2	
Issue of share capital	291				291	
Cancellation of shares	(289)				(289)	
Revaluation and reclassification of equity portion of convertible bond				(221)	(221)	
At 31 December 2011	290	937	-	931	2,158	

For the nine months ended 31 December 2010

£ million						Company
	Issued capital	Share premium	Investment in own shares	Other reserves (note 32)	Total equity	
At 1 April 2010	288	937	(4)	273	1,494	
Total comprehensive income for the year (net of tax)				312	312	
Cost of share-based payment				6	6	
Exercise of share options				(1)		
At 31 December 2010	288	937	(3)	590	1,812	

British Airways Plc

Notes to the accounts

1 Authorisation of financial statements and compliance with IFRSs

On 21 January 2011, BA and Iberia completed a merger to create a new leading airline group. IAG was formed and shares in IAG started trading on the London Stock Exchange, with a secondary listing in Spain, on 24 January 2011. As a consequence, the British Airways Group (the 'Group') changed its reporting period to a 31 December year end in 2010. The comparative results are the Group's published financial statements for the nine months ended 31 December 2010.

The Group's and Company's financial statements for the year ended 31 December 2011 were authorised for issue by the Board of Directors on 29 March 2012 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 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'). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRSs as issued by the 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.

* For the purposes of these statements, IFRS also includes International Accounting Standards ('IAS').

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

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

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 entities controlled by the Group. Control exists when the Group has the power either directly or indirectly to govern the financial and operating policies of the entity so as to obtain benefit from its activities. Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue. 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.

Other revenue is recognised at the time the service is provided. Commission costs are recognised at the same time as the revenue to which they relate and are charged to operating expenditure.

Revenue recognition – customer loyalty programmes

The Group operates two principal loyalty programmes. The airline's frequent flyer programme operates through the airline's 'Executive Club' and allows frequent travellers to accumulate Avios that entitle them to a choice of various awards, primarily free travel. The fair value attributed to the awarded Avios is deferred as a liability and recognised as revenue on redemption of the miles by the participants to whom the Avios are issued.

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

British Airways Plc

2 Summary of significant accounting policies continued

Revenue recognition – customer loyalty programmes continued

The Group's wholly-owned subsidiary, The Mileage Company Limited, also operates a customer loyalty scheme. The scheme allows companies to purchase Avios for use in their own promotional activities. Avios can be redeemed for a range of benefits, including flights on BA and other carriers. The fair value of the Avios sold is deferred and recognised as revenue on redemption of the Avios by the participants to whom the Avios are issued. The cost of providing redemption services is recognised when the Avios are redeemed.

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 nature of the operating segments is set out in note 3.

Intangible assets

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

a Goodwill

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.

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 cost or at fair value, 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 within the EU consider them to have an indefinite economic life.

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 four years on a straight-line basis.

d Emissions allowances

During 2011 the Group has purchased a number of emissions allowances in anticipation of being subject to the European Emissions Trading Scheme from 1 January 2012. 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.

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate 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 at the end of their planned operational lives on a straight-line basis.

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 depreciate 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.

British Airways Plc

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.

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. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period (normally 10 years), without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

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.

Property, plant and equipment and intangible 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. Such cost is 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. In the case of Iberia, the latest available results are included. In some cases, results are disclosed using unaudited management accounts. The attributable results of those companies acquired or disposed of during the year are included for the period of ownership. Refer to note 17 for details of investments in associates.

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. Such financial assets are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Gains and losses are recognised in income when the deposits are derecognised or impaired, as well as through the amortisation process.

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.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. The impairment review of available-for-sale financial assets is based on the same criteria as the impairment review of financial assets.

The fair value of quoted investments is determined by reference to 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.

British Airways Plc

2 Summary of significant accounting policies continued

Employee benefits

a Pension obligations

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

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

Current service costs are recognised within operating expenses in the period in which they arise. Past service costs are recognised when the benefit has been given. The financing cost and expected return on plan assets are recognised within financing costs in the periods in which they arise. The accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains and losses) that are less than 10 per cent of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10 per cent the excess amount is recognised on a straight-line basis in the income statement over the estimated average remaining service period.

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.

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 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 in equity as a capital contribution from IAG.

The fair value of employee share option plans is measured at the date of grant of the option using an appropriate valuation model. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, of the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entry in equity.

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.

British Airways Plc

2 Summary of significant accounting policies continued

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.

Derivatives and 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.

Other 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.

Exchange gains and losses on monetary items are taken to the income statement unless the item has been designated and is assessed as an effective hedging instrument in accordance with the requirements of IAS 39. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold, when the cumulative amount recognised in equity is recognised in the income statement.

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.

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives, fuel hedging derivatives (including options, swaps and futures) and the obligation to settle the convertible bond in shares of IAG, are measured at fair value on the Group balance sheet.

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.

British Airways Plc

2 Summary of significant accounting policies continued

Investment in own shares

Prior to the merger shares in the Company held by the Group were classified as investments in own shares and shown as deductions from shareholders' equity at cost. Consideration received for the sale of such shares was also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss was recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

Subsequent to the merger, the Group no longer holds shares in the Company. The Company shares converted to IAG shares at the date of the merger and these shares are recognised within available-for-sale financial assets.

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 are those that in management's view need to be disclosed by virtue of their size or incidence. Such items are included on the income statement under a caption to which they relate, and are separately disclosed in the notes to the consolidated financial statements.

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. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. 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, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty and are disclosed in note 33.

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 shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the income statement. Impairment losses recognised in the income statement are disclosed in note 9.

d Passenger revenue recognition

Passenger revenue is recognised when the transportation 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.

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.

British Airways Plc

2 Summary of significant accounting policies continued

Key judgements in applying the Group's accounting policies

a Impairment of available-for-sale equity instruments

The determination of impairment on an available-for-sale equity investment requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow.

b 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 down to their residual values over their estimated useful lives. Further details are provided in note 12.

Impact of new International Financial Reporting Standards

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

IFRS 3 (Amendment) 'Business Combinations'; effective for periods beginning on or after 1 January 2011. The amendment clarifies guidance on the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets and applies only to instruments that present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation. This is not currently applicable to the Group.

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; effective for periods beginning on or after 1 January 2011. The amendment includes multiple clarifications related to the disclosure of financial instruments. The standard requires a change in the presentation of the Group's notes to the financial statements but has no impact on reported profits.

IAS 1 (Amendment) 'Presentation of Financial Statements'; effective for periods beginning on or after 1 January 2011. The amendment permits, for each component of equity, the presentation of the analysis by item to be included in either the statement of changes in equity or the notes to the financial statements. The standard requires a change in the format and presentation of the Group's primary statements but has no impact on reported profits or equity.

IAS 24 (Amendment) 'Related Party Transactions'; effective for periods beginning on or after 1 January 2011. The amendment clarifies the definition of related party relationships, with particular emphasis on party relationships with persons and key management personnel. The amendment also permits that entities may be exempt from related party disclosure requirements for transactions with a government, where those entities are controlled, jointly controlled, or significantly influenced by that same government. The new definition of a related party does not impact the Group's disclosures.

IAS 34 (Amendment) 'Interim Financial Reporting'; effective for periods beginning on or after 1 January 2011. The amendment clarifies guidance on the disclosure principles involving significant events and transactions, including changes to fair value measurements, and the requirement to update relevant information from the most recent annual report.

IFRIC 14 (Amendment) 'Prepayments of a Minimum Funding Requirement'; effective for periods beginning on or after 1 January 2011. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset, where the Group is not subject to minimum funding requirements. The standard does not affect the financial position of the Group.

Other amendments resulting from Improvements to IFRSs or to standards did not have any impact on the accounting policies, financial position or performance of the Group.

New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the date of these financial statements which management believe could impact the Group in future periods. The Group plans to adopt the following standards, interpretations and amendments from 1 January 2012; however management have not yet determined the potential effect of the amendments.

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; effective for periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets when financial assets are not derecognised in their entirety, or when they are derecognised in their entirety but the entity has continuing involvement in them.

IAS 19 (Amendment) 'Employee Benefits (not yet endorsed by the EU)'; effective for periods beginning on or after 1 January 2013. The revised standard has eliminated the use of the corridor approach and instead mandated immediate recognition of all re-measurements of the defined benefit liability (asset) including gains and losses in other comprehensive income.

British Airways Plc

2 Summary of significant accounting policies continued

New standards, amendments and interpretations not yet effective continued

IFRS 9 'Financial Instruments'; (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2013. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes.

IFRS 10 'Consolidated Financial Statements' (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2013. The standard replaces the guidance on control and consolidation in IAS 27 and SIC 12 Consolidation – special purpose 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.

IFRS 11 'Joint Arrangements' (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2013. The standard 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. Proportionate consolidation for joint ventures will be eliminated and equity accounting will be mandatory. It is anticipated that the application of the standard will result in an immaterial decrease in net sales, total assets and total liabilities of the Group but have no impact on the Group's net profit or net assets.

IFRS 12 'Disclosures of Interests in Other Entities' (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2013. The standard requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

IFRS 13 'Fair value measurement' (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2013. The standard explains how to measure fair value and aims to enhance fair value disclosures. The standard does not change the measurement of fair value but codifies it in one place.

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 other standard, interpretation or amendment that has been issued but is not yet effective.

British Airways Plc

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 OpenSkies SASU (OpenSkies) and BA Cityflyer Limited (Cityflyer) are considered to be separate operating segments, their activities are considered to be sufficiently similar in nature to aggregate the two segments and report them together with the network passenger and cargo operations. Therefore, based on the way the Group treats the network passenger and cargo operations, and the manner in which resource allocation decisions are made, the Group has only one reportable operating segment for financial reporting purposes, reported as the 'airline business'.

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of The Mileage Company Limited, British Airways Holidays Limited and Speedbird Insurance Company Limited.

For the year ended 31 December 2011

£ million	Airline business	All other segments	Unallocated	Total
Revenue				
Sales to external customers	9,690	297		9,987
Inter-segment sales	106			106
Segment revenue	9,796	297		10,093
Segment result	488	30		518
Other non-operating costs	(32)			(32)
Profit before tax and finance costs	456	30		486
Net finance costs	192		(159)	33
Loss on sale of assets	(3)			(3)
Share of associates' profit	(6)			(6)
Revaluation of convertible bond derivative liability			169	169
Tax			(7)	(7)
Profit after tax	639	30	3	672
Assets and liabilities				
Segment assets	11,005	132		11,137
Investment in associates	232			232
Total assets	11,237	132		11,369
Segment liabilities	3,720	334		4,054
Unallocated liabilities *			4,533	4,533
Total liabilities	3,720	334	4,533	8,587
Other segment information				
Property, plant and equipment - additions (note 12d)	640	10		650
Non-current assets held for sale - transfers in (note 14)	11			11
Intangible assets - additions (note 15c)	72			72
Depreciation, amortisation and impairment (note 4a)	681	2		683
Impairment of available-for-sale financial assets - including Flybe (note 9)	23			23
Exceptional items (note 4b):				
Restructuring	12			12
Net impairment reversal	8			8

* Unallocated liabilities consist of current taxes of £12 million, deferred taxes of £778 million and borrowings of £3,743 million which are managed on a Group basis.

British Airways Plc

3 Segment Information continued

a Business segments continued

For the nine months ended 31 December 2010

£ million	<i>Airline business</i>	<i>All other segments</i>	<i>Unallocated</i>	<i>Total</i>
Revenue				
Sales to external customers	6,524	159		6,683
Inter-segment sales	57			57
Segment revenue	6,581	159		6,740
Segment result				
Other non-operating costs	323	19		342
	(20)			(20)
Profit before tax and finance costs	303	19		322
Net finance costs	(31)		(137)	(168)
Loss on sale of assets	(3)			(3)
Share of associates' profit	6			6
Tax			13	13
Profit/(loss) after tax	275	19	(124)	170
Assets and liabilities				
Segment assets	10,585	123		10,708
Investment in associates	244			244
Total assets	10,829	123		10,952
Segment liabilities	3,424	377		3,801
Unallocated liabilities *			4,751	4,751
Total liabilities	3,424	377	4,751	8,552
Other segment information				
Property, plant and equipment - additions (note 12d)	561	2		563
Non-current assets held for sale - transfers in (note 14)	47			47
Intangible assets - additions (note 15c)	35			35
Depreciation, amortisation and impairment (note 4a)	569	1		570
Impairment of available-for-sale financial assets - including Flybe (note 9)	18			18
Exceptional items (note 4b):				
Restructuring	6			6
Costs associated with the Iberia merger	31			31
Impairment of OpenSkies assets	12			12
Impairment of property, plant and equipment	16			16

* Unallocated liabilities consist of current taxes of £10 million, deferred taxes of £788 million and borrowings of £3,953 million which are managed on a Group basis.

British Airways Plc

3 Segment Information continued

b Geographical analysis - by area of original sale

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Europe:	6,090	3,906
UK	4,323	2,943
Continental Europe	1,767	963
The Americas:	2,163	1,493
USA and Canada	1,921	1,334
The rest of the Americas	242	159
Africa, Middle East and Indian sub-continent	998	727
Far East and Australasia	736	557
Revenue	9,987	6,683

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 £7,093 million (2010: £7,063 million) and the total of these non-current assets located in other countries is £326 million (2010: £364 million).

