

## **BRITISH AIRWAYS RESULTS ANNOUNCEMENT**

### **RETURN TO PROFITABILITY**

#### **Nine month period April 1, 2010 - December 31, 2010**

British Airways today (February 25) presented its preliminary results for the nine months ended December 31, 2010.

All of this information was contained within the Interim Management Report issued by International Consolidated Airlines Group S.A. ("IAG") earlier this morning.

As a consequence of the merger we have changed our accounting reference date to a calendar year and are therefore reporting the results for the nine months ended December 31, 2010.

#### **Period highlights:**

- Operating profit for the nine months to December 31, 2010 of £342 million (12 months to March 31, 2010: Operating loss £231 million)
- Profit before tax for the nine months of £157 million (12 months to March 31, 2010: loss before tax of £531 million)
- Revenue for the nine months was £6,683 million (12 months to March 31, 2010: £7,994 million)
- Fuel costs were £1,869 million (12 months to March 31, 2010: £2,372 million)
- Other operating costs were £4,472 million, (12 months to March 31, 2010: £5,853 million)
- Cash and cash equivalents increased by £238 million to £1,952 million from March 31, 2010
- Net debt at December 31, 2010 was down by £287 million to £2,001 million compared to March 31, 2010

**British Airways' chief executive Keith Williams, said:** "We are pleased to report significant progress for the nine month period to December 31, 2010 despite a period of considerable disruption.

"During the nine months, our business was adversely affected by three sources of disruption: the closure of UK airspace following the eruption of the volcano in Iceland in April; severe winter weather in the UK, Europe and North America in December; and industrial action by Unite cabin crew in May and early June. The estimated cost to our business of these three major sources of disruption is some £300 million.

"On January 21, 2011, we completed our merger with Iberia to create a new, leading European airline group, IAG.

"Our transatlantic joint business with American Airlines and Iberia, which started in October, has provided customers with smoother and more convenient connections, better access to a global network of more than 400 destinations and greater rewards for frequent flyers.

"We have emerged from the deepest recession since the 1930s in good shape. The actions that we have taken to re-engineer our business and position ourselves for further industry consolidation are starting to pay off. We are investing in new products and services for our customers and we are confident that British Airways has a great future as part of IAG."

#### **Financial review:**

Following the change in our accounting reference date to a calendar year, our financial review focuses on the nine months to December for both 2010 and 2009. For the Balance Sheet we are comparing our December 31, 2010 position with that of March 31, 2010.

Our Annual Report and Accounts will include the 12 months to March 31, 2010 as the comparative period.

Revenue for the nine months to December 31, 2010 rose by 8.8 per cent to £6,683 million (December 2009: £6,140 million). Passenger revenue was up 8.8 per cent on capacity reduction (ASKs) of 3.9 per cent and improved passenger yield revenues (pence per RPK) of 15.0 per cent.

Cargo revenue for the nine months increased by 32.1 per cent with continued strong yields and volume increases.

Operating costs for the nine months were up 1.8 per cent to £6,341 million, with fuel costs up 3.1 per cent or £56 million in the period.

Non-fuel costs increased by 1.3 per cent or £59 million in the period. The exceptional items amounted to £65 million and included £16 million for the scrapping of two Boeing 747 aircraft which had previously been stood down and merger completion costs of £31 million.

Non-operating expenditure for the nine months improved by £71 million, mainly due to reduced expenses relating to pensions of £101 million.

Profit before tax for the nine months was £157 million.

The tax credit for the nine months of £13 million consists of a current tax charge of £6 million and a deferred tax credit of £19 million.

Profit after tax for the nine months was £170 million.

The cash position remains very strong with cash and cash equivalents up £238 million since March 31, 2010 to £1,952 million. The net debt has decreased by £287 million to £2,001 million compared to March 31, 2010.

Reserves at December 31, 2010 were £978 million, an increase of £286 million from March 2010. This increase is primarily driven by the profit for the period.

No dividend will be paid for the period ending December 31, 2010.

#### **Principal risk and uncertainties**

During the period we have continued to maintain and operate our structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group remain those detailed in our March 31, 2010 Annual Report and Accounts.

The risks include brand reputation, competition, consolidation/deregulation, debt funding, economic conditions, employee relations, events causing long-term network disruption, failure of a critical IT system, fuel price and currency fluctuation, fuel supply, government intervention, Heathrow operational constraints, key supplier risk, pandemic, pensions and safety/security incidents.

Ends

February 25, 2011

#### **Note to Editors:**

There will be a webcast of the analyst slide presentation at 0900 (UK)/1000 (Spain) available through our website [www.iagshares.com](http://www.iagshares.com).

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of the Company's Business Plan, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on some of the most important risks in this regard is given in the shareholder documentation in respect of the merger issued on October 26, 2010 and in the Securities Note and Summary issued on January 10, 2011; these documents are available on [www.iagshares.com](http://www.iagshares.com).

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**FINANCIAL RESULTS 2010**

**OPERATING AND FINANCIAL STATISTICS**

|  |    | <b>Nine months to 31<br/>December</b> | 12 months to 31<br>March |
|--|----|---------------------------------------|--------------------------|
|  |    | <b>2010</b>                           | <b>2010</b>              |
| Revenue                                      | £m | <b>6,683</b>                          | 7,994                    |
| Operating profit/(loss) before restructuring | £m | <b>348</b>                            | (146)                    |
| Operating profit/(loss)                      | £m | <b>342</b>                            | (231)                    |
| Profit/(loss) before tax                     | £m | <b>157</b>                            | (531)                    |
| Profit/(loss) after tax                      | £m | <b>170</b>                            | (425)                    |
| <hr/>  |    |                                       |                          |
| Basic earnings/(loss) per share              | p  | <b>13.6</b>                           | (38.5)                   |

|  |  | <b>Nine months to 31<br/>December</b> | 12 months to 31<br>March |
|--|--|---------------------------------------|--------------------------|
|  |  | <b>2010</b>                           | <b>2010</b>              |