4 Operating profit

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

Depreciation, amortisation and impairment of non-current assets:

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Owned assets	470	370
Finance leased aircraft	158	109
Hire purchased aircraft	6	20
Other leasehold interests	47	36
Impairment (reversal)/charge on property, plant, equipment and intangible assets	(8)	28
Amortisation of intangible assets	10	7
	683	570

Operating lease costs:

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Minimum lease rentals - aircraft	73	51
- property and equipment	99	73
Aircraft sub-lease rentals received	(3)	(4)
Property and equipment sub-lease rentals received	(12)	(10)
Net onerous lease provision release	(2)	
	155	110

Cost of inventories:

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Cost of inventories recognised as an expense, mainly fuel	2,947	1,865

British Airways Plc

4 Operating Profit continued

b Exceptional items

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Recognised in operating profit:		
Restructuring costs	12	6
Impairment of OpenSkies assets		12
Impairment (reversal)/charge on property, plant, equipment and intangible assets	(8)	16
Costs associated with the Iberia merger		31
	4	65

5 Auditor's remuneration

£ '000	Group		Company	
	12 months to 31 December 2011	Nine months to 31 December 2010	12 months to 31 December 2011	Nine months to 31 December 2010
Group auditors				
Fees payable to the Group's auditor for the audit of the Group's accounts	1,467	1,701	1,467	1,701
Fees payable to the Group's auditor and its associates for other services:				
Audit of the Group's subsidiaries pursuant to legislation	350	402		
Other services pursuant to legislation	36	29	36	29
Other services relating to taxation	273	209	273	195
Services relating to corporate finance transactions	432	2,200	432	2,200
	2,558	4,541	2,208	4,125

Of the Group fees, £2,300,200 relates to the UK (nine months ended 31 December 2010: £4,343,000) and £257,400 relates to overseas (nine months ended 31 December 2010: £198,000).

Of the Company fees, £1,950,600 relates to the UK (nine months ended 31 December 2010: £3,941,000) and £257,400 relates to overseas (nine months ended 31 December 2010: £184,000).

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.

British Airways Plc

6 Employee costs and numbers

a Staff costs

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

Number	Group		Company	
	12 months to 31 December 2011	Nine months to 31 December 2010	12 months to 31 December 2011	Nine months to 31 December 2010
UK	35,101	34,745	32,988	32,699
Overseas	5,151	5,083	4,293	4,369
	40,252	39,828	37,281	37,068

£ million	Group		Company	
	12 months to 31 December 2011	Nine months to 31 December 2010	12 months to 31 December 2011	Nine months to 31 December 2010
Wages and salaries	1,424	993	1,331	930
Social security costs	157	114	143	104
Costs related to pension scheme benefits	175	157	174	153
Other post-retirement benefit costs	5	3	5	3
Other employee costs	392	280	377	270
Total employee costs excluding restructuring	2,153	1,547	2,030	1,460
Restructuring	19	(1)	18	(1)
Total employee costs	2,172	1,546	2,048	1,459

Included in 'Wages and salaries' is a total expense for share-based payments of £13 million (nine months ended 31 December 2010: £6 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

Other employee costs include allowances and accommodation for crew.

b Directors' emoluments

£'000	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Fees	213	531
Salary and benefits	1,120	903
Pension contributions	128	78
Performance-related bonuses	446	628
	1,907	2,140

During the year two Directors (nine months ended 31 December 2010: one) accrued benefits under a defined benefit pension scheme and three Directors (nine months ended 31 December 2010: one) accrued benefits under a defined contribution pension scheme.

Following the merger, two Directors of the Company were employed and remunerated by IAG and full details of their salary and benefits can be found in the Report and Accounts for IAG. A third non-executive Director was remunerated by IAG and full details of his salary and benefits can be found in the Report and Accounts for IAG. In addition, a fourth Director was also employed and remunerated by IAG in respect of his services to the IAG Group as a whole.

Prior to the merger, the aggregate emoluments for the highest paid Director were borne directly by the Company and subsequently by IAG. The aggregate emoluments for the year amounted to £972,304 and contributions to the Company's defined benefit scheme amounted to £3,928. The value of the accrued benefits in respect of his pension scheme at 31 December 2011 amounted to £2,068,769 (31 December 2010: £1,960,200).

At 31 December 2011, none of the Directors held any direct interest in any shares of the Company. However three Directors (nine months ended 31 December 2010: two) participated in Long Term Incentive Schemes of the Company that were in existence prior to the merger; these consisted of the Long Term Incentive Plan (LTIP) and the British Airways Performance Share Plan (PSP). Subsequent to the merger, six Directors (nine months ended 31 December 2010: none) also participated in IAG's Long Term Incentive Scheme called the IAG Performance Share Plan (IPSP).

During the year ended 31 December 2011, none of the Directors (nine months ended 31 December 2010: none) exercised their rights under the British Airways Share Option Plans. During the year, awards were exercised by two Directors (nine months ended 31 December 2010: none) in the form of IAG shares under the Long Term Incentive Schemes of the Company.

Compensation for loss of office is paid in accordance with the Executive Director's service contract. No Directors were paid compensation for loss of office during the year.

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7 Finance costs and income

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
a Finance costs		
On bank loans*	(23)	(13)
On finance leases	(69)	(47)
On hire purchase arrangements		(2)
On other loans*	(60)	(52)
Interest expense	(152)	(114)
Unwinding of discounting on provisions**	(11)	(13)
Capitalised interest***	1	1
Change in fair value of cross currency swaps	1	1
	(161)	(125)

* Total interest expense for financial liabilities not at fair value through the income statement is £83 million (nine months ended 31 December 2010: £65 million).

** Unwinding of discount on the competition investigation provision and restoration and handback provisions (note 27).

*** Interest costs on progress payments are capitalised at a rate based on London Interbank Offered Rate (LIBOR) plus 0.5 per cent which is the rate specific to the borrowings.

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
b Finance income		
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	32	18
	32	18
c Financing income and expense relating to pensions		
Net financing income relating to pensions	63	2
Amortisation of actuarial losses in excess of the corridor	(26)	(62)
Immediate recognition of net actuarial gains (APS)		84
Effect of the APS asset ceiling	123	(73)
	160	(49)
d Retranslation charges on currency borrowings	2	(12)

8 Loss on sale of non-current assets

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Net loss on sale of non-current assets held for sale	6	3
Net profit on sale of property, plant and equipment	(3)	
Loss on sale of non-current assets	3	3

British Airways Plc

9 Net charge relating to available-for-sale financial assets

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Income from available-for-sale financial assets	2	1
Amounts written off investments*	(23)	(19)
	(21)	(18)

* Includes a £16 million impairment of the Group's investment in Flybe Plc (note 18) (nine months ended 31 December 2010: £15 million).

10 Tax

a Tax on profit on ordinary activities

Tax charge/(credit) in the income statement

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Current income tax		
UK corporation tax	6	2
UK tax	6	2
Adjustments in respect of prior years - UK corporation tax	11	4
Adjustments in respect of prior years - Overseas Tax	(9)	
Total current income tax charge	8	6
Deferred tax		
Property, plant and equipment related temporary differences	(52)	(67)
Pension related temporary differences	75	(40)
Unremitted earnings of associate companies		(1)
Tax losses carried forward	67	121
Exchange related temporary differences	(5)	(3)
Share option deductions written back	(2)	(1)
Other temporary differences	4	
Adjustments in respect of prior years - deferred tax	(16)	8
Effect of corporation tax rate change on deferred tax balances	(72)	(36)
Total deferred tax credit	(1)	(19)
Total tax charge/(credit) in the income statement	7	(13)

British Airways Plc

10 Tax continued

a Tax on profit on ordinary activities continued

Tax (credit)/charge directly to equity	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
£ million		
Deferred tax relating to items charged to statement of other comprehensive income		
Foreign exchange	9	11
Net (losses)/gains on cash flow hedges	(23)	20
Impact of changes in substantively enacted tax rates	4	
Deferred tax relating to items charged to statement of changes in equity		
Share options in issue	1	2
Total tax (credit)/charge relating to items included in the statement of other comprehensive income and statement of other changes in equity	(9)	33

b Reconciliation of the total tax charge/(credit)

The tax charge on the profit for the year ended 31 December 2011 is less than the notional tax charge calculated at the UK corporation tax rate of 26.5 per cent.

The tax credit on the profit for the period ended 31 December 2010 is less than the notional tax charge calculated at the prior year UK corporation tax rate of 28 per cent.

The differences are explained below:

£ million	Group	
	12 month to 31 December 2011	Nine month to 31 December 2010
Accounting profit before tax	679	157
Accounting profit multiplied by standard rate of corporation tax in the UK of 26.5 per cent (2010: 28 per cent)	180	44
Effects of:		
Tax on associate and subsidiary companies		
Tax on associates' profits and dividends	2	(2)
Tax on remitted earnings		1
Euro preferred securities		
Euro preferred securities accounted for as non-controlling interests	(5)	(4)
Tax on revaluation of intra group foreign currency loans		1
Deferred tax assets not recognised		
Current year losses not recognised	6	4
Other		
Non-deductible expenses	4	14
Effect of pension fund accounting	(61)	(62)
Effect of convertible bond accounting	(45)	
Foreign exchange and unwinding of discount on competition investigation provisions	4	3
Share option deductions written back	2	
Adjustments in respect of prior years	(14)	12
Disposal and write down of investments	6	10
Overseas tax in relation to branches		2
Impact of changes in substantively enacted tax rates	(72)	(36)
Tax charge/(credit) in the income statement	7	(13)

British Airways Plc

10 Tax continued

c Deferred tax

The deferred tax included in the balance sheet is as follows:

£ million	Group		Company	
	2011	2010	2011	2010
Fixed asset related temporary differences	847	952	774	882
Pension related temporary differences	90	20	91	22
Exchange differences on funding liabilities	(22)	(30)	(22)	(30)
Advance corporation tax	(94)	(94)	(94)	(94)
Tax losses carried forward	(27)	(61)	(27)	(61)
Fair value profits recognised on cash flow hedges	15	40	15	40
Share options related temporary differences	(6)	(5)	(6)	(5)
Deferred revenue in relation to loyalty reward programmes	(29)	(32)		
Other temporary differences	4	(2)	2	(3)
At period end	778	788	733	751

Movement in provision

£ million	Group		Company	
	2011	2010	2011	2010
Balance at beginning of period	788	774	751	720
Deferred tax credit relating to income statement	(1)	(19)	(9)	(2)
Deferred tax (credit)/charge taken to statement of other comprehensive income	(10)	31	(10)	31
Deferred tax charge taken to statement of changes in equity	1	2	1	2
At period end	778	788	733	751

d Other taxes

The Group also contributed tax revenues through payment of transaction and payroll related taxes. A breakdown of these other taxes paid during 2011 is as follows:

£ million	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
UK Air Passenger Duty	471	261
Other ticket taxes	299	188
Payroll related taxes	157	111
Total	927	560

The UK Government has announced that the rates of Air Passenger Duty will increase by eight per cent from 1 April 2012.

British Airways Plc

10 Tax continued

e Factors that may affect future tax charges

Following the change in ownership of the Group on 21 January 2011, UK pre-entry capital losses carried forward of £147 million (2010: £189 million) are held. These losses are available for offset against future UK chargeable gains on assets held by the Group before the change in ownership or against assets purchases post the change from a non-group company, which are used in the trade carried on by the company at the time it joined the new group. The Group has deferred taxation arising on chargeable gains by roll-over and hold-over relief claims that have reduced the tax basis of fixed assets by £69 million (2010: £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 £70 million (2010: £75 million) arising from temporary differences in respect of future capital losses if properties are realised at their residual value.

The Group has overseas tax losses of £94 million (2010: £61 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 on or after 1 July 2009 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 (2010: £nil).

Further reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 28 per cent to 26 per cent effective from 1 April 2011. The provision for deferred tax on timing differences as at 31 December 2011 was calculated at 25 per cent, the corporation tax rate effective from 1 April 2012 as substantively enacted at 31st December 2011. The difference from the application of 25 per cent instead of 26 per cent for the three month period to 31 March 2012 is not expected to be material. The effect of further planned reductions to the main rate of corporation tax by a further one per cent from 1 April 2012 to 24 per cent, and one per cent per annum to 22 per cent by 1 April 2014, is expected to provide a estimated benefit to the Group's net assets of £105 million and will be applied in the Group's Financial Statements as the legislation is substantively enacted.

11 Dividends

The Directors declare that no dividend be paid for the year ended 31 December 2011 (nine months ended 31 December 2010: £nil).

British Airways Plc

12 Property, plant and equipment

a Group

£ million				Group
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 April 2010	11,952	1,520	744	14,216
Additions (note 12d)	545	8	10	563
Disposals	(73)	(2)	(8)	(83)
Reclassifications	(177)		(2)	(179)
Exchange movements	(3)			(3)
Balance at 31 December 2010	12,244	1,526	744	14,514
Additions (note 12d)	590	26	34	650
Disposals	(107)	(93)	(13)	(213)
Reclassifications	(137)			(137)
At 31 December 2011	12,590	1,459	765	14,814
Depreciation and impairment				
Balance at 1 April 2010	6,213	600	499	7,312
Charge for the period	457	43	35	535
Impairment charge*	18			18
Disposals	(71)	(2)	(8)	(81)
Reclassifications	(131)		(3)	(134)
Balance at 31 December 2010	6,486	641	523	7,650
Charge for the year	578	55	48	681
Impairment charge*	(8)			(8)
Disposals	(105)	(93)	(13)	(211)
Reclassifications	(126)			(126)
At 31 December 2011	6,825	603	558	7,986
Net book amounts				
31 December 2011	5,765	856	207	6,828
31 December 2010	5,758	885	221	6,864
Analysis at 31 December 2011				
Owned	3,454	823	171	4,448
Finance leased	2,088		15	2,103
Hire purchase arrangements	79			79
Progress payments	114	33	21	168
Assets not in current use**	30			30
	5,765	856	207	6,828
Analysis at 31 December 2010				
Owned	3,290	874	199	4,363
Finance leased	2,114		16	2,130
Hire purchase arrangements	201			201
Progress payments	65	11	6	82
Assets not in current use**	88			88
	5,758	885	221	6,864

£ million			Group
	31 December 2011	31 December 2010	
The net book amount of property comprises:			
Freehold	243	251	
Long leasehold improvements	261	252	
Short leasehold improvements***	352	382	
At period end	856	885	

* The 2010 impairment charge related to two Boeing 747-400 aircraft which were permanently written off to their realisable value during the period and the write down of the carrying values of property, plant and equipment relating to OpenSkies (note 16). During the year the impairment charge relating to two Boeing 747-400 aircraft was partially reversed by £8 million due to an improvement in the realisable value of the aircraft engines.