**TOTAL GROUP OPERATIONS**

*TRAFFIC AND CAPACITY*

|  |                |         |
|--|----------------|---------|
| Revenue passenger kilometres (RPK) (m) | <b>81,971</b>  | 110,851 |
| Available seat kilometres (ASK) (m)    | <b>104,415</b> | 141,178 |
| Passenger load factor (%)              | <b>78.5</b>    | 78.5    |
| Cargo tonne kilometres (CTK) (m)       | <b>3,478</b>   | 4,537   |
| Revenue tonne kilometres (RTK) (m)     | <b>11,736</b>  | 15,588  |
| Available tonne kilometres (ATK) (m)   | <b>15,973</b>  | 21,278  |
| Overall load factor (%)                | <b>73.5</b>    | 73.3    |
| Passengers carried (000)               | <b>24,088</b>  | 31,825  |
| Tonnes of cargo carried (000)          | <b>570</b>     | 760     |

*FINANCIAL*

|   |               |        |
|---|---------------|--------|
| Operating margin (%)  | <b>5.1</b>    | (2.9)  |
| Passenger revenue per RPK (p)                               | <b>7.11</b>   | 6.30   |
| Passenger revenue per ASK (p)                               | <b>5.58</b>   | 4.94   |
| Cargo revenue per CTk (p)                                   | <b>15.27</b>  | 12.12  |
| Total traffic revenue per RTK (p)                           | <b>54.21</b>  | 48.31  |
| Total traffic revenue per ATK (p)                           | <b>39.83</b>  | 35.39  |
| Total expenditure on operations per RTK (p)                 | <b>54.03</b>  | 52.76  |
| Total expenditure on operations per ATK (p)                 | <b>39.70</b>  | 38.65  |
| Average fuel price before fuel hedging (US cents/US gallon) | <b>222.64</b> | 189.24 |

**TOTAL AIRLINE OPERATIONS (Note 1)**

*OPERATIONS*

|                                   |               |        |
|-----------------------------------|---------------|--------|
| Average Manpower Equivalent (MPE) | <b>35,778</b> | 37,595 |
| ATKs per MPE (000)                | <b>446.4</b>  | 566.0  |
| Aircraft in service at year end   | <b>240</b>    | 238    |

Note 1: Excludes non-airline activity companies, principally The Mileage Company Limited, BA Holidays Limited and Speedbird Insurance Company Limited.

**CONSOLIDATED INCOME STATEMENT**

| £ million   | Nine months to<br>31 December | 12 months to 31<br>March |
|---|-------------------------------|--------------------------|
|   | 2010                          | 2010                     |
| Traffic revenue   |                               |                          |
| Passenger   | 5,831                         | 6,980                    |
| Cargo   | 531                           | 550                      |
| Other revenue   | 6,362                         | 7,530                    |
| REVENUE   | 321                           | 464                      |
|   | <b>6,683</b>                  | <b>7,994</b>             |
| Employee costs  | 1,547                         | 1,998                    |
| Restructuring   | 6                             | 85                       |
| Depreciation, amortisation and impairment   | 570                           | 732                      |
| Aircraft operating lease costs  | 51                            | 69                       |
| Fuel and oil costs  | 1,869                         | 2,372                    |
| Engineering and other aircraft costs  | 412                           | 505                      |
| Landing fees and en route charges   | 464                           | 608                      |
| Handling charges, catering and other operating costs                                      | 765                           | 997                      |
| Selling costs   | 235                           | 290                      |
| Currency differences  | (1)                           | (2)                      |
| Accommodation, ground equipment and IT costs  | 423                           | 571                      |
|   | <b>6,341</b>                  | <b>8,225</b>             |
| TOTAL EXPENDITURE ON OPERATIONS   |                               |                          |
| OPERATING PROFIT/ (LOSS)  | 342                           | (231)                    |
| Fuel derivative (losses)/gains  | (2)                           | 15                       |
| Finance costs   | (125)                         | (157)                    |
| Finance income  | 18                            | 20                       |
| Net financing expense relating to pensions  | (49)                          | (116)                    |
| Retranslation charges on currency borrowings  | (12)                          | (14)                     |
| Loss on sale of property, plant and equipment and investments                             | (3)                           | (16)                     |
| Share of post-tax profits/(losses) in associates<br>accounted for using the equity method | 6                             | (32)                     |
| Net charge relating to available-for-sale financial assets                                | (18)                          |                          |
|   | <b>157</b>                    | <b>(531)</b>             |
| PROFIT/(LOSS) BEFORE TAX  |                               |                          |
| Tax   | 13                            | 106                      |
|   | <b>170</b>                    | <b>(425)</b>             |
| PROFIT/(LOSS) AFTER TAX   |                               |                          |
| Attributable to:  |                               |                          |
| Equity holders of the parent  | 157                           | (443)                    |
| Non-controlling interest  | 13                            | 18                       |
|   | <b>170</b>                    | <b>(425)</b>             |
| EARNINGS/(LOSS) PER SHARE   |                               |                          |
| Basic   | 13.6p                         | (38.5)p                  |
| Diluted   | 13.6p                         | (38.5)p                  |

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

| £ million  | Nine months to<br>31 December | 12 months to 31<br>March |
|--|-------------------------------|--------------------------|
|  | 2010                          | 2010                     |
| Net profit/(loss) for the period                       | 170                           | (425)                    |
| Other comprehensive income:                            |                               |                          |
| Exchange losses  | (8)                           | (18)                     |
| Net gains on cash flow hedges                          | 84                            | 587                      |
| Share of other movements in reserves of associates     | 48                            | 34                       |
| Net gain on available-for-sale financial assets        |                               | 22                       |
|  | <b>294</b>                    | <b>200</b>               |
| Total comprehensive income for the period (net of tax) |                               |                          |
| Attributable to:                                       |                               |                          |
| Equity holders of the parent                           | 281                           | 182                      |
| Non-controlling interest                               | 13                            | 18                       |
|  | <b>294</b>                    | <b>200</b>               |

**CONSOLIDATED BALANCE SHEET**

| £ million                                   | <b>31 December</b><br>2010 | 31 March<br>2010 |
|---|----------------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                   |                            |                  |
| Property, plant and equipment               |                            |                  |
| <i>Fleet</i>                                | 5,758                      | 5,739            |
| <i>Property</i>                             | 885                        | 920              |
| <i>Equipment</i>                            | 221                        | 245              |
|   | <b>6,864</b>               | <b>6,904</b>     |
| <b>Intangibles</b>                          |                            |                  |
| <i>Goodwill</i>                             | 40                         | 40               |
| <i>Landing rights</i>                       | 209                        | 202              |
| <i>Software</i>                             | 37                         | 27               |
|   | <b>286</b>                 | <b>269</b>       |
| Investments in associates                   | 244                        | 197              |
| Available-for-sale financial assets         | 65                         | 76               |
| Employee benefit assets                     | 575                        | 483              |
| Derivative financial instruments            | 19                         | 27               |
| Prepayments and accrued income              | 40                         | 17               |
| <b>TOTAL NON-CURRENT ASSETS</b>             | <b>8,093</b>               | <b>7,973</b>     |
| <b>NON-CURRENT ASSETS HELD FOR SALE</b>     | <b>33</b>                  | <b>30</b>        |
| <b>CURRENT ASSETS AND RECEIVABLES</b>       |                            |                  |
| Inventories                                 | 98                         | 98               |
| Trade receivables                           | 384                        | 499              |
| Other current assets                        | 260                        | 289              |
| Derivative financial instruments            | 132                        | 74               |
| Other current interest-bearing deposits     | 1,173                      | 928              |
| Cash and cash equivalents                   | 779                        | 786              |
|   | <b>1,952</b>               | <b>1,714</b>     |
| <b>TOTAL CURRENT ASSETS AND RECEIVABLES</b> | <b>2,826</b>               | <b>2,674</b>     |
| <b>TOTAL ASSETS</b>                         | <b>10,952</b>              | <b>10,677</b>    |
| <b>SHAREHOLDERS' EQUITY</b>                 |                            |                  |
| Issued share capital                        | 288                        | 288              |
| Share premium                               | 937                        | 937              |
| Investment in own shares                    | (3)                        | (4)              |
| Other reserves                              | 978                        | 692              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>           | <b>2,200</b>               | <b>1,913</b>     |
| <b>NON-CONTROLLING INTEREST</b>             | <b>200</b>                 | <b>200</b>       |
| <b>TOTAL EQUITY</b>                         | <b>2,400</b>               | <b>2,113</b>     |
| <b>NON-CURRENT LIABILITIES</b>              |                            |                  |
| Interest-bearing long-term borrowings       | 3,496                      | 3,446            |
| Employee benefit obligations                | 219                        | 208              |
| Provisions for deferred tax                 | 788                        | 774              |
| Other provisions                            | 164                        | 159              |
| Derivative financial instruments            | 4                          | 5                |
| Other long-term liabilities                 | 306                        | 232              |
| <b>TOTAL NON-CURRENT LIABILITIES</b>        | <b>4,977</b>               | <b>4,824</b>     |
| <b>CURRENT LIABILITIES</b>                  |                            |                  |
| Current portion of long-term borrowings     | 457                        | 556              |
| Trade and other payables                    | 2,815                      | 2,910            |
| Derivative financial instruments            | 10                         | 12               |
| Current tax payable                         | 10                         | 2                |
| Short-term provisions                       | 283                        | 260              |
| <b>TOTAL CURRENT LIABILITIES</b>            | <b>3,575</b>               | <b>3,740</b>     |
| <b>TOTAL EQUITY AND LIABILITIES</b>         | <b>10,952</b>              | <b>10,677</b>    |

**CONSOLIDATED CASH FLOW STATEMENT**

| £ million   | Nine months to 31<br>December | 12 months to 31<br>March |
|---|-------------------------------|--------------------------|
|   | 2010                          | 2010                     |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |                               |                          |
| Operating profit/(loss)   | 342                           | (231)                    |
| Depreciation, amortisation and impairment   | 570                           | 732                      |
| Operating cash flow before working capital changes                                    | 912                           | 501                      |
| Movement in inventories, trade and other receivables                                  | 12                            | (181)                    |
| Movement in trade and other payables and provisions                                   | (28)                          | 241                      |
| Payments in respect of restructuring  | (14)                          | (81)                     |
| Payments in settlement of competition investigation                                   | (3)                           | (19)                     |
| Cash generated from operations  | 879                           | 461                      |
| Interest paid   | (87)                          | (136)                    |
| Taxation  |                               | 6                        |
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>                                   | <b>792</b>                    | <b>331</b>               |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>  |                               |                          |
| Purchase of property, plant and equipment   | (510)                         | (492)                    |
| Purchase of intangible assets   | (35)                          | (13)                     |
| Purchase of available-for-sale financial assets                                       | (10)                          |                          |
| Purchase of subsidiary (net of cash acquired)   |                               | (9)                      |
| Proceeds from sale of available-for-sale financial assets                             | 1                             |                          |
| Proceeds from sale of non-current assets held for sale, property, plant and equipment | 43                            | 102                      |
| Proceeds received from loan notes   | 4                             | 7                        |
| Interest received   | 17                            | 17                       |
| (Increase)/decrease in other current interest-bearing deposits                        | (245)                         | 51                       |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(735)</b>                  | <b>(337)</b>             |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>  |                               |                          |
| Proceeds from long-term borrowings  | 368                           | 1,053                    |
| Proceeds from equity portion of convertible bond                                      |                               | 84                       |
| Repayments of borrowings  | (100)                         | (160)                    |
| Payment of finance lease liabilities  | (349)                         | (609)                    |
| Distributions made to holders of perpetual securities                                 | (13)                          | (18)                     |
| <b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>  | <b>(94)</b>                   | <b>350</b>               |
| Net (decrease)/increase in cash and cash equivalents                                  | (37)                          | 344                      |
| Net foreign exchange differences  | 30                            | 40                       |
| Cash and cash equivalents at 1 April  | 786                           | 402                      |
| <b>CASH AND CASH EQUIVALENTS AT PERIOD END</b>  | <b>779</b>                    | <b>786</b>               |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the nine months ended 31 December 2010

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

\* Closing balance includes retained earnings of £891 million.

For the year ended 31 March 2010

| £ million   | Issued capital | Share premium | Investment in own shares | Other * reserves | Total share-holders' equity | Non-controlling interest | Total equity |
|---|----------------|---------------|--------------------------|------------------|-----------------------------|--------------------------|--------------|
| At 1 April 2009                                       | 288            | 937           | (9)                      | 430              | 1,646                       | 200                      | <b>1,846</b> |
| Total comprehensive income for the year (net of tax)  |                |               |                          | 182              | 182                         | 18                       | <b>200</b>   |
| Equity portion of convertible bond**                  |                |               |                          | 84               | 84                          |                          | <b>84</b>    |
| Cost of share-based payment                           |                |               |                          | 1                | 1                           |                          | <b>1</b>     |
| Exercise of share options                             |                |               | 5                        | (5)              |                             |                          |              |
| Distributions made to holders of perpetual securities |                |               |                          |                  |                             | (18)                     | <b>(18)</b>  |
| <b>At 31 March 2010</b>                               | <b>288</b>     | <b>937</b>    | <b>(4)</b>               | <b>692</b>       | <b>1,913</b>                | <b>200</b>               | <b>2,113</b> |

\* Closing balance includes retained earnings of £741 million.