** As at 31 December 2010 five Boeing 747-400 aircraft were in temporary storage, two Boeing 747-400 aircraft were permanently stood down and one Boeing 757-200 aircraft was permanently stood down for disposal (net book value £88 million). During the year two 747-400 aircraft were returned to service, two 747-400 aircraft were dismantled for parts and the 757-200 aircraft was transferred into assets held for sale. The net book value of the remaining three 747-400s as at 31 December 2011 was £30 million.

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

As at 31 December 2011, bank and other loans of the Group are secured on fleet assets with a cost of £2,602 million (2010: £2,456 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2010: £230 million).

Included in the cost of tangible assets for the Group is £335 million (2010: £343 million) of capitalised interest.

Property, plant and equipment with a net book value of £2 million was disposed of by the Group during the year (nine months ended 31 December 2010: £2 million) resulting in £3 million profit (nine months ended 31 December 2010: Enil).

British Airways Plc

12 Property, plant and equipment continued

b Company

£ million				Company
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 April 2010	11,546	1,434	707	13,687
Additions	474	8	8	490
Disposals	(69)	(2)	(7)	(78)
Exchange	(2)			(2)
Reclassifications	(176)		1	(175)
Balance at 31 December 2010	11,773	1,440	709	13,922
Additions	556	25	23	604
Disposals	(105)	(93)	(11)	(209)
Reclassifications	(137)			(137)
At 31 December 2011	12,087	1,372	721	14,180
Depreciation and impairment				
Balance at 1 April 2010	6,023	563	468	7,054
Charge for the period	441	41	34	516
Disposals	(67)	(2)	(7)	(76)
Impairment charge*	16			16
Reclassifications	(131)			(131)
Balance at 31 December 2010	6,282	602	495	7,379
Charge for the year	554	52	44	650
Disposals	(103)	(93)	(11)	(207)
Impairment charge*	(8)			(8)
Reclassifications	(126)			(126)
At 31 December 2011	6,599	561	528	7,688
Net book amounts				
31 December 2011	5,488	811	193	6,492
31 December 2010	5,491	838	214	6,543
Analysis at 31 December 2011				
Owned	3,177	778	157	4,112
Finance leased	2,088		15	2,103
Hire purchase arrangements	79			79
Progress payments	114	33	21	168
Assets not in current use**	30			30
	5,488	811	193	6,492
Analysis at 31 December 2010				
Owned	3,027	827	192	4,046
Finance leased	2,114		16	2,130
Hire purchase arrangements	202			202
Progress payments	60	11	6	77
Assets not in current use**	88			88
	5,491	838	214	6,543

£ million	Company	
	31 December 2011	31 December 2010
The net book amount of property comprises:		
Freehold	198	206
Long leasehold improvements	261	250
Short leasehold improvements***	352	382
At period end	811	838

* The 2010 impairment charge related to two Boeing 747-400 aircraft which were permanently written off to their realisable value during the year. During 2011 the impairment charge relating to two Boeing 747-400 aircraft was partially reversed by £8 million due to an improvement in the realisable value of the aircraft engines.

** As at 31 December 2010 five Boeing 747-400 aircraft were in temporary storage, two Boeing 747-400 aircraft were permanently stood down and one Boeing 757-200 aircraft was permanently stood down for disposal (net book value £88 million). During the year two 747-400 aircraft were returned to service, two 747-400 aircraft were dismantled for parts and the 757-200 aircraft was transferred into assets held for sale. The net book value of the remaining three 747-400s as at 31 December 2011 was £30 million.

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

As at 31 December 2011, bank and other loans of the Company are secured on fleet assets with a cost of £2,342 million (2010: £2,196 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2010: £230 million).

Included in the cost of tangible assets for the Company is £335 million (2010: £343 million) of capitalised interest.

Property, plant and equipment with a net book value of £2 million was disposed of by the Company during the year (nine months ended 31 December 2010: £2 million) resulting in £3 million profit (nine months ended 31 December 2010: £nil).

British Airways Plc

12 Property, plant and equipment continued

c Depreciation

Fleet is generally depreciated over periods ranging from 18-25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

Per cent	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Boeing 747-400, 777-200 and 777-300	3.7	3.7
Boeing 767-300	4.2	4.8
Boeing 757-200	4.4	4.4
Boeing 737-400	4.2	4.8
Airbus A318, A319, A320 and A321	4.9	4.9
Embraer E170 and E190	6.4	6.4

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 residual value over the average remaining life of the related fleet. Major overhaul expenditure is depreciated over periods ranging from 49-78 months, according to engine type.

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 Analysis of Group property, plant and equipment additions

£ million	Fleet	Property	Equipment	Group	
				12 months to 31 December 2011	Nine months to 31 December 2010
Cash paid	643	24	35	702	510
Capitalised interest	1			1	1
Accrual movements	(54)	2	(1)	(53)	52
Total additions	590	26	34	650	563

13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,218 million for Group commitments (2010: £4,104 million) and £4,217 million for Company commitments (2010: £4,069 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 £4,104 million for the acquisition of three Boeing 777 (from 2012 to 2013), 24 Boeing 787s (from 2013 to 2017), 11 Airbus A320s (from 2012 to 2014), and 12 Airbus A380s (from 2013 to 2016).

14 Non-current assets held for sale

The non-current assets held for sale of £15 million (2010: £33 million) comprise three Boeing 757 aircraft (2010: six Boeing 757 aircraft), these aircraft will exit the business within 12 months of 31 December 2011.

Assets with a net book value of £11 million were transferred to non-current assets held for sale during the year ended 31 December 2011 (nine months ended 31 December 2010: £47 million).

Non-current assets held for sale with a net book value of £29 million were disposed of by the Group during the year ended 31 December 2011 (nine months ended 31 December 2010: £44 million) resulting in a net loss on disposal of £6 million (nine months ended 31 December 2010: loss of £3 million).

Non-current assets held for sale with a net book value of £29 million were disposed of by the Company during the year ended 31 December 2011 (nine months ended 31 December 2010: £39 million) resulting in a net loss on disposal of £6 million (nine months ended 31 December 2010: £5 million).

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15 Intangible assets

a Group

£ million					Group
	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 April 2010	40	251		164	455
Additions		18		17	35
Exchange movements*		(1)			(1)
Balance at 31 December 2010	40	268		181	489
Additions		34	12	26	72
Disposals				(6)	(6)
Exchange movements*		(1)			(1)
At 31 December 2011	40	301	12	201	554
Amortisation					
Balance at 1 April 2010		49		137	186
Charge for the period**				7	7
Impairment		10			10
Balance at 31 December 2010		59		144	203
Charge for the year**				10	10
Disposals				(6)	(6)
At 31 December 2011		59		148	207
Net book amounts					
31 December 2011	40	242	12	53	347
31 December 2010	40	209		37	286

* Landing rights with a carrying value of £27 million (2010: £28 million) are associated with the acquisition of L'Avion, an airline operating services between Paris (Orly) and New York (Newark) airports. These landing rights are denominated in euro.

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

b Company

£ million					Company
	Landing rights	Emissions allowances	Software	Total	
Cost					
Balance at 1 April 2010	212		164	376	
Additions	18		16	34	
Balance at 31 December 2010	230		180	410	
Additions	34	12	26	72	
Disposals			(6)	(6)	
At 31 December 2011	264	12	200	476	
Amortisation					
Balance at 1 April 2010	49		137	186	
Charge for the period			7	7	
Balance at 31 December 2010	49		144	193	
Charge for the year			10	10	
Disposals			(6)	(6)	
At 31 December 2011	49		148	197	
Net book amounts					
31 December 2011	215	12	52	279	
31 December 2010	181		36	217	

British Airways Plc

15 Intangible assets continued

c Analysis of Group intangible asset additions (excluding goodwill)

£ million	Landing Rights	Emissions allowances	Software	12 months to	Nine months
				31 December	to 31
				2011	December
Cash paid	34	7	26	67	35
Accrual movements		5		5	
Total additions	34	12	26	72	35

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 Group's other cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on two CGU's. 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 OpenSkies CGU as it contains landing rights within the EU.

An impairment review involves the comparison of the carrying value of the cash-generating unit to the recoverable amount. If the carrying value exceeds the recoverable amount an impairment charge is recognised to the extent that the carrying value exceeds the recoverable amount.

a Network airline operations

£ million	2011				Group		
	Emissions allowances	Landing rights	Goodwill	Total	Landing rights	Goodwill	Total
Network airline operations	12	215	40	267	181	40	221

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 UK long-term growth assumptions. 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.

Key assumptions

	12 months to	Group
	31 December	Nine months to
	2011	31 December
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	10.00%	8.90%
Long-term growth rate	2.50%	2.50%
Operating margin range	2.9% - 8.1%	5.0% - 7.1%
Fuel price range per barrel	\$114 - \$120	\$89 - \$95

British Airways Plc

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

a Network airline operations continued

Recoverable amount

£ million	Group	
	2011	2010
Intangible assets	320	221
Tangible assets	6,827	6,858
Excess of recoverable amount over carrying amount	2,317	2,178

The recoverable amount of the assets within the network airline operations exceeds the carrying value by £2.3 billion (2010: £2.2 billion). If the discount rate were increased by 610 basis points (2010: 530 basis points) or the operating margin were to decrease by 44 per cent (2010: 42 per cent), the headroom would amount to £nil.

b OpenSkies

£ million	2011		Group	
	Landing rights	Total	Landing rights	Total
Carrying value of intangible assets (before impairment charges)	27	27	38	38
Impairment of OpenSkies landing rights		-	(10)	(10)
Carrying value of intangible assets*	27	27	28	28

*Included within total intangible assets allocated to the OpenSkies CGU are £20 million (2010: £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 five-year period. Cash flows beyond the five-year period are projected to increase in line with the EU long-term growth assumption. 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 (nine months ended 31 December 2010: £12 million impairment charge). The 2010 impairment charge was pro-rated to the CGU's non-current assets based on their respective carrying values. £10 million was allocated to landing rights, with the remainder being allocated to property, plant and equipment.

The recoverable amount of the assets within OpenSkies exceeds the carrying value by £20 million (2010: £nil). If the discount rate were increased by 380 basis points (2010: nil) or the operating margin were to decrease by 31 per cent (2010: nil), the headroom would amount to £nil. Following the impairment in the prior period, the recoverable amount equalled the carrying value at 31 December 2010, and consequently any adverse change to the discount rate or the operating margin would have resulted in a further impairment in the prior period.

Key assumptions

	Group	
	12 months to 31 December 2011	Nine months to 31 December 2010
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	10.00%	8.90%
Long-term growth rate	2.50%	2.50%
Operating margin range	(10.4%) - 4.7%	(12.4%) - 3.9%
Fuel price range per barrel	\$114 - \$120	\$89 - \$95

The operating margins of both CGU's are based on the estimated effects of planned business efficiency and business change programmes, approved and committed 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.

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

c Impairment of Fleet

During the year ended 31 December 2011 a previously recognised impairment charge relating to two Boeing 747-400 aircraft that were permanently stood down in 2010 was partially reversed by £8 million (nine months ended 31 December 2010: impairment charge of £16 million). The reversal arose due to an improvement in the realisable value of the aircraft during the year. These aircraft were included in assets not in current use at 31 December 2010.

The impairment review of OpenSkies at 31 December 2010 resulted in a total impairment charge of £12 million. This impairment was pro-rated to the CGU's non-current assets based on their respective carrying values. £2 million was allocated to fleet, with the remainder being allocated to landing rights. No impairment was identified from the impairment review at 31 December 2011.

17 Investments

a Group

Investment in associates

£ million	Group	
	2011	2010
Balance at start of year/period	244	197
Exchange movements	(4)	(7)
Share of attributable results	(6)	6
Share of movements on other reserves	(2)	48
At 31 December	232	244

Market value of listed associates

£ million	Group	
	2011	2010
At 31 December	-	340

Details of the investments that the Group accounts for as associates using the equity method are set out below:

	Percentage of equity owned	Principal activities	Holding	Country of incorporation and principal operations
IB Opco Holding S.L ('Iberia')*	13.55	Airline operations	Ordinary shares	Spain

* Held by a subsidiary company

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

As a result of the merger, Iberia delisted from the Spanish stock exchange on 20 January 2011. As part of the merger, Iberia also cancelled their treasury stock, which increased the Group's shareholding from 13.15% to 13.55%.

The following summarised financial information of the Group's investment in associates is shown based on the Group's share of results and net assets:

£ million	Group	
	2011	2010
Non-current assets	346	343
Current assets	292	330
Current liabilities	(225)	(229)
Non-current liabilities	(190)	(216)
Share of net assets	223	228
Goodwill attributable to investments in associates	9	16
Revenues	588	405
Net profit after tax	(6)	6

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17 Investments continued

b Company

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

£ million			Company	
	Cost	Provisions	Total 2011	Total 2010
Balance at start of year/period	3,376	(1,043)	2,333	2,368
Exchange movements	(3)		(3)	(8)
Additions	32		32	
Provision		(58)	(58)	(27)
At 31 December	3,405	(1,101)	2,304	2,333

The Company accounts for its investments in subsidiaries and associates using the cost method.

The Group's and Company's principal investments in subsidiaries, associates and other investments are listed in principal investments on page 78.

During the year the company invested £32 million (nine months ended 31 December 2010: £nil) in the subsidiary BA European Limited.