\*\* After deduction of transaction costs of £2 million.

## NOTES TO THE ACCOUNTS

For the nine months ended 31 December 2010

### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

In April 2010, British Airways and Iberia signed a merger agreement to create a new leading airline group. The merger was completed on 21 January 2011. 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) has changed its reporting period to a 31 December year end. This set of summary consolidated financial statements has been prepared for the nine months ended 31 December 2010. The comparative results are the Group's published consolidated financial statements for the year ended 31 March 2010.

The Group's summary consolidated financial statements for the nine months ended 31 December 2010 were authorised for issue by the Board of Directors on 24 February 2011, and the balance sheet signed on the Board's behalf by Keith Williams and Sir Martin Broughton. British Airways Plc (the Company) is a public limited company incorporated and domiciled in England and Wales. The summary consolidated financial statements herein are not the Company's statutory accounts. The Group's auditors issued an unqualified audit report, containing no statements under Section 498(2) of the Companies Act 2006, on the Group's annual financial statements on 24 February 2011. The Group and Company's financial statements have not been lodged with the Registrar as at 24 February 2011. The Company's ordinary shares ceased being traded on the London Stock Exchange on 21 January 2011.

The basis of preparation and accounting policies set out in the Report and Accounts for the nine months ended 31 December 2010 have been applied in the preparation of these summary consolidated financial statements. These are in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs)\* as adopted by the European Union (EU) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). References to 'IFRS' hereafter should be construed as references to IFRSs as adopted by the EU.

\*For the purposes of these statements IFRS also includes International Accounting Standards.

### 2. ACCOUNTING POLICIES

The accounting policies and methods of calculation adopted are consistent with those of the annual financial statements for the year ended 31 March 2010, as described in those annual financial statements, except as discussed below.

IFRS 3 (Revised), 'Business Combinations'; effective for periods beginning on or after 1 July 2009. The revised standard introduces changes to the accounting for business combinations, including the expensing of acquisition costs through the income statement as they are incurred and permitting a choice, on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree's net assets at fair value or at the non-controlling interest's proportionate share of the net assets of the acquiree. Contingent considerations are required to be valued at the date of acquisition, with all subsequent revaluations recorded in the income statement.

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations'; effective for periods beginning on or after 1 January 2010. The amendment provides clarification on disclosures required in respect of non-current assets held for sale or discontinued operations, particularly that the IAS 1 'Presentation of financial statements' requirements of 'fair presentation' and 'sources of estimation uncertainty' still apply in the case of non-current assets held for sale.

IAS 7 (Amendment), 'Cash flow statements'; effective for periods beginning on or after 1 January 2010. The amendment clarifies that only expenditures that result in the recognition of an asset are eligible for classification as investing activities in the cash flow statement.

IAS 17 (Amendment), 'Leases'; effective for periods beginning on or after 1 January 2010. The amendment requires that when a lease includes both land and buildings, an entity should assess the classification of each element separately to determine whether it should be classified as a finance lease or an operating lease.

IAS 27 (Revised), 'Consolidated and separate financial statements'; effective for periods beginning on or after 1 July 2009. The revised standard requires that all transactions with non-controlling interests be recorded in equity, provided that these transactions do not result in a change in control and do not result in goodwill or gains and losses. The amendment provides additional guidance on the accounting treatment when control is lost.

IAS 36 (Amendment), 'Impairment of assets'; effective for periods beginning on or after 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill can be allocated for the purposes of impairment review, is an operating segment as defined by IFRS 8 'Operating segments'.



**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

2. ACCOUNTING POLICIES continued

IAS 38 (Revised), 'Intangible assets'; effective for periods beginning on or after 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and allows the grouping of assets into a single asset if each asset has a similar economic life.

IAS 38 (Amendment), 'Intangible assets'; effective for periods beginning on or after 1 January 2010. The amendment provides additional guidance on the valuation techniques to be used in measuring the fair value of intangible assets acquired in business combinations that are traded in active markets.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'; effective for periods beginning on or after 1 January 2010. The amendment makes changes to the scope exemption excluding contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date. The amendment adds additional conditions for the exemption to apply.

See the Report and Accounts for the nine months ended 31 December 2010 for disclosure of new standards, amendments and interpretations not yet effective as well as those that were adopted during the year but which do not have a significant impact on the accounting policies and methods of calculation used in the current financial statements.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

3. SEGMENT INFORMATION

a. Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Management 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 and BA Cityflyer Limited 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 nine months ended 31 December 2010

| £ million   | Airline<br>business | All other<br>segments | Unallocated  | <b>Total</b>  |
|---|---------------------|-----------------------|--------------|---------------|
| <b>Revenue</b>  |                     |                       |              |               |
| Sales to external customers   | 6,524               | 159                   |              | <b>6,683</b>  |
| Inter-segment sales   | 57                  |                       |              | <b>57</b>     |
| Segment revenue   | 6,581               | 159                   |              | <b>6,740</b>  |
| <b>Segment result</b>   |                     |                       |              |               |
| Other non-operating expense   | (20)                |                       |              | <b>(20)</b>   |
| Profit before tax and finance costs                                 | 303                 | 19                    |              | <b>322</b>    |
| Net finance costs   | (31)                |                       | (137)        | <b>(168)</b>  |
| Loss on sale of assets  | (3)                 |                       |              | <b>(3)</b>    |
| Share of associates' profits  | 6                   |                       |              | <b>6</b>      |
| Tax   |                     |                       | 13           | <b>13</b>     |
| <b>Profit/(loss) after tax</b>                                      | <b>275</b>          | <b>19</b>             | <b>(124)</b> | <b>170</b>    |
| <b>Assets and liabilities</b>                                       |                     |                       |              |               |
| Segment assets  | 10,585              | 123                   |              | <b>10,708</b> |
| Investment in associates  | 244                 |                       |              | <b>244</b>    |
| <b>Total assets</b>   | <b>10,829</b>       | <b>123</b>            |              | <b>10,952</b> |
| Segment liabilities   | 3,424               | 377                   |              | <b>3,801</b>  |
| Unallocated liabilities*  |                     |                       | 4,751        | <b>4,751</b>  |
| <b>Total liabilities</b>  | <b>3,424</b>        | <b>377</b>            | <b>4,751</b> | <b>8,552</b>  |
| <b>Other segment information</b>                                    |                     |                       |              |               |
| Property, plant and equipment - additions (note 11)                 | 561                 | 2                     |              | <b>563</b>    |
| Non-current assets held for sale - transfers in (note 11)           | 47                  |                       |              | <b>47</b>     |
| Intangible assets - additions (note 11)                             | 35                  |                       |              | <b>35</b>     |
| Depreciation, amortisation and impairment                           | 569                 | 1                     |              | <b>570</b>    |
| Impairment of available-for-sale financial assets - including Flybe | 18                  |                       |              | <b>18</b>     |
| Exceptional items:  |                     |                       |              |               |
| Restructuring (note 4)  | 6                   |                       |              | <b>6</b>      |
| Costs associated with the Iberia merger                             | 31                  |                       |              | <b>31</b>     |
| Impairment of OpenSkies assets                                      | 12                  |                       |              | <b>12</b>     |
| Impairment of property, plant and equipment                         | 16                  |                       |              | <b>16</b>     |

\* 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.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 3. SEGMENT INFORMATION continued

## a. Business segments continued

For the year ended 31 March 2010

| £ million   | Airline<br>business | All other<br>segments | Unallocated  | Total         |
|---|---------------------|-----------------------|--------------|---------------|
| <b>Revenue</b>                                      |                     |                       |              |               |
| Sales to external customers                         | 7,802               | 192                   |              | 7,994         |
| Inter-segment sales                                 | 52                  |                       |              | 52            |
| Segment revenue                                     | 7,854               | 192                   |              | 8,046         |
| <b>Segment result</b>                               |                     |                       |              |               |
| Other non-operating income                          | 15                  |                       |              | 15            |
| (Loss)/profit before tax and finance costs          | (237)               | 21                    |              | (216)         |
| Net finance costs                                   | (96)                |                       | (171)        | (267)         |
| Loss on sale of assets                              | (16)                |                       |              | (16)          |
| Share of associates' losses                         | (32)                |                       |              | (32)          |
| Tax   |                     |                       | 106          | 106           |
| <b>(Loss)/profit after tax</b>                      | <b>(381)</b>        | <b>21</b>             | <b>(65)</b>  | <b>(425)</b>  |
| <b>Assets and liabilities</b>                       |                     |                       |              |               |
| Segment assets                                      | 10,364              | 116                   |              | 10,480        |
| Investment in associates                            | 197                 |                       |              | 197           |
| <b>Total assets</b>                                 | <b>10,561</b>       | <b>116</b>            |              | <b>10,677</b> |
| Segment liabilities                                 | 3,413               | 373                   |              | 3,786         |
| Unallocated liabilities *                           |                     |                       | 4,778        | 4,778         |
| <b>Total liabilities</b>                            | <b>3,413</b>        | <b>373</b>            | <b>4,778</b> | <b>8,564</b>  |
| <b>Other segment information</b>                    |                     |                       |              |               |
| Property, plant and equipment - additions (note 11) | 553                 | 1                     |              | 554           |
| Non-current assets held for sale (note 7)           | 30                  |                       |              | 30            |
| Intangible assets - additions                       | 13                  |                       |              | 13            |
| Depreciation, amortisation and impairment           | 731                 | 1                     |              | 732           |
| Exceptional items:                                  |                     |                       |              |               |
| Restructuring (note 4)                              | 85                  |                       |              | 85            |

\* Unallocated liabilities consist of current taxes of £2 million, deferred taxes of £774 million and borrowings of £4,002 million which are managed on a Group basis.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

3. SEGMENT INFORMATION continued
- b. Geographical segments - by area of original sale

| £ million                                    | Nine months<br>to 31<br>December | 12 months to<br>31 March |
|--|----------------------------------|--------------------------|
|  | 2010                             | 2010                     |
| Europe:                                      | <b>3,906</b>                     | 4,891                    |
| UK   | <b>2,943</b>                     | 3,636                    |
| Continental Europe                           | <b>963</b>                       | 1,255                    |
| The Americas:                                | <b>1,493</b>                     | 1,651                    |
| USA  | <b>1,334</b>                     | 1,473                    |
| The rest of the Americas                     | <b>159</b>                       | 178                      |
| Africa, Middle East and Indian sub-continent | <b>727</b>                       | 731                      |
| Far East and Australasia                     | <b>557</b>                       | 721                      |
| Revenue                                      | <b>6,683</b>                     | 7,994                    |

Total of non-current assets excluding available-for-sale financial assets, employee benefit assets, prepayments and accrued income and derivative financial instruments located in the UK is £7,063 million (31 March 2010: £7,060 million) and the total of these non-current assets located in other countries is £370 million (31 March 2010: £340 million).

4. OPERATING PROFIT/(LOSS)

The operating result for the nine-month period ended 31 December 2010 includes restructuring charges of £6 million mainly relating to lease exit costs (March 2010: £85 million restructuring charges mainly relating to severance).

5. FINANCE COSTS AND INCOME

| £ million   | Nine months<br>to 31<br>December | 12 months to<br>31 March |
|---|----------------------------------|--------------------------|
|   | 2010                             | 2010                     |
| Finance costs:  |                                  |                          |
| Interest payable on bank and other loans and finance charges payable under finance leases and hire purchase contracts | <b>(114)</b>                     | (141)                    |
| Unwinding of discounting on provisions*   | <b>(13)</b>                      | (19)                     |
| Capitalised interest  | <b>1</b>                         | 1                        |
| Change in fair value of cross currency swaps  | <b>1</b>                         | 2                        |
| Total finance costs   | <b>(125)</b>                     | (157)                    |
| Finance income:   |                                  |                          |
| Bank interest receivable  | <b>18</b>                        | 20                       |
| Total finance income  | <b>18</b>                        | 20                       |
| Pensions financing:   |                                  |                          |
| Net financing income/(expense) relating to pensions   | <b>2</b>                         | (164)                    |
| Amortisation of actuarial losses in excess of the corridor  | <b>(62)</b>                      | (37)                     |
| Immediate recognition of net actuarial gains (APS)  | <b>84</b>                        |                          |
| Effect of the APS asset ceiling   | <b>(73)</b>                      | 85                       |
| Total financing expense relating to pensions  | <b>(49)</b>                      | (116)                    |
| Retranslation charges on currency borrowings  | <b>(12)</b>                      | (14)                     |