The charge during the year of £58 million (nine months ended 31 December 2010: £27 million) relates to the £25 million impairment of the Group's investment in The Plimsoll Line (2010: £15 million), which holds the investment in Flybe Plc and the £33 million impairment (2010: £12 million) of the Company's investment in BA European Limited, which holds the Group's investment in Openskies.

18 Available-for-sale financial assets

£ million	Group		Company	
	2011	2010	2011	2010
Available-for-sale financial assets	39	65	24	18

Available-for-sale financial assets are measured at fair value. For listed investments the fair value comprises the market price at the balance sheet date. For unlisted investments the fair value is estimated by reference to an earnings multiple model or by reference to other valuation methods.

In December 2010 Flybe Ltd listed on the London Stock Exchange and became Flybe Plc. The Group invested a further £9 million in Flybe Plc in order to maintain a 15% holding, increasing the value of the holding in Flybe Plc to £50 million. As a result of the listing, Flybe Plc is classified as a Level 1 financial asset and measured at its fair value (market price). The valuation at 31 December 2011 showed a decline in fair value and accordingly the Group recognised a net impairment charge of £16 million in the income statement (note 9).

Available-for-sale investments include investments in listed ordinary shares, which by their nature have no fixed maturity date or coupon rate.

The table below shows total listed and unlisted available-for-sale investments.

£ million	Group		Company	
	2011	2010	2011	2010
Listed	24	47	9	
Unlisted	15	18	15	18
At 31 December	39	65	24	18

For a summary of the movement in available-for-sale financial assets, refer to note 29.

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19 Inventories

£ million	Group		Company	
	2011	2010	2011	2010
Expendables and consumables	139	98	137	96

20 Trade receivables

£ million	Group		Company	
	2011	2010	2011	2010
Trade receivables	470	393	458	377
Provision for doubtful receivables	(10)	(9)	(10)	(9)
Net trade receivables	460	384	448	368

Movements in the provision for doubtful receivables were as follows:

£ million	Group	Company
At 1 April 2010	10	10
Provision for doubtful receivables	2	2
Receivables written off during the period	(1)	(1)
Unused amounts reversed	(2)	(2)
At 31 December 2010	9	9
Provision for doubtful receivables	4	4
Receivables written off during the year	(2)	(2)
Unused amounts reversed	(1)	(1)
At 31 December 2011	10	10

The ageing analysis of trade receivables is as follows:

£ million	Total	Neither past due nor impaired	Past due but not impaired		
			< 30 days	30 - 60 days	> 60 days
Group					
31 December 2011	460	379	58	10	13
31 December 2010	384	345	25	4	10
Company					
31 December 2011	448	371	54	10	13
31 December 2010	368	339	18	2	9

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

21 Other current assets

£ million	Group		Company	
	2011	2010	2011	2010
Amounts owed by subsidiaries			190	172
Other debtors	101	99	100	99
Prepayments and accrued income	172	161	119	106
At 31 December	273	260	409	377

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

a Cash and cash equivalents

£ million	Group		Company	
	2011	2010	2011	2010
Cash at bank and in hand	569	614	530	589
Short-term deposits falling due within three months	1	165		164
Cash and cash equivalents	570	779	530	753
Other current interest-bearing deposits maturing after three months	1,259	1,173	1,242	1,153

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 £570 million for the Group (2010: £779 million) and for the Company £530 million (2010: £753 million).

Cash and cash equivalents includes £66 million of restricted cash at 31 December 2011 (2010: £nil), being cash deposited by the Company which is not available for general use by the Group. The cash deposited will be used to satisfy the terms of a funding agreement with the APS and NAPS Pension Trustees with the balance returned to the Group. The final amount required to settle the agreement with the Pension Trustees is subject to uncertainty, but will not be in excess of the £66 million.

At 31 December 2011, the Group and Company had no outstanding bank overdrafts (2010: £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	
	2011	2010
Decrease in cash and cash equivalents during the period	(255)	(37)
Net cash outflow from decrease in debt and lease financing	484	449
Increase in other current interest-bearing deposits	86	245
New loans and finance leases taken out and hire purchase arrangements made	(236)	(368)
Decrease in net debt resulting from cash flow	79	289
Exchange movements and other non-cash movements	8	(2)
Decrease in net debt during the period	87	287
Net debt at start of year/period	(2,001)	(2,288)
Net debt 31 December	(1,914)	(2,001)

c Analysis of net debt

£ million	Group				Balance at 31 December
	Balance at beginning of period	Net Cash flow	Other non-cash	Exchange	
Cash and cash equivalents	786	(37)		30	779
Current interest-bearing deposits maturing after three months	928	245			1,173
Bank and other loans	(1,484)	(88)	(16)	(23)	(1,611)
Finance leases and hire purchase arrangements	(2,518)	169	(14)	21	(2,342)
<i>At 31 December 2010</i>	<i>(2,288)</i>	<i>289</i>	<i>(30)</i>	<i>28</i>	<i>(2,001)</i>
Cash and cash equivalents	779	(255)		46	570
Current interest-bearing deposits maturing after three months	1,173	86			1,259
Bank and other loans	(1,611)	128	(10)	(23)	(1,516)
Finance leases and hire purchase arrangements	(2,342)	120	(20)	15	(2,227)
At 31 December 2011	(2,001)	79	(30)	38	(1,914)

Net debt comprises the current and non-current portions of long-term borrowings less cash and cash equivalents and other current interest-bearing deposits.

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23 Trade and other payables

£ million	Group		Company	
	2011	2010	2011	2010
Trade creditors	857	717	814	679
Unredeemed frequent flyer liabilities	6	4	6	4
Amounts owed to subsidiary companies			2,709	2,672
Other creditors:				
Other creditors	567	475	566	471
Other taxation and social security	27	36	26	35
	594	511	592	506
Accruals and deferred income:				
Sales in advance of carriage	750	755	707	715
Accruals and deferred income	910	828	645	527
	1,660	1,583	1,352	1,242
At 31 December	3,117	2,815	5,473	5,103

24 Other long-term liabilities

£ million	Group		Company	
	2011	2010	2011	2010
Other creditors	7	10		
Accruals and deferred income	288	296	258	265
At 31 December	295	306	258	265

25 Long-term borrowings

£ million	Group		Company	
	2011	2010	2011	2010
a Current				
Bank and other loans*	192	177	165	152
Finance leases**	180	217	195	230
Hire purchase arrangements	13	63	13	63
Loans from subsidiaries			11	11
At 31 December	385	457	384	456
b Non-current				
Bank and other loans*	1,324	1,434	1,038	1,120
Finance leases**	2,029	2,044	2,172	2,202
Hire purchase arrangements	5	18	5	18
Loans from subsidiaries			381	397
At 31 December	3,358	3,496	3,596	3,737

* Bank and other loans are repayable up to the year 2024. Bank and other loans of the Group amounting to US\$276 million (2010: US\$314 million), €68 million (2010: €70 million), ¥47,268 million (2010: ¥53,939 million) and £297 million (2010: £332 million), and bank loans of the Company amounting to US\$276 million (2010: US\$314 million), €68 million (2010: €70 million), ¥47,268 million (2010: ¥53,939 million) and £125 million (2010: £146 million) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or other property, plant and equipment.

** Included in finance leases for the Company is £158 million (2010: £171 million) of finance leases with other subsidiaries of the Group, of which £15 million (2010: £13 million) is classified as current.

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25 Long-term borrowings continued

c Bank and other loans

Bank and other loans comprise the following:

£ million	Group		Company	
	2011	2010	2011	2010
£350 million fixed rate 5.8 per cent convertible bond 2014 (i)	293	285	293	285
£250 million fixed rate 8.75 per cent eurobonds 2016 (ii)	248	248	248	248
Floating rate sterling mortgage loans secured on aircraft (iii)	156	171	116	128
Floating rate US dollar mortgage loans secured on aircraft (iv)	36	49	36	49
Fixed rate sterling mortgage loans secured on aircraft (v)	141	160	9	17
Floating rate Japanese yen mortgage loans secured on aircraft (vi)	388	415	388	415
Floating rate US dollar mortgage loans secured on plant and equipment (vii)	29	36	29	36
Floating rate euro mortgage loan secured on aircraft (viii)	57	60	57	60
Fixed rate US dollar mortgage loan secured on aircraft (ix)	141	153		
European Investment Bank sterling loans secured on property (x)	27	34	27	34
	1,516	1,611	1,203	1,272
Less: current instalments due on bank loans	192	177	165	152
At 31 December	1,324	1,434	1,038	1,120

- (i) £350 million fixed rate 5.8 per cent convertible bond, raising cash of £341 million (net of issue costs), convertible into ordinary shares at the option of the holder, before or upon maturity in August 2014. The bond was originally convertible into ordinary shares of the Company. Following the merger, bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in the Company. Conversion into ordinary shares will occur at a premium of 38 per cent on the Group's share price on the date of issuance. The Group hold an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. During the prior year the equity portion of the convertible bond issue was included in other reserves. Following the merger it converted to a derivative financial instrument.
- (ii) £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment on 23 August 2016.
- (iii) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.53 per cent and 0.59 per cent above LIBOR. The loans are repayable between 2015 and 2019.
- (iv) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.99 per cent above LIBOR. The loans are repayable by 2016.
- (v) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 6.3 per cent to 7.35 per cent. The loans are repayable between 2012 and 2018.
- (vi) Floating rate Japanese yen mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.55 per cent above LIBOR. The loans are repayable between 2014 and 2016.
- (vii) Floating rate US dollar mortgage loans are secured on certain plant and equipment of the Group and bear interest of 0.75 per cent above LIBOR. The loans are repayable in 2014.
- (viii) The floating rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 0.5 per cent above LIBOR. The loan is repayable in 2024.
- (ix) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear an average interest of 4.63 per cent and are repayable between 2021 and 2022.
- (x) European Investment Bank loans are secured on certain property assets of the Group and bear interest of between 0.2 per cent and 0.0 per cent below LIBOR. The loans are repayable between 2014 and 2017.

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25 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

million	Group		Company	
	2011	2010	2011	2010
Loans:				
Bank:				
US dollar	\$322	\$369	\$102	\$132
Euro	€68	€70	€68	€70
Japanese yen	¥47,268	¥53,939	¥47,268	¥53,939
Sterling	£324	£366	£152	£179
	£975	£1,078	£662	£739
Fixed rate bonds:				
Sterling	£541	£533	£541	£533
Loans from subsidiary undertakings:				
US dollar			\$220	\$237
Euro			€300	€300
			£392	£408
Finance leases:				
US dollar	\$1,929	\$1,940	\$1,929	\$1,940
Euro	€139	€130	€139	€130
Japanese yen	¥3,327	¥3,268	¥3,327	¥3,268
Sterling	£832	£876	£990	£1,047
	£2,209	£2,261	£2,367	£2,432
Hire purchase arrangements:				
US dollar	\$28	\$46	\$28	\$46
Japanese yen		¥6,604		¥6,604
Sterling	£18	£81	£18	£81
At 31 December	£3,743	£3,953	£3,980	£4,193

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. These are at the option of the Group. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

£ million	Group		Company	
	2011	2010	2011	2010
Future minimum payments due:				
Within one year	259	339	282	361
After more than one year but within five years	1,111	1,094	1,211	1,190
In five years or more	1,174	1,235	1,242	1,330
	2,544	2,668	2,735	2,881
Less: Finance charges	317	326	350	368
Present value of minimum lease payments	2,227	2,342	2,385	2,513
The present value of minimum lease payments is analysed as follows:				
Within one year	193	280	208	293
After more than one year but within five years	927	905	1,007	977
In five years or more	1,107	1,157	1,170	1,243
At 31 December	2,227	2,342	2,385	2,513

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26 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from five years for aircraft to 150 years for ground leases. Certain leases contain options for renewal.

a Fleet

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

£ million	Group		Company	
	2011	2010	2011	2010
Within one year	63	73	63	67
Between one and five years	144	265	137	261
Over five years	109	297	109	297
At 31 December	316	635	309	625

b Property and equipment

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

£ million	Group		Company	
	2011	2010	2011	2010
Within one year	84	89	81	86
Between one and five years	251	290	237	281
Over five years, ranging up to the year 2145	1,692	1,756	1,682	1,754
At 31 December	2,027	2,135	2,000	2,121

c Sub-leasing

The Group and Company sub-lease surplus rental properties and aircraft assets held under non-cancellable leases to third parties and subsidiary companies. These leases have remaining terms of one to 35 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

£ million	Group		Company	
	2011	2010	2011	2010
Fleet				
Within one year		4		1
At 31 December		4		1
Property and equipment				
Within one year	8	8	8	8
Between one and five years	18	26	18	26
At 31 December	26	34	26	34

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27 Provisions for liabilities and charges

	Group						
£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	Total
At 1 January 2011							
Current		1	24	20	230	8	283
Non-current	24	6	89		32	13	164
Arising during the year	24	7	113	20	262	21	447
Utilised		(2)	(13)	(11)	(153)	(25)	(204)
Release of unused amounts	(11)	(2)	(9)	(13)	(2)	(2)	(39)
Exchange			1		(1)	(2)	(2)
Unwinding of discount			2		9		11
At 31 December 2011	13	3	109	21	154	27	327
Analysis:							
Current	5		11	21	96	15	148
Non-current	8	3	98		58	12	179
	13	3	109	21	154	27	327

	Company					
£ million	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	Total
At 1 January 2011						
Current		22	20	230	8	280
Non-current	6	88		32	13	139
Arising during the year	6	110	20	262	21	419
Utilised	(1)	(12)	(11)	(153)	(25)	(202)
Release of unused amounts	(2)	(9)	(13)	(2)	(2)	(28)
Exchange		1		(1)	(2)	(2)
Unwinding of discount		2		9		11
At 31 December 2011	3	106	20	154	26	309
Analysis:						
Current		8	20	96	15	139
Non-current	3	98		58	11	170
	3	106	20	154	26	309

Insurance provisions relate to provisions held by the Group's captive insurer, Speedbird Insurance Company Limited, for incurred but not reported losses. This provision is expected to be fully utilised by 2017. Such provisions are held until utilised or such time as further claims are considered unlikely under the respective insurance policies.

The onerous lease provision in the prior year includes the sub-lease of six Avro RJ100 aircraft to Swiss International Air Lines. This provision was fully utilised during 2011. In addition, the provision includes amounts relating to properties leased by the Group that are either sub-leased to third parties or are vacant with no immediate intention to utilise the property. This provision is expected to be fully utilised by 2027.

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27 Provisions for liabilities and charges continued

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. This provision will be utilised by March 2051.

The Group recognised a restructuring provision of £21 million at 31 December 2011 (2010: £20 million) including targeted voluntary severance schemes previously announced. This provision is expected to be utilised during the next financial year.

There is an ongoing Competition Act investigation by the UK Office of Fair Trading into the Company's passenger fuel surcharges for the period prior to March 2006. The Company is also subject to class action claims regarding cargo fuel surcharges in various jurisdictions. The Company 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. The final amount required to pay the remaining claims and fines is subject to uncertainty. A detailed breakdown of the provision is not presented as it may seriously prejudice the position of the Company in the regulatory investigation and potential litigation.

Other provisions include staff leaving indemnities relating to amounts due to staff under various overseas contractual arrangements.

28 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 Board, 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; and 10 per cent between quarters six and eight, with the flexibility to operate within +/- 10 per cent of the policy.

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						Company					
31 December 2011			31 December 2010			31 December 2011			31 December 2010		
Increase/ (decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/ (decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/ (decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/ (decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million
30 (30)	9 (3)	539 (505)	30 (30)	(4) (16)	420 (340)	30 (30)	9 (3)	539 (505)	30 (30)	(5) (15)	420 (340)

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28 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 (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.

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

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

Forward foreign exchange contracts and currency options are used to cover near-term future revenues and operating payments in a variety of currencies.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar, euro and Japanese yen exchange rates, with all other variables held constant, on profit/(loss) before tax and equity.

Group	Strengthening /(weakening) in US dollar rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in euro rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in yen rate per cent	Effect on profit before tax £ million	Effect on equity £ million
31 December 2011	10 (10)	(12) 12	(10) 7	10 (10)	(1) 1	(67) 64	10 (10)	- -	(42) 42
<i>31 December 2010</i>	<i>10</i> <i>(10)</i>	<i>(4)</i> <i>4</i>	<i>(79)</i> <i>79</i>	<i>10</i> <i>(10)</i>	<i>(2)</i> <i>2</i>	<i>(35)</i> <i>35</i>	<i>10</i> <i>(10)</i>	<i>(3)</i> <i>3</i>	<i>(49)</i> <i>49</i>

Company	Strengthening /(weakening) in US dollar rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in euro rate per cent	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in yen rate per cent	Effect on profit before tax £ million	Effect on equity £ million
31 December 2011	10 (10)	(14) 14	(10) 7	10 (10)	(2) 2	(67) 64	10 (10)	- -	(42) 42
<i>31 December 2010</i>	<i>10</i> <i>(10)</i>	<i>(6)</i> <i>6</i>	<i>(79)</i> <i>79</i>	<i>10</i> <i>(10)</i>	<i>(2)</i> <i>2</i>	<i>(35)</i> <i>35</i>	<i>10</i> <i>(10)</i>	<i>(3)</i> <i>3</i>	<i>(49)</i> <i>49</i>

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Had there been a 50 basis point increase in interest rates, there would have been less than £1 million (2010: £nil) impact on the Group and Company's shareholders' equity, and a £nil (2010: £1 million) impact to both the Group and Company's income statement. A 50 basis point decrease in interest rates would have resulted in a £nil (2010: £nil) impact to shareholder equity or the income statement for both Group and Company.

British Airways Plc

28 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 29.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 34.

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 at 31 December 2011 assigned by Moody's and Standard and Poor's respectively were B1 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 2011 the Group and Company had unused overdraft facilities of £10 million (2010: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 December 2011 (2010: £25 million).

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

million	31 December 2011	
	Currency	£ equivalent
US dollar facility expiring June 2012	\$589	377
US dollar facility expiring June 2013	\$504	322
US dollar facility expiring September 2016	\$966	618
US dollar facility expiring October 2016	\$509	325
million	31 December 2010	
	Currency	£ equivalent
Japanese yen facility expiring January 2011	¥7,784	60
US dollar facility expiring June 2012	\$696	448
US dollar facility expiring June 2013	\$708	456
US dollar facility expiring September 2016	\$966	622
US dollar facility expiring October 2016	\$509	327

British Airways Plc

28 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet 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	Total 2011
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(102)	(157)	(291)	(820)	(1,174)	(2,544)
Fixed rate borrowings	(41)	(49)	(81)	(771)	(123)	(1,065)
Floating rate borrowings	(87)	(79)	(167)	(321)	(65)	(719)
Trade and other payables	(1,739)					(1,739)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	21	12	2			35
Fuel derivatives	6	8	(4)			10
Currency option contracts	2	2	1			5
Convertible bond derivative liability				(52)		(52)
At 31 December	(1,940)	(263)	(540)	(1,965)	(1,363)	(6,071)

£ million						Group
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2010
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(210)	(129)	(245)	(849)	(1,235)	(2,668)
Fixed rate borrowings	(42)	(48)	(90)	(509)	(459)	(1,148)
Floating rate borrowings	(85)	(68)	(145)	(375)	(120)	(793)
Trade and other payables	(1,228)					(1,228)
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(1)	(4)
Forward currency contracts	3	3				6
Fuel derivatives	82	44	19			145
Forward currency contracts	(8)	(2)				(10)
At 31 December	(1,488)	(200)	(462)	(1,735)	(1,815)	(5,700)

British Airways Plc

28 Financial risk management objectives and policies continued

e Liquidity risk continued

£ million						Company
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2011
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(113)	(169)	(314)	(897)	(1,242)	(2,735)
Fixed rate borrowings	(43)	(43)	(77)	(731)	(720)	(1,614)
Floating rate borrowings	(83)	(78)	(163)	(301)	(52)	(677)
Trade and other payables	(4,141)					(4,141)
Derivative financial instruments:						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	21	12	2			35
Fuel derivatives	6	8	(4)			10
Currency option contracts	2	2	1			5
Convertible bond derivative liability				(52)		(52)
At 31 December	(4,351)	(268)	(555)	(1,982)	(2,015)	(9,171)

£ million						Company
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2010
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(221)	(140)	(267)	(923)	(1,330)	(2,881)
Fixed rate borrowings	(43)	(43)	(87)	(496)	(1,037)	(1,706)
Floating rate borrowings	(82)	(68)	(141)	(361)	(96)	(748)
Trade and other payables	(3,857)					(3,857)
Derivative financial instruments:						
Cross currency swaps			(1)	(2)	(1)	(4)
Forward currency contracts	3	3				6
Fuel derivatives	82	44	19			145
Forward currency contracts	(9)	(2)				(11)
At 31 December	(4,127)	(206)	(477)	(1,782)	(2,464)	(9,056)

f 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. See note 22 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interests and net debt.

The gearing ratios at each period end were as follows:

£ million (except ratios)	Group	
	31 December 2011	31 December 2010
Shareholder's equity	2,582	2,200
Add non-controlling interests	200	200
Total equity	2,782	2,400
Net debt (a)	1,914	2,001
Total capital (b)	4,696	4,401
Gearing ratio (a)/(b)	40.8	45.5

British Airways Plc

29 Financial instruments

a 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 at 31 December 2011 are set out below:

£ million				Group	
	Level 1	Level 2	Level 3	Fair value Total	Carrying value Total
Financial assets:					
Available-for-sale financial assets	24		15	39	39
Forward currency contracts*		35		35	35
Fuel derivatives*		39		39	39
Currency option contracts*		5		5	5
Financial liabilities:					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations		2,403		2,403	2,227
Fixed rate borrowings	544	318		862	824
Floating rate borrowings		692		692	692
Cross currency swaps**		2		2	2
Fuel derivatives**		29		29	29
Convertible bond derivative liability**		52		52	52

* Current portion of derivative financial assets is £73 million

** Current portion of derivative financial liabilities is £21 million

The carrying amounts and fair values of the Group's financial assets and liabilities at 31 December 2010 are set out below:

£ million				Group	
	Level 1	Level 2	Level 3	Fair value Total	Carrying value Total
Financial assets:					
Available-for-sale financial assets	47		18	65	65
Forward currency contracts*		6		6	6
Fuel derivatives*		145		145	145
Financial liabilities:					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations		2,432		2,432	2,342
Fixed rate borrowings	675	346		1,021	846
Floating rate borrowings		765		765	765
Cross currency swaps**		4		4	4
Forward currency contracts**		10		10	10

* Current portion of derivative financial assets is £132 million

** Current portion of derivative financial liabilities is £10 million

British Airways Plc

29 Financial instruments continued

a Fair values of financial assets and financial liabilities continued

The fair values of the Company's financial assets and liabilities at 31 December 2011 are set out below:

<i>£ million</i>				Company	
	Level 1	Level 2	Level 3	Fair value Total	Carrying value Total
Financial assets:					
Available-for-sale financial assets	9		15	24	24
Forward currency contracts*		36		36	36
Fuel derivatives*		39		39	39
Currency option contracts*		5		5	5
Financial liabilities:					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations		2,583		2,583	2,385
Fixed rate borrowings	544	424		968	943
Floating rate borrowings		652		652	652
Cross currency swaps**		2		2	2
Forward currency contracts**		1		1	1
Fuel derivatives**		29		29	29
Convertible bond derivative liability**		52		52	52

* Current portion of derivative financial assets is £74 million

** Current portion of derivative financial liabilities is £22 million

The fair values of the Company's financial assets and liabilities at 31 December 2010 are set out below:

<i>£ million</i>				Company	
	Level 1	Level 2	Level 3	Fair value Total	Carrying value Total
Financial assets:					
Available-for-sale financial assets			18	18	18
Forward currency contracts*		6		6	6
Fuel derivatives*		145		145	145
Financial liabilities:					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations		2,621		2,621	2,513
Fixed rate borrowings	675	443		1,118	958
Floating rate borrowings		722		722	722
Cross currency swaps**		4		4	4
Forward currency contracts**		11		11	11
Fuel derivatives**		1		1	1

* Current portion of derivative financial assets is £132 million

** Current portion of derivative financial liabilities is £11 million

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 2011. For other investments (level 3) the fair value cannot be measured reliably, as such these assets are stated at historic cost less accumulated impairment losses.

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 repayments that the Group is committed to make have been discounted at the relevant market interest rates applicable at 31 December 2011 (level 2).

Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

These amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked-to-market basis. The carrying value of £nil (2010: £51 million) is determined with reference to the effective interest rate (level 2).

Euro-sterling notes and Euro-sterling bond 2016

These are stated at quoted market value (level 1).

Convertible bond 2014

These are stated at quoted market value (level 1).

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

These are stated at the market value of instruments with similar terms and conditions at the balance sheet date (level 2).

British Airways Plc

29 Financial instruments continued

b Level 3 financial assets reconciliation

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

£ million	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
At beginning of period	18	62	18	21
Repayment of loan notes (classified as available-for-sale financial assets)	(4)	(4)	(4)	(4)
Interest accrued on loan notes (classified as available-for-sale financial assets)	1	1	1	1
Reclassification of available-for-sale investment to level 1*		(41)		
At 31 December	15	18	15	18

* In the prior year investment in Flybe Limited was reclassified from Level 3 to Level 1 as a result of the instrument being listed on the London Stock Exchange in December 2010.

c Hedges

i Cash flow hedges

At 31 December 2011 the Group and Company held 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					Total 31 December 2011
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	31	29	73	97	32	262
Forward contracts to hedge future payments	(22)	(14)	(4)			(40)
Hedges of future fuel purchases	(15)	(7)	2			(20)
	(6)	8	71	97	32	202
Related deferred tax charge						(50)
Total amount included within equity						152

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

million		Group	Company
		Notional amount	Notional amount
To hedge future currency revenues against US dollars		\$781	\$781
To hedge future operating payments in US dollars		\$973	\$973
Hedges of future fuel purchases		\$3,417	\$3,417
Debt repayments to hedge future revenue	- US dollars	\$2,080	\$2,080
	- euro	€ 207	€ 207
	- Japanese yen	¥50,595	¥50,595

British Airways Plc

29 Financial instruments continued

c Hedges continued

i Cash flow hedges continued

<i>£ million</i>	<i>Group</i>					<i>Total 31 December 2010</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>	
Debt repayments to hedge future revenue	20	27	53	145	51	296
Forward contracts to hedge future payments		(1)				(1)
Hedges of future fuel purchases	(78)	(44)	(23)	(1)		(146)
	(58)	(18)	30	144	51	149
Related deferred tax charge						(40)
Total amount included within equity						109

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

<i>million</i>	<i>Group</i>		<i>Company</i>	
	<i>Notional amount</i>	<i>Notional amount</i>	<i>Notional amount</i>	<i>Notional amount</i>
To hedge future currency revenues against US dollars	\$508		\$508	
To hedge future operating payments against US dollars	\$165		\$165	
Hedges of future fuel purchases	\$2,352		\$2,344	
Debt repayments to hedge future revenue			\$2,158	\$2,158
- US dollars			€ 200	€ 200
- euro			¥63,811	¥63,811
- Japanese yen				

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a loss of £11 million (2010: £2 million). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases.

ii Fair value hedges

The Group has no hedges designated as fair value hedges.

iii Net investments in foreign operations

The Group has no hedges designated as hedges of net investments in foreign operations.

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.