\* Unwinding of discount on the competition investigation provision and restoration and handback provisions.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 6. LOSS ON SALE OF NON-CURRENT ASSETS

| <u>£ million</u>                                     | <u>Nine months<br/>to 31<br/>December</u> | <u>12 months to<br/>31 March</u> |
|--|---|----------------------------------|
|  | <u>2010</u>                               | <u>2010</u>                      |
| Net loss on sale of non-current assets held for sale | 3   |                                  |
| Net loss on sale of property, plant and equipment    |   | 16                               |
| <b>Loss on sale of non-current assets</b>            | <b>3</b>                                  | <b>16</b>                        |

## 7. NON-CURRENT ASSETS HELD FOR SALE

In April 2009, the Group agreed to the sale of 11 Boeing 757 aircraft, these aircraft will exit the business between June 2010 and January 2012. Aircraft which are due to exit the business within 12 months are classified as non-current assets held for sale.

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

## 8. TAX

The tax credit for the nine months ended 31 December 2010 is £13 million (31 March 2010: £106 million). This consists of a current tax charge of £6 million (31 March 2010: credit £2 million) and a deferred tax credit of £19 million (31 March 2010: £104 million). Excluding prior year adjustments, the effect of IFRIC 14 pension accounting and the effect of the tax rate change to 27% from April 2011, the tax rate for the year would have been 46 per cent (31 March 2010: 27 per cent).

## 9. EARNINGS PER SHARE

Basic earnings per share for the nine months ended 31 December 2010 are calculated on a weighted average of 1,152,634,000 ordinary shares (31 March 2010: 1,152,088,000) and adjusted for shares held for the purposes of Employee Share Ownership Plans. Diluted earnings per share for the nine months ended 31 December 2010 are calculated on a weighted average of 1,346,377,000 ordinary shares (31 March 2010: 1,274,083,000).

The number of shares in issue at 31 December 2010 was 1,153,689,000 (31 March 2010: 1,153,674,000) ordinary shares of 25 pence each.

## 10. DIVIDENDS

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

## 11. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES AND INVESTMENTS

During the nine months ended 31 December 2010, the Group acquired property plant and equipment assets with a cost of £563 million (March 2010: £554 million). Included in the acquisition of assets are the delivery of three Airbus A320 aircraft, two Boeing 777-300 aircraft and four Embraer E-jets aircraft.

Intangible assets of £35 million were acquired, £18 million relating to the purchase of two slots from Czech Airlines and £17 million from software additions (March 2010: £13 million).

Investments of £10 million made during the period, include an additional investment of £9 million in Flybe Plc.

Assets with a net book value of £47 million were transferred to non-current assets held for sale during the nine months ended 31 December 2010 (March 2010: £30 million).

Property, plant and equipment with a net book value of £2 million was disposed of by the Group during the nine months ended 31 December 2010 (March 2010: £118 million) resulting in no gain or loss (March 2010: loss of £16 million).

Disposal of investments with a net book value of £1 million (March 2010: £nil) resulted in no gain or loss on disposal (March 2010: £nil).

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 12. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| £ million  | Nine months<br>to 31<br>December | 12 months to<br>31 March |
|--|----------------------------------|--------------------------|
|  | 2010                             | 2010                     |
| (Decrease)/increase in cash and cash equivalents during the period         | (37)                             | 344                      |
| Net cash outflow from decrease in debt and lease financing                 | 449                              | 769                      |
| Increase/(decrease) in other current interest-bearing deposits             | 245                              | (51)                     |
| New loans and finance leases taken out and hire purchase arrangements made | (368)                            | (1,053)                  |
| Decrease in net debt resulting from cash flow                              | 289                              | 9                        |
| Exchange movements and other non-cash movements                            | (2)                              | 85                       |
| Decrease in net debt during the period                                     | 287                              | 94                       |
| Net debt at 1 April  | (2,288)                          | (2,382)                  |
| Net debt at period end   | (2,001)                          | (2,288)                  |

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

## 13. LONG-TERM BORROWINGS

| £ million                  | 31 December | 31 March |
|----------------------------|-------------|----------|
|                            | 2010        | 2010     |
| <b>a Current</b>           |             |          |
| Bank and other loans       | 177         | 139      |
| Finance leases             | 217         | 129      |
| Hire purchase arrangements | 63          | 288      |
|                            | 457         | 556      |
| <b>b Non-current</b>       |             |          |
| Bank and other loans*      | 1,434       | 1,345    |
| Finance leases             | 2,044       | 2,077    |
| Hire purchase arrangements | 18          | 24       |
|                            | 3,496       | 3,446    |

The Group issued a £350 million fixed rate convertible bond in August 2009, raising cash of £341 million (net of issue costs), which holds a coupon rate of 5.8 per cent and is convertible into ordinary shares at the option of the holder before or upon maturity in August 2014 (note 20). 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. The equity portion of the convertible bond issue is included in other reserves.

## 14. SHARE OPTIONS

During the period, the Group made awards under the Performance Share Plan (PSP) to key senior executives and selected members of the wider management team, under which 6,757,537 conditional shares were awarded. No payment is due upon vesting the shares. The fair value of equity-settled share options granted is estimated as at the date of award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded. The following are the inputs to the model for the PSP options granted in the period:

Expected share price volatility 56%  
 Historical volatility 56%  
 Expected life of options three years  
 Weighted average share price £2.35

For further details of the plan, refer to the Report and Accounts for the nine months ended 31 December 2010.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 15. 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. The results of the accounting valuation at 31 December 2010 are summarised below:

|   | APS         |          | NAPS        |          |
|---|-------------|----------|-------------|----------|
|   | 31 December | 31 March | 31 December | 31 March |
|   | 2010        | 2010     | 2010        | 2010     |
| Fair value of scheme assets                         | 6,385       | 6,443    | 8,632       | 8,024    |
| Present value of scheme liabilities                 | (5,853)     | (6,247)  | (9,633)     | (9,969)  |
| Net pension asset/(liability)                       | 532         | 196      | (1,001)     | (1,945)  |
| Net pension asset/(liability) represented by:       |             |          |             |          |
| Net pension asset recognised                        | 363         | 317      | 204         | 158      |
| Restriction on APS surplus due to the asset ceiling | 123         | 50       |             |          |
| Cumulative actuarial gains/(losses) not recognised  | 46          | (171)    | (1,205)     | (2,103)  |
| Net pension asset/(liability)                       | 532         | 196      | (1,001)     | (1,945)  |

At 31 December 2010 both APS and NAPS were recognised on the balance sheet as employee benefit assets, representing £567 million of the £575 million disclosed (31 March 2010: £475 million of the £483 million). The £219 million employee benefit obligations at 31 December 2010 relates to other schemes (31 March 2010: £208 million).