British Airways Plc

30 Share capital

	Group and Company			
	12 months ended 31 December 2011		Nine months ended 31 December 2010	
	Number of shares 000s	£ million	Number of shares 000s	£ million
Allotted, called up and fully paid				
Ordinary share capital of 25 pence each				
At beginning of period	1,153,689	288	1,153,674	288
Exercise of options under Employee Share Option Schemes			15	
Issue of shares to convertible bond holders	476	1		
Cancellation of shares	(1,154,165)	(289)		
At 31 December	-	-	1,153,689	288
A1 Ordinary shares of £289.7 each				
Issue of new shares	897	260		
At 31 December	897	260	-	-
A2 Ordinary shares of £289.7 each				
Issue of new shares	99	29		
At 31 December	99	29	-	-
B Ordinary shares of £1 each				
Issue of new shares	1,000	1		
At 31 December	1,000	1	-	-
At 31 December	1,996	290	1,153,689	288

Pursuant to the merger, the £0.25 ordinary shares of the Group and Company were cancelled by way of a scheme of arrangement under Part 26 of the Companies Act 2006, and A1, A2 and B class ordinary shares were issued. 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.

British Airways Plc

31 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 by the Group of specified performance targets.

All the schemes contained a provision relating to change of control. In accordance with rules of the relevant schemes (other than LTIP), options and awards held by the participants were automatically exchanged for new options and awards, of equivalent value and on the same terms, to acquire IAG shares. All options granted under the LTIP were already exercisable at the merger date, and remained exercisable for a period of three months subsequent to the merger before lapsing. Alternatively LTIP option holders could agree to exchange their existing options for the grant of new equivalent IAG options.

Where the vesting of awards and options were subject to the satisfaction of performance conditions relating to the BA Group, the relevant scheme committees have determined these schemes are now dependent on the performance of the IAG Group.

Prior to the merger, awards were made under schemes operated by the Company and represented rights over its ordinary shares. Subsequent to the merger, awards to employees of the Group and Company have only been made under the IAG Performance Share Plan and IAG Bonus Deferral Plan, operated by IAG, and represent rights over its ordinary shares.

a Share Option Plan

The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three-year vesting period. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant with the exception of grants made during the year ended 31 March 2005, when there was a single re-test after a further year which measured performance of the Group over the four-year period from the date of grant. No further grants of options under the SOP will be made other than those during the year ended 31 March 2006, in relation to performance during the year ended 31 March 2005 (for which there will be no re-testing).

b Long Term Incentive Plan

The British Airways Long Term Incentive Plan (1996) (LTIP) awarded options to senior executives conditional upon the Company's achievement of a performance condition measured over three financial years. If granted, all options may be exercised at any time until the seventh anniversary of the date of grant and no payment is due upon exercise of the options. No further awards under the LTIP have been made since 16 June 2004.

c Performance Share Plan

In 2005 the Group introduced the British Airways Performance Share Plan 2005 (BA PSP) for key senior executives and in 2009 this was extended to selected members of the wider management team. 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. No payment is due upon vesting of the shares. No further awards under the PSP have been made since 17 September 2010.

d Deferred Share Plan

In 2006 the Group introduced the British Airways Deferred Share Plan 2005 (DSP) granted to qualifying employees based on performance and service tests. It will be awarded when a bonus is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant management population will receive a percentage of their bonus in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent. In September 2010, the Group awarded options to selected members of the management and non-management population. No further awards under the DSP have been made since 17 September 2010.

e IAG Performance Share Plan

In 2011 the IAG Group introduced the IAG Performance Share Plan (IPSP), granted to senior executives and managers of the Company 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 IAG Group. The award made will vest based 70 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years, and 30 per cent on achievement of IAG synergy targets. No payment is required from individuals when the shares are awarded.

f IAG Bonus Deferral Plan

In 2011 the IAG Group introduced the IAG Bonus Deferral Plan (IBDP), granted to qualifying employees based on performance and service tests. It will be awarded when a bonus 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 bonus in cash and the remaining 50 per cent in shares through the IBDP.

British Airways Plc

31 Share Options continued g Share options summary

	Deferred Share Plan				Performance Share Plan				Long Term Incentive Plan			
	Number of shares ('000s)		Weighted average fair value (£)		Number of shares ('000s)		Weighted average fair value (£)		Number of shares ('000s)		Weighted average fair value (£)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Outstanding at beginning of period	5,516	499			15,899	10,702			577	679		
Granted in the period		5,145		2.35		6,758		1.49		14		(116)
Exercised during the year **/**	(482)	(96)			(689)				(212)			
Expired/cancelled	(153)	(32)			(2,355)	(1,561)			(15)			
At 31 December	4,881	5,516			12,855	15,899			350	577		
Of which exercisable	114	30							350	577		

	Share Option Plan				IAG Performance Share Plan				IAG Bonus Deferral Plan			
	Number of shares ('000s)		Weighted average exercise price (£)		Number of shares ('000s)		Weighted average fair value (£)		Number of shares ('000s)		Weighted average fair value (£)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Outstanding at beginning of period *	7,085	8,879	2.56	2.66								
Granted in the period					6,170		1.16		697		2.31	
Exercised during the year **/**	(86)	(94)	2.09	2.19								
Expired/cancelled	(1,374)	(1,700)	2.89	3.48	(34)				(5)			
At 31 December	5,625	7,085	2.49	2.56	6,136				692			
Of which exercisable	5,625	7,085	2.49	2.56								

* Included within this balance are options over 416,538 (2010: 636,073) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The average share price at the date of exercise for the SOP exercised is £2.63 (2010: £2.27).

*** Part of the exercise of share options during the year was met through shares previously held by British Airways Employees Benefits Trust (Jersey) Limited.

Range of exercise prices 2011 for Share Option Plan

Range of exercise prices	Options outstanding and exercisable		
	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £
£1.57 - £2.61	1,132	1.12	1.66
£2.62 - £2.76	4,493	3.02	2.70
At 31 December 2011	5,625	2.64	2.49

Range of exercise prices 2010 for Share Option Plan

Range of exercise prices	Options outstanding and exercisable		
	Number of shares 000s	Weighted average remaining life (years)	Weighted average exercise price £
£1.57 - £2.61	1,231	2.15	1.65
£2.62 - £3.20	5,218	4.02	2.70
£3.21 - £3.94	636	0.48	3.21
At 31 December 2010	7,085	3.38	2.56

For all outstanding share option schemes as at 31 December 2011, the weighted average remaining contractual life is two years (2010: three years). For options granted during the year the weighted average option life was three years (2010: three years).

British Airways Plc

31 Share options continued g Share option summary continued

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial lattice or Monte-Carlo model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model for the IPSP options (2010: BA PSP options) granted in the period:

	31 December 2011	<i>31 December 2010</i>
Expected share price volatility (per cent)	50	56
Historical volatility (per cent)	50	56
Expected comparator group volatility (per cent)	27 - 96	27 - 119
Expected comparator correlation (per cent)	40	39
Expected life of options (years)	3	3
Weighted average share price (£)	1.67	2.35

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. Volatility was calculated with reference to the Group's weekly share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The fair value of the IPSP (2010: BA PSP) also takes into account a market condition of total shareholder returns as compared to strategic competitors. No other features of options granted were incorporated into the measurement of fair value.

The share-based payments charge has been recorded in the income statement as follows:

	12 months to 31 December 2011	<i>Nine months to 31 December 2010</i>
BA granted schemes	11	6
IPSP and IDBP schemes recharged from IAG	2	
Total share-based payments charge recorded in employee costs	13	6

British Airways Plc

32 Other reserves and non-controlling interests

a Group

£ million						Group	
	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Total	Non-controlling interests*	
Balance at 1 April 2010	741	(175)	42	84	692	200	
Profit for the period attributable to shareholders	157				157		
Exchange differences and other movements	(6)		(2)		(8)		
Cost of share-based payment	6				6		
Exercise of share options	(1)				(1)		
Fair value of cash flow hedges transferred to passenger revenue		27			27		
Fair value of cash flow hedges transferred to fuel and oil costs		1			1		
Fair value of cash flow hedges transferred to currency differences		(11)			(11)		
Net change in fair value of cash flow hedges		67			67		
Share of other movements in reserves of associates	48				48		
Total income and expense for the period	204	84	(2)		286		
<i>At 1 January 2011</i>	<i>945</i>	<i>(91)</i>	<i>40</i>	<i>84</i>	<i>978</i>	<i>200</i>	
Profit for the period attributable to shareholders	654				654		
Exchange differences and other movements			(4)		(4)		
Cost of share-based payment net of recharges	11				11		
Exercise of share options	(5)				(5)		
Fair value of cash flow hedges transferred to passenger revenue		33			33		
Fair value of cash flow hedges transferred to fuel and oil costs		8			8		
Fair value of cash flow hedges transferred to currency differences		6			6		
Net change in fair value of cash flow hedges		(86)			(86)		
Impact of changes in substantively enacted tax rates		(4)			(4)		
Share of other movements in reserves of associates	(2)				(2)		
Revaluation and reclassification of equity portion of convertible bond				(221)	(221)		
Net movement on available-for-sale financial assets		(13)			(13)		
Total income and expense for the year	658	(56)	(4)	(221)	377		
At 31 December 2011	1,603	(147)	36	(137)	1,355	200	

* 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. The effect of the securities on the Group as a whole, taking into account the subordinate 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.

British Airways Plc

32 Other reserves and non-controlling interests continued

b Company

£ million	Company			Total
	Retained earnings	Unrealised gains and losses	Equity portion of convertible bond	
Balance at 1 April 2010	380	(191)	84	273
Profit for the year attributable to shareholders	228			228
Cost of share-based payment	6			6
Exercise of share options	(1)			(1)
Fair value of cash flow hedges transferred to passenger revenue		27		27
Fair value of cash flow hedges transferred to fuel and oil costs		1		1
Fair value of cash flow hedges transferred to currency differences		(11)		(11)
Net change in fair value of cash flow hedges		67		67
Total income and expense for the period	233	84		317
At 1 January 2011	613	(107)	84	590
Profit for the period attributable to shareholders	598			598
Exchange differences and other movements	1			1
Cost of share-based payment net of recharges	11			11
Exercise of share options	(5)			(5)
Fair value of cash flow hedges transferred to passenger revenue		33		33
Fair value of cash flow hedges transferred to fuel and oil costs		8		8
Fair value of cash flow hedges transferred to currency differences		6		6
Net change in fair value of cash flow hedges		(86)		(86)
Impact of changes in substantively enacted tax rates		(4)		(4)
Revaluation and reclassification of equity component of convertible bond			(221)	(221)
Total income and expense for the year	605	(43)	(221)	341
At 31 December 2011	1,218	(150)	(137)	931

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.

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

The equity portion of convertible bond reserve represents the equity portion of the £350 million fixed rate 5.8 per cent convertible bond (note 25) after deduction of transaction costs of £2 million. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in BA. In order to facilitate the issuing of IAG equity, a guarantee was issued from IAG to BA whereby IAG have guaranteed the payment of the principal and interest to the bondholders. In addition, BA will pay for shares in IAG on behalf of the bondholders in the event of a conversion, at a predetermined price of £1.89 to allow BA to meet the conversion obligation. As a result, the equity portion of the convertible bond has been revalued and £221 million has been reclassified during 2011 to a derivative financial liability as it now represents BA's obligation to deliver a fixed number of shares in IAG to the bondholders. The derivative financial liability is revalued at the end of each reporting period. During the year ended 31 December 2011, the derivative financial liability was revalued downwards by £169 million (nine months ended 31 December 2010: £nil).

Investment in own shares consisted of shares in the Company held by British Airways Employee Benefits Trust for the purposes of the Employee Share Ownership plans including the Long Term Incentive Plan. In the prior period the Group and Company held 795,733 shares for these schemes. Subsequent to the merger these shares were converted to IAG shares and are recognised within available-for-sale financial assets.

British Airways Plc

33 Pension costs

The Company operates two funded principal defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are closed to new members. APS has been closed to new members since 31 March 1984 and NAPS closed to new members on 31 March 2003. From 1 April 2003 the Company commenced a new defined contribution scheme, the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 18 employed by the Company and certain subsidiary undertakings in the UK may become members. The assets of the scheme are held in separate trustee-administered funds.

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 were historically based on the Retail Price Index (RPI). In 2010, the Government decided to use the Consumer Price Index (CPI) to set each ARO. 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.

Pension contributions for APS and NAPS were determined by actuarial valuations made as at 31 March 2009 using assumptions and methodologies agreed between the Company and the Trustees of each scheme. At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £5,925 million and £6,096 million respectively. The value of the assets represented 85.2 per cent (APS) and 69.4 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations determined employer contribution rates for future service of an average of 34.7 per cent of pensionable pay for APS and 16.6 per cent of pensionable pay for NAPS.

In order to address the deficits in the schemes, BA committed to deficit payments until 2023 for APS and 2026 for NAPS which, taken together with future service costs, will see annual cash contributions maintained at approximately £330 million in real terms. In addition to cash contributions collateral was provided to APS, triggered in the event of BA's insolvency, of £230 million of guarantees (first issued in 2007) and a further £250 million issued in 2010. In NAPS the recovery plan included changes to future pension benefits, giving members a choice of lower accrual rates or higher contributions.

During 2010 the trustees of APS purchased an insurance contract with Rothesay Life, which covers 20 per cent of the pensioner liabilities as at 18 June 2010 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. For the purpose of IAS 19 the insurance contract asset is valued at £1,122 million as at 31 December 2011. The insurance contract can only be used to pay or fund employee benefits under the pension scheme.

During the year the trustees of APS secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent of the pensioner liabilities for the same members covered by the contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the premiums payable by the Scheme under the contract. For the purpose of IAS 19 the contract obligation is valued at £44 million as at 31 December 2011. In addition, the Trustees have granted security over £68 million of the pension assets in favour of Rothesay Life.

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. The Company participates in a multi-employer defined benefit plan operated in the US by the International Association of Machinists (IAM) and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were £1.8 million (2010: £1.5 million). The Company also operates a closed US defined benefit plan and total contributions of £15.9 million are forecast to be made in 2012.

Employer contributions in respect of overseas employees have been determined in accordance with best local practice.

Total employer contributions to defined contribution pension plans both in the UK and overseas for the year ended 31 December 2011 were £30 million (nine months ended 31 December 2010: £20 million).

a Employee benefit schemes recognised on the balance sheet

£ million	Employee benefit obligations		Employee benefit assets	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Arising under defined benefit pension plans and post-retirement benefits	63	65	1,100	575
Arising under post-retirement medical benefit plans	159	143		
Total arising under post-retirement benefits	222	208	1,100	575
Other employee benefit obligations	10	11		
At period end	232	219	1,100	575

At 31 December 2011, NAPS was recognised on the balance sheet as an asset. However, due to the level of unrecognised losses it holds, its net position is a liability and therefore on all future tables within this note, it is included as an employee benefit obligation.

Employee benefit assets refer to the Group and Company in all instances. Employee benefit obligations include £6 million (2010: £7 million) relating to British Airways Holidays Limited; with the remainder relating to the Company.

British Airways Plc

33 Pension Costs continued

b Scheme assets and liabilities

31 December 2011

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	4,530	162	4,692	689	16	705
Bonds	3,023	74	3,097	4,502	14	4,516
Others*	1,548	9	1,557	1,729	4	1,733
Fair value of scheme assets	9,101	245	9,346	6,920	34	6,954
Present value of scheme liabilities	10,000	587	10,587	6,041	33	6,074
Net pension (liability)/asset	(899)	(342)	(1,241)	879	1	880
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	508	(222)	286	584	8	592
Cumulative actuarial (losses)/gains not recognised	(1,407)	(120)	(1,527)	295	(7)	288
	(899)	(342)	(1,241)	879	1	880

* Included within the APS balance are the insurance contract and longevity swap with Rothesay Life.

31 December 2010

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	5,616	183	5,799	881	19	900
Bonds	1,874	70	1,944	3,827	17	3,844
Others**	1,142	10	1,152	1,677		1,677
Fair value of scheme assets	8,632	263	8,895	6,385	36	6,421
Present value of scheme liabilities	9,633	623	10,256	5,853	33	5,886
Net pension (liability)/asset	(1,001)	(360)	(1,361)	532	3	535
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	204	(208)	(4)	363	8	371
Restriction on APS surplus due to the asset ceiling				123		123
Cumulative actuarial (losses)/gains not recognised	(1,205)	(152)	(1,357)	46	(5)	41
	(1,001)	(360)	(1,361)	532	3	535

** Included within the APS balance is the insurance contract with Rothesay Life.

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

British Airways Plc

33 Pension Costs continued

c Amounts recognised in the income statement

£ million	12 months ended 31 December 2011					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	132	8	140	9	1	10
Recognised in arriving at operating profit	132	8	140	9	1	10
Expected return on scheme assets	(605)	(20)	(625)	(312)	(2)	(314)
NAPS administration expense	11		11			
Interest costs on scheme liabilities	522	29	551	312	2	314
Amortisation of actuarial losses in excess of the corridor	17	9	26			
Effect of the APS asset ceiling				(123)		(123)
Other finance (income)/ cost	(55)	18	(37)	(123)	-	(123)

The value of the APS scheme assets is impacted by the asset ceiling test, which restricts the surplus that can be recognised to only those amounts that can be recovered through refunds or reductions in future contributions. The asset ceiling has increased at 31 December 2011 resulting in a £123 million credit to the income statement and a corresponding increase to the asset recognised on the balance sheet.

£ million	Nine months ended 31 December 2010					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	124	6	130	7		7
Recognised in arriving at operating profit	124	6	130	7	-	7
Expected return on scheme assets	(434)	(14)	(448)	(245)	(1)	(246)
NAPS administration expense	8		8			
Interest costs on scheme liabilities	410	23	433	250	1	251
Amortisation of actuarial losses in excess of the corridor	57	5	62			
Immediate recognition of net actuarial gains (APS)				(84)		(84)
Effect of the APS asset ceiling				73		73
Other finance cost/ (income)	41	14	55	(6)	-	(6)

d Unrecognised cumulative actuarial gains and losses

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Amount of unrecognised actuarial (losses)/gains at 1 April 2010	(2,103)	(128)	(2,231)	(171)	(3)	(174)
Actual return on scheme assets	596	17	613	173	2	175
Less: Expected return on scheme assets	(434)	(14)	(448)	(245)	(1)	(246)
Actuarial gains on plan assets	162	3	165	(72)	1	(71)
Actuarial losses on plan liabilities	679	(32)	647	373	(3)	370
Amortisation of actuarial losses in excess of the corridor	57	5	62			
Immediate recognition of net actuarial gains (APS)				(84)		(84)
Cumulative unrecognised actuarial losses at 31 December 2010	(1,205)	(152)	(1,357)	46	(5)	41
Actual return on scheme assets	303	(9)	294	801	(1)	800
Less: Expected return on scheme assets	(605)	(20)	(625)	(312)	(2)	(314)
Actuarial (losses)/ gains on plan assets	(302)	(29)	(331)	489	(3)	486
Actuarial gains/(losses) on plan liabilities	83	52	135	(240)	1	(239)
Amortisation of actuarial losses in excess of the corridor	17	9	26			
Cumulative unrecognised actuarial (losses)/gains at 31 December 2011	(1,407)	(120)	(1,527)	295	(7)	288

The actuarial assumptions made for the expected rates of return on assets were derived by considering best estimates for the expected long-term real rates of return from the main asset classes and combining these in proportions for each scheme. These assumed rates of return are net of investment expenses.

British Airways Plc

33 Pension Costs continued e Actuarial assumptions

Per cent per annum	31 December 2011			31 December 2010		
	NAPS	APS*	Other schemes	NAPS	APS*	Other schemes
Inflation (CPI)	2.25	2.15		3.0	2.9	
Inflation (RPI)	3.0	2.9	1.8-4.6	3.5	3.4	0.5- 4.6
Rate of increase in pensionable pay*	3.0	2.9	2.0-8.5	3.5	3.4	2.8 - 8.5
Rate of increase of pensions in payment	2.15	2.15	1.5-4.6	2.9	2.9	1.5 -4.6
Discount rate	5.0	4.7	1.2-8.3	5.5	5.5	1.8 - 8.3
Expected rate of return on scheme assets	5.5	3.7	4.4-8.5	7.0	5.0	3.0 -8.5

* Rate of increase in salaries is assumed to be in line with inflation. The first increase in pensionable pay is assumed to be in February 2013 for APS.

Rate of increase in healthcare costs is based on medical trend rates of 8.0 per cent grading down to 5.0 per cent over six years (2010: 8.5 per cent to 5.0 per cent over seven years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the PPA12 mortality tables. If the post-retirement mortality tables used for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by around £200 million in both APS and NAPS.

If the discount rate were to be decreased by 0.1 per cent without changing any other assumptions, the defined benefit obligation would increase by approximately £70 million in APS and £190 million in NAPS.

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

£ million	Increase	Decrease
Effect on aggregate service cost and interest cost	(3)	2
Effect on defined benefit obligation	(32)	26

f Present value of scheme liabilities

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at 1 April 2010	9,969	579	10,548	6,247	31	6,278
Current service cost	124	6	130	7		7
Interest cost	410	23	433	250	1	251
Benefits paid	(229)	(18)	(247)	(280)	(2)	(282)
Employee contributions	38	1	39	2		2
Actuarial (gains)/ losses	(679)	32	(647)	(373)	3	(370)
As at 31 December 2010	9,633	623	10,256	5,853	33	5,886
Current service cost	132	8	140	9	1	10
Interest cost	522	29	551	312	2	314
Benefits paid	(254)	(22)	(276)	(375)	(2)	(377)
Employee contributions	50	1	51	2		2
Actuarial (gains)/ losses	(83)	(52)	(135)	240	(1)	239
At 31 December 2011	10,000	587	10,587	6,041	33	6,074

The defined benefit obligation comprises £204 million (2010: £248 million) arising from unfunded plans and £10,383 million (2010: £10,008 million) from plans that are wholly or partly funded.

British Airways Plc

33 Pension Costs continued

g Fair value of scheme assets

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
<i>As at 1 April 2010</i>	<i>8,024</i>	<i>253</i>	<i>8,277</i>	<i>6,443</i>	<i>36</i>	<i>6,479</i>
Expected return on plan assets	434	14	448	245	1	246
NAPS administration expense	(8)		(8)			
Employer contributions	211	10	221	47		47
Employee contributions	38	1	39	2		2
Benefits paid	(229)	(18)	(247)	(280)	(2)	(282)
Actuarial gains/(losses)	162	3	165	(72)	1	(71)
As at 31 December 2010	8,632	263	8,895	6,385	36	6,421
Expected return on plan assets	605	20	625	312	2	314
NAPS administration expense	(11)		(11)			
Employer contributions	381	12	393	107	1	108
Employee contributions	50	1	51	2		2
Benefits paid	(254)	(22)	(276)	(375)	(2)	(377)
Actuarial (losses)/ gains	(302)	(29)	(331)	489	(3)	486
At 31 December 2011	9,101	245	9,346	6,920	34	6,954

h History of experience gains and losses

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at 31 December 2011						
Fair value of scheme assets	9,101	245	9,346	6,920	34	6,954
Present value of defined benefit obligation	(10,000)	(587)	(10,587)	(6,041)	(33)	(6,074)
(Deficit)/surplus in the scheme	(899)	(342)	(1,241)	879	1	880
Experience (gains)/ losses arising on plan liabilities	(83)	(52)	(135)	240	(1)	239
Experience gains/ (losses) arising on plan assets	(302)	(29)	(331)	489	(3)	486
As at 31 December 2010						
Fair value of scheme assets	8,632	263	8,895	6,385	36	6,421
Present value of defined benefit obligation	(9,633)	(623)	(10,256)	(5,853)	(33)	(5,886)
(Deficit)/surplus in the scheme	(1,001)	(360)	(1,361)	532	3	535
Experience (gains)/ losses arising on plan liabilities	(679)	32	(647)	(373)	3	(370)
Experience gains/ (losses) arising on plan assets	162	3	165	(72)	1	(71)
As at 31 March 2010						
Fair value of scheme assets	8,024	253	8,277	6,443	36	6,479
Present value of defined benefit obligation	(9,969)	(579)	(10,548)	(6,247)	(31)	(6,278)
(Deficit)/surplus in the scheme	(1,945)	(326)	(2,271)	196	5	201
Experience (gains)/ losses arising on plan liabilities	2,493	67	2,560	1,253	3	1,256
Experience gains/ (losses) arising on plan assets	1,552	47	1,599	661	10	671
As at 31 March 2009						
Fair value of scheme assets	6,049	203	6,252	5,925	28	5,953
Present value of defined benefit obligation	(7,216)	(497)	(7,713)	(5,065)	(28)	(5,093)
(Deficit)/surplus in the scheme	(1,167)	(294)	(1,461)	860		860
Experience (gains)/ losses arising on plan liabilities	(980)	98	(882)	(372)	(1)	(373)
Experience gains/ (losses) arising on plan assets	(1,964)	(25)	(1,989)	(723)	(9)	(732)
As at 31 March 2008 (restated)						
Fair value of scheme assets	7,348	221	7,569	6,668	35	6,703
Present value of defined benefit obligation	(7,705)	(384)	(8,089)	(5,432)	(29)	(5,461)
(Deficit)/surplus in the scheme	(357)	(163)	(520)	1,236	6	1,242
Experience (gains)/ losses arising on plan liabilities	(873)	(28)	(901)	(616)	3	(613)
Experience gains/ (losses) arising on plan assets	(489)	(26)	(515)	182	1	183

The directors are unable to determine how much of the pension scheme surplus or deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of those pension schemes.

British Airways Plc

34 Contingent liabilities

There were contingent liabilities at 31 December 2011 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group and the Company have guaranteed certain borrowings, liabilities and commitments, which at 31 December 2011 amounted to £343 million (2010: £391 million) and £592 million (2010: £645 million) respectively. For the Company these included guarantees given in respect of the fixed perpetual preferred securities issued by subsidiary undertakings.

The Group is involved in certain claims and litigation related to its operations. In the opinion of management, liabilities, if any, arising from these claims and litigation will not have a material adverse effect on the Group's consolidated financial position or results of operations. The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and 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.

35 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year to 31 December 2011 (nine months to 31 December 2010) under review with related parties.

£ million	Group		Company	
	12 months to 31 December 2011	Nine months to 31 December 2010	12 months to 31 December 2011	Nine months to 31 December 2010
Parent:				
Sales to/ purchases on behalf of parent	9			
Purchases from parent	24			
Amounts owed by parent	12			
Associates:				
Sales to associates	80	37	80	37
Purchases from associates	124	42	124	42
Amounts owed by associates	4	1	4	1
Amounts owed to associates	28	7	28	7
Subsidiaries:				
Sales to subsidiaries			122	67
Purchases from subsidiaries			129	95
Amounts owed by subsidiaries			341	314
Amounts owed to subsidiaries			3,258	3,252

In addition, the Company meets certain costs of administering the Group's retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to £8 million in relation to the costs of the Pension Protection Fund levy (2010: £4 million).

Parent company - International Consolidated Airlines Group S.A (IAG)

On 21 January 2011, BA and Iberia completed a merger to create a new leading airline group. IAG was formed and shares in IAG started trading on the London Stock Exchange, with a secondary listing in Spain, on 24 January 2011. As a consequence, the Company is now owned by IAG.

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.