The accounting valuation was performed after updating key assumptions at 31 December 2010 as follows:

|                           | APS         |          | NAPS        |          |
|---------------------------|-------------|----------|-------------|----------|
|                           | 31 December | 31 March | 31 December | 31 March |
| Per cent per annum        | 2010        | 2010     | 2010        | 2010     |
| Inflation (CPI)           | 2.9         |          | 3.0         |          |
| Inflation (RPI)           | 3.4         | 3.6      | 3.5         | 3.7      |
| Salary increases (as RPI) | 3.4         | 3.6      | 3.5         | 3.7      |
| Discount rate             | 5.5         | 5.5      | 5.5         | 5.6      |

## 16. PROVISIONS FOR LIABILITIES AND CHARGES

**Litigation**

There are ongoing investigations into the Group's passenger and cargo surcharges by the European Commission and other jurisdictions. These investigations are likely to continue for some time. The Company is also subject to related class action claims. The final amount required to pay the remaining claims and fines is subject to uncertainty.

**Restructuring**

The Group recognised a restructuring provision of £20 million at 31 December 2010 (March 2010: £28 million) in respect of items including targeted voluntary severance schemes previously announced. This provision is expected to be paid during the next financial year.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 17. CONTINGENT LIABILITIES

There were contingent liabilities at 31 December 2010 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 has guaranteed certain borrowings, liabilities and commitments, which at 31 December 2010 amounted to £391 million (31 March 2010: £119 million).

## 18. RELATED PARTY TRANSACTIONS

The Group had transactions in the ordinary course of business during the year under review with related parties.

| £ million                 | Nine months to<br>31 December | 12 months to<br>31 March |
|---------------------------|-------------------------------|--------------------------|
|                           | 2010                          | 2010                     |
| Associates:               |                               |                          |
| Sales to associates       | 37                            | 36                       |
| Purchases from associates | 42                            | 47                       |

| £ million                  | 31 December | 31 March |
|----------------------------|-------------|----------|
|                            | 2010        | 2010     |
| Amounts owed by associates | 1           | 1        |
| Amounts owed to associates | 7           | 2        |

**Associates**

Iberia, Líneas Aéreas de España S.A. (Iberia)

The Group has a 13.15 per cent investment in Iberia. Areas of opportunity for cooperation have been identified 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.

During the year the Company contracted with Iberia to purchase ten new Airbus A320 aircraft, the commitment arising has been included in capital expenditure commitments (note 19).

As at 31 December 2010 the net trading balance owed to Iberia by the Group amounted to £6 million (31 March 2010: £1 million).

**Other associates**

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

**Directors' and officers' loans and transactions**

No loans or credit transactions were outstanding with Directors or officers of the Company at 31 December 2010 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 also has transactions with related parties that are conducted in the normal course of airline business. These include the provision of airline and related services.

The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the nine months ended 31 December 2010 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (March 2010: £nil).



## NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

### 19. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,104 million for the Group commitments (March 2010: £4,267 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 £4,074 million for the acquisition of one Boeing 777 (in 2012), 24 Boeing 787s (from 2012 to 2016), 14 Airbus A320s (from 2011 to 2014), 12 Airbus A380s (from 2013 to 2016) and two Embraer E-jets (both in 2011).

### 20. POST BALANCE SHEET EVENTS

On 21 January 2011, British Airways Plc and Iberia Líneas Aéreas de España S.A. (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction of the two companies to create a new, leading European airline group. As a result of the merger, International Consolidated Airlines Group known as IAG was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid incorporated on 8 April 2010.

IAG has a premium listing on the FTSE's UK index series. IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the "Spanish Stock Exchanges"), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Espanol).

The group is expecting to generate annual synergies of approximately €400 million by the end of its fifth year and benefit shareholders, customers and employees. IAG will combine the two companies leading positions in the UK and Spain and enhance their strong presence in the international longhaul markets, while retaining the individual brands and operations of both airlines.

#### Principal terms

Under the terms of the merger, British Airways ordinary shareholders received one new ordinary share of IAG for every existing British Airways ordinary share and Iberia shareholders received 1.0205 new ordinary shares for every existing Iberia ordinary share. Upon completion of the transaction, British Airways' shareholders held 56 per cent of IAG and Iberia's shareholders 44 per cent.

Prior to 21 January 2011, British Airways owned 13.15 per cent of the issued share capital of Iberia and Iberia owned 9.98 per cent of the issued share capital of British Airways. Subsequent to the merger, the cross holdings between British Airways and Iberia were maintained or recreated with the same economic and voting rights.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 20. POST BALANCE SHEET EVENTS continued

For the purposes of accounting British Airways is deemed to be the acquirer of Iberia. IAG's value was determined based on British Airways' fair value, calculated from British Airways quoted market price at the close of business on 20 January 2011 of €3.346 (or £2.825) for its 1,154 million outstanding ordinary shares. The purchase price of Iberia was calculated based on the agreed merger ratios and IAG's value on the transaction date.

| € million                                       | 21 January<br>2011 |
|---|--------------------|
| <b>IAG value</b>                                |                    |
| British Airways fair value                      | 3,862              |
| Iberia stake in British Airways                 | (385)              |
|   | 3,477              |
| British Airways ownership in IAG (per cent)     | 56                 |
| <b>IAG value</b>                                | <b>6,209</b>       |
| <b>Purchase price</b>                           |                    |
| IAG value                                       | 6,209              |
| Iberia ownership in IAG (per cent)              | 44                 |
|   | 2,732              |
| British Airways stake in Iberia at market value | 370                |
| <b>Purchase price</b>                           | <b>3,102</b>       |

The purchase price allocation has not yet been finalised. It is expected to be completed within 12 months of the date of the merger in accordance with the period allowed to review estimations under IFRS.