Additionally, during the year a loan was provided by the Group to IAG, of which £12 million was outstanding at 31 December 2011. Interest under £1 million was charged on the loan during the year ended 31 December 2011.

Transactions with IAG are carried out on an arms length basis.

During the year, the Group purchased shares in IAG. The Company held a £9 million investment in IAG as at 31 December 2011, which was classified as an available-for-sale financial asset.

British Airways Plc

35 Related party transactions continued

Associates

IB Opco Holding, S.L. (Iberia)

The Group has a 13.55 per cent investment in Iberia. Increased areas of opportunity for co-operation have been identified as a result of the merger and work continues to pursue and implement these. Sales and purchases between related parties are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms specified by the IATA Clearing House.

In October 2010, the Group launched the Joint Business Agreement ("JBA"), a new venture with American Airlines and Iberia covering flights between Europe and North America. The commencement of the JBA followed clearance from the EU and the grant of anti trust immunity by the US Department of Transportation, and allows pooling and sharing of certain revenues and costs, expanded codeshare arrangements, reciprocal earn and burn arrangements for frequent flyer programs and co-operation in other areas. Transactions and balances with Iberia arising from this arrangement are included in the 2011 disclosures above.

As at 31 December 2011 the net trading balance owed to Iberia by the Group amounted to £24 million (2010: £6 million).

Other associates

There was a remaining net trading balance under £1 million as at 31 December 2011 due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited (2010: under £1 million).

Subsidiaries

Transactions with subsidiaries are carried out on an arm's length basis. Outstanding balances that relate to 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 accordance with the inter-company loan agreements.

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with Directors or officers of the Company at 31 December 2011 or arose during the year that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006.

In addition to the above, the Group and Company also have transactions with related parties that are conducted in the normal course of airline business. These include the provision of airline and related services.

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 2011 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2010: £nil).

Compensation of key management personnel (which includes the Directors and Leadership Team of the Group):

£ million	Group		Company	
	12 months to 31 December 2011	Nine months to 31 December 2010	12 months to 31 December 2011	Nine months to 31 December 2010
Short-term employee benefits	5	3	5	3
Share-based payments	3	1	3	1
At period end	8	4	8	4

A management fee in respect of the Group's apportionment of services provided by the Directors and Leadership Team of IAG is included within purchases from parent above.

36 Post balance sheet events

On 22 December 2011, the Company entered into a binding agreement with Deutsche Lufthansa AG (Lufthansa) for the acquisition of the shares of British Midland Limited (bmi) for consideration of £172.5 million. Under the agreement £60 million of the purchase price will be paid in four instalments to Lufthansa pre-completion. At 31 December 2011 one instalment of £15 million has been paid, with the remaining three instalments totalling £45 million disclosed within capital commitments.

The acquisition is expected to complete during the first half of 2012, subject to regulatory clearance from the European Commission and other bodies. Under the terms of the agreement the Company is liable to pay a termination fee of £10 million if phase one EU regulatory approval is not achieved by 31 March 2012, and either party elects to terminate the agreement.

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37 Foreign currency translation rates

	At period end		Average	
	31 December 2011	31 December 2010	12 month average 2011	Nine month average 2010
£1 equals				
US dollar	1.56	1.55	1.60	1.54
Euro	1.20	1.18	1.15	1.18
Japanese yen	122	130	128	134

British Airways Plc

Operating and financial statistics

		12 months to 31 December	Nine months to 31 December		12 months to 31 March	
Total Group operations (note 1)		2011	2010	2010	2009	2008*
Traffic and capacity						
Revenue passenger km (RPK)	m	117,348	81,971	110,851	114,346	118,395
Available seat km (ASK)	m	150,152	104,415	141,178	148,504	149,576
Passenger load factor	%	78.2	78.5	78.5	77.0	79.1
Cargo tonne km (CTK)	m	4,793	3,478	4,537	4,638	4,892
Total revenue tonne km (RTK)	m	16,597	11,736	15,588	16,054	16,797
Total available tonne km (ATK)	m	22,849	15,973	21,278	22,293	22,872
Overall load factor	%	72.6	73.5	73.3	72.0	73.4
Passengers carried	'000	34,250	24,088	31,825	33,117	34,613
Tonnes of cargo carried	'000	785	570	760	777	805
Revenue aircraft km	m	657	461	618	644	644
Revenue flights	'000	275	191	257	279	281
Operations						
Average manpower equivalent (MPE)		36,164	35,778	37,595	41,473	41,745
RTKs per MPE		458.9	328.0	414.6	387.1	402.4
ATKs per MPE		631.8	446.4	566.0	537.5	547.9
Aircraft in service at year end		245	240	238	245	245
Aircraft utilisation (average hours per aircraft per day)		11.13	10.48	10.43	10.68	10.91
Unduplicated route km	'000	656	630	628	621	629
Punctuality - within 15 minutes	%	83	76	81	77	63
Regularity	%	99.3	92.9	98.0	98.6	98.2
Financial						
Passenger revenue per RPK	p	7.43	7.11	6.30	6.85	6.42
Passenger revenue per ASK	p	5.81	5.58	4.94	5.28	5.08
Cargo revenue per CTK	p	15.42	15.27	12.12	14.51	12.57
Average fuel price (US cents/US gallon)		312.71	222.64	189.24	284.06	245.26
Interest cover (note 2)	times	6.3	2.5	(2.9)	(3.6)	15.4
Dividend cover	times	n/a	n/a	n/a	(5.9)	n/a
Operating margin (note 3)	%	5.2	5.1	(2.9)	(2.4)	10.0
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	1,274	1,024	642	645	1,780
Net debt/total capital ratio (note 4)	%	40.8	45.5	52.0	56.3	28.7
Net debt/total capital ratio including operating leases	%	48.5	55.1	63.1	62.8	38.2
Total traffic revenue per RTK	p	57.00	54.21	48.31	53.00	48.91
Total traffic revenue per ATK	p	41.40	39.83	35.39	38.17	35.92
Total operating expenditure per RTK (note 5)	p	57.05	54.03	52.76	57.38	46.91
Total operating expenditure per ATK (note 5)	p	41.44	39.70	38.65	41.32	34.45

* Restated for the adoption of IFRIC 13 and 14 and to include frequent flyer passenger numbers.

** EBITDAR calculated as Earnings before Interest Depreciation Amortisation and Aircraft lease costs

British Airways Plc

Operating and financial statistics continued

Notes:

- Operating statistics do not include those of associate undertakings and franchisees.
- Interest cover is defined as the number of times profit before tax excluding net interest payable covers the net interest payable. Interest cover is not a financial measure under IFRS. However, management believes this measure is useful to investors when analysing the Group's ability to meet its interest commitments from current earnings. The following table shows a reconciliation of net interest payable for each of the two most recent financial years:

£ million (except ratios)	12 months to 31 December 2011	Nine months to 31 December 2010
Profit before tax	679	157
Net interest payable (a)	(129)	(107)
Profit adjusted for interest payable (b)	808	264
Interest cover (b)/(a)	6.3	2.5

- Operating margin is defined as operating profit as a percentage of revenue. Revenue comprises: passenger revenue (scheduled services and non scheduled services), cargo services and other revenue.
- Net debt as a percentage of total capital. Net debt is defined as the total of loans, finance leases and hire purchase liabilities, net of short-term loans and deposits and cash less overdrafts. See note 22 to the financial statements for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interest and net debt. Total capital and the net debt/total capital ratio are not financial measures under IFRS. Similarly, net debt adjusted to include obligations under operating leases is not a financial measure under IFRS. However, management believes these measures are useful to investors when analysing the extent to which the Group is funded by debt rather than by shareholders' funds. The following table shows a reconciliation of total capital to total shareholders' funds and the net debt/capital ratio for each of the two most recent financial years:

£ million (except ratios)	12 months to 31 December 2011	Nine months to 31 December 2010
Capital and reserves	2,582	2,200
Add non-controlling interests	200	200
Total shareholders' equity	2,782	2,400
Net debt (a)	1,914	2,001
Total capital (b)	4,696	4,401
Net debt/total capital percentage (a)/(b)	40.8	45.5

- Total expenditure on operations, total expenditure on operations per RTK and total expenditure on operations per ATK are not financial measures under IFRS. However, management believes these measures are useful to investors as they provide further analysis of the performance of the Group's main business activity, namely airline operations. The Board of Directors reviews these measures internally on a monthly basis as an indication of management's performance in reducing costs. The following table shows a reconciliation of total expenditure on operations per RTK and total expenditure on operations per ATK for each of the two most recent financial years:

£ million (except ratios)	12 months to 31 December 2011	Nine months to 31 December 2010
Total expenditure on operations	9,469	6,341
RTKs	16,597	11,736
ATKs	22,849	15,973
Total expenditure on operations per RTKs (p)	57.05	54.03
Total expenditure on operations per ATKs (p)	41.44	39.70

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Fleet Table

Number in service with Group companies at 31 December 2011

	On Balance Sheet fixed assets	Off Balance Sheet operating leases	Total December 2011	Total December 2010	Changes since December 2010	Future deliveries (note 7)	Options (note 8)
AIRLINE OPERATIONS (note 1)							
Airbus A318	2		2	2			
Airbus A319	31	2	33	33			
Airbus A320 (note 2)	28	12	40	40		11	31
Airbus A321	11		11	11			
Airbus A380						12	7
Boeing 737-400	19		19	19			
Boeing 747-400 (note 3)	52		52	50	2		
Boeing 757-200 (note 4)	1	2	3	4	(1)		
Boeing 767-300	21		21	21			
Boeing 777-200	41	5	46	46			
Boeing 777-300 (note 5)	4	1	5	3	2	3	2
Boeing 787						24	28
Embraer E170	6		6	6			
Embraer E190 (note 6)	7		7	5	2		16
GROUP TOTAL	223	22	245	240	5	50	84

Note:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU. Excludes six Avro RJ100 aircraft, previously sub-leased to Swiss, returned to lessor during the year.
2. Includes three Airbus A320 aircraft delivered during the year. Three Airbus A320 aircraft were returned to lessor during the period. Certain future Airbus deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft.
3. Excludes three Boeing 747-400 aircraft, temporarily stood down out of service. Two Boeing 747-400 returned to service during the year.
4. Excludes two Boeing 757-200 aircraft previously stood down in advance of sale. One Boeing 757-200 was stood down in the year. Five Boeing 757-200 aircraft were sold to a cargo carrier during the year.
5. Includes two Boeing 777-300 aircraft delivered in the year.
6. Includes two Embraer 190 aircraft delivered in the year.
7. Future deliveries have decreased by five. Three Airbus A320 aircraft, two Boeing B777-300 aircraft and two Embraer E190 aircraft were delivered during the year. Two options were converted to firm orders for two Boeing 777-300's.
8. Options have decreased by two Boeing B777-300's converted to firm orders during the year.

British Airways Plc

Principal investments

At 31 December 2011

Investments in subsidiaries

The following table includes those principal investments which significantly 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
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*	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
OpenSkies SASU*	Airline operations	France
Speedbird Cash Management Limited	Investment	Bermuda
Speedbird Insurance Company Limited	Insurance	Bermuda
The Mileage Company	Airline marketing	England
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.*	13.55	Airline operations	Spain

Available-for-sale investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Comair Limited*	11.0	Airline operations	South Africa
Flybe Group Plc*	14.6	Airline operations	England
International Consolidated Airlines Group S.A.	0.3	Airline operations	Spain
The Airline Group Limited	16.7	Air traffic control holding company	England

* Not owned directly by British Airways Plc

British Airways Plc

Glossary

Airline operations	This includes British Airways Plc, BA Cityflyer Limited, Flyline Tele Sales & Services GmbH and OpenSkies SASU.
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.
Dividend cover	The number of times profit for the year covers the dividends paid and proposed.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rentals.
Frequent flyer RPKs as a percentage of total RPKs	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year.
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income.
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 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.
Net debt/total capital ratio (including operating leases)	Net debt as a ratio of total capital, adjusted to include the discounted value of future operating lease commitments.
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.
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.
Revenue per ASK	Passenger revenue divided by ASK
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.
Total traffic revenue per RTK	Revenue from total traffic divided by RTK.
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction.
n/a	Not applicable.

British Airways Plc

Subsidiary Undertakings

List of subsidiary undertakings for British Airways Plc as at 31 December 2011.

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Country of incorporation
Avios Group (AGL) Limited (formerly Air Miles Travel Promotions Limited)	England
BA and AA Holdings Limited	England
BA Call Centre India Private Limited (callBA)	India
BA Cityflyer Limited	England
BA European Limited	England
BritAir Holdings Limited	England
British Airways (España) Limited	England
British Airways (European Operations at Gatwick) 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 Holdings BV	Netherlands
British Airways Holdings Limited	Jersey
British Airways Holidays Limited	England
British Airways Interior Engineering Limited	England
British Airways Finance (Jersey) Limited Partnership	Jersey
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 Airways Regional Limited	England
British Caledonian Airways Limited	England
British Caledonian Group Limited	Scotland
Caledonian Aviation Investments Limited	England
Deutsche BA Holding GmbH	Germany
Flyline Tele Sales & Services GmbH	Germany
Illiad Inc	USA
OpenSkies Aviation Limited	England
OpenSkies SASU	France
Overseas Air Travel Limited	England
Remotereport Trading Limited	England
Speedbird Cash Management Limited*	Bermuda
Speedbird Insurance Company Limited	Bermuda
Speedwing International Limited	England
Teleflight Limited	England
The Mileage Company Limited	England
The Plimsoll Line Limited	England

Associated holdings

Name of company	Percentage of equity owned	Country of incorporation
Dunwoody Airline Services (Holdings) Limited	40	England
IB Opco Holding S.L	13.55	Spain

Significant holdings

Name of company	Percentage of equity owned	Country of incorporation
oneworld Management Company Inc	25.56	USA

* Has ordinary and non-redeemable preference shares.