IAG will consolidate and report the first results of the IAG group for the three months ended 31 March 2011. IAG's first quarter results will include British Airways results for the three months ended 31 March 2011 and Iberia's results from the merger effective date.

**Convertible bond**

In August 2009, British Airways issued a £350 million fixed rate 5.8 per cent convertible bond, convertible into ordinary shares at the option of the holder, before or on maturity in August 2014. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in British Airways. In order to facilitate the issuing of IAG equity, a guarantee was issued from IAG to British Airways whereby IAG have guaranteed the payment of the principal and interest to the bondholders. In addition, IAG issued a written call option to British Airways whereby British Airways 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 British Airways to meet the conversion obligation.

As a result, the equity portion of the convertible bond will be reclassified as a derivative financial liability. It represents British Airways' obligation to deliver a fixed number of shares in IAG to the bondholders, and as such, represents a derivative financial liability with an underlying value driven by the share price of IAG.

**NOTES TO THE ACCOUNTS continued**

For the nine months ended 31 December 2010

## 21. OTHER EVENTS

## Joint Business Agreement with American Airlines and Iberia

In October 2010, British Airways launched the joint business agreement, a new venture with American Airlines and Iberia covering flights between Europe and North America. The joint business commencement follows clearance from EU and the grant by the US Department of Transportation of anti trust immunity similar to that enjoyed by rival SkyTeam and Star Alliance. By working together the three airlines can enhance customer choice by sustaining or adding new routes to our network that would otherwise be economically unviable for individual airlines.

The joint business network is built around the key strategic hubs of London, Dallas, New York, Madrid, Chicago, Miami and Los Angeles. There are approximately 100 joint business flights per day across the transatlantic in addition to 122 new destinations offered to British Airways customers through expanded codeshare arrangements. The combined frequent flyer base of 70 million members will benefit from reciprocal earn and burn arrangements across the three carriers networks. Our corporate and leisure customers will benefit from greater convenience through an increase in scheduled services, greater choice of timings and improved flexibility through combinable fares.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors of British Airways Plc, who are listed in the Group's Report and Accounts for the nine months ended 31 December 2010, confirm that, to the best of each person's knowledge:

- The condensed set of consolidated financial statements 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/(loss) of the Company and Group taken as a whole.
- The management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Keith Williams  
Chief Executive

Sir Martin Broughton  
Chairman

24 February 2011

**AIRCRAFT FLEET**
**Number in service with Group companies at 31 December 2010**

|                                    | On Balance<br>Sheet<br>Fixed<br>Assets | Off Balance<br>Sheet<br>Operating<br>Leases | Total<br>December<br>2010 | Total<br>March<br>2010 | Changes<br>Since<br>March<br>2010 | Future<br>deliveries<br>(Note 9) | Options   |
|------------------------------------|--|---|---------------------------|------------------------|-----------------------------------|----------------------------------|-----------|
| <b>AIRLINE OPERATIONS (note 1)</b> |  |   |                           |                        |                                   |                                  |           |
| Airbus A318                        | 2                                      |   | 2                         | 2                      |                                   |                                  |           |
| Airbus A319                        | 31                                     | 2   | 33                        | 33                     |                                   |                                  |           |
| Airbus A320 (Note 2)               | 25                                     | 15  | 40                        | 38                     | 2                                 | 14                               | 31        |
| Airbus A321                        | 11                                     |   | 11                        | 11                     |                                   |                                  |           |
| Airbus A380                        |  |   |                           |                        |                                   | 12                               | 7         |
| Avro RJ85 (Note 3)                 |  |   |                           | 2                      | (2)                               |                                  |           |
| Avro RJ100 (Note 4)                |  |   |                           | 1                      | (1)                               |                                  |           |
| Boeing 737-400                     | 19                                     |   | 19                        | 19                     |                                   |                                  |           |
| Boeing 747-400 (Note 5)            | 50                                     |   | 50                        | 49                     | 1                                 |                                  |           |
| Boeing 757-200 (Note 6)            | 2                                      | 2   | 4                         | 9                      | (5)                               |                                  |           |
| Boeing 767-300                     | 21                                     |   | 21                        | 21                     |                                   |                                  |           |
| Boeing 777-200                     | 41                                     | 5   | 46                        | 46                     |                                   |                                  |           |
| Boeing 777-300 (Note 7)            | 2                                      | 1   | 3                         |                        | 3                                 | 3                                | 4         |
| Boeing 787                         |  |   |                           |                        |                                   | 24                               | 28        |
| Embraer E170                       | 6                                      |   | 6                         | 6                      |                                   |                                  |           |
| Embraer E190 (Note 8)              | 5                                      |   | 5                         | 1                      | 4                                 | 2                                | 16        |
| <b>GROUP TOTAL</b>                 | <b>215</b>                             | <b>25</b>                                   | <b>240</b>                | <b>238</b>             | <b>2</b>                          | <b>55</b>                        | <b>86</b> |

**Note:**

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.
2. Includes three Airbus A320 aircraft deliveries and excludes two returned to Lessor, one of which had previously been stood down. Certain future Airbus deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft.
3. Two RJ85 aircraft stood down and returned to Lessor.
4. One Avro RJ100 aircraft stood down and returned to Lessor. Excludes six Avro RJ100 aircraft sub-leased to Swiss.
5. Excludes seven Boeing 747-400 aircraft, five temporarily stood down out of service and two permanently stood down. One Boeing 747-400 returned to service.
6. Excludes seven Boeing 757-200 aircraft stood down in advance of sale to a cargo carrier. Four Boeing 757-200 aircraft sold during the period.
7. Three Boeing 777-300 aircraft delivered and entered into service.
8. Four Embraer E190 aircraft delivered and entered into service at London City Airport.
9. Future deliveries have decreased by three as three Airbus A320 aircraft, three Boeing 777 and four Embraer E190 aircraft were delivered during the period, two options for Embraer 190 and five Iberia A320 options were taken up.

**APPENDIX**  
**CONSOLIDATED INCOME STATEMENT**

| £ million  | Nine months to 31 December |              | Better/<br>(Worse) |
|--|----------------------------|--------------|--------------------|
|  | 2010                       | 2009         |                    |
| Traffic revenue  |                            |              |                    |
| <i>Passenger</i>   | 5,831                      | 5,357        | 8.8 %              |
| <i>Cargo</i>   | 531                        | 402          | 32.1 %             |
|  | <b>6,362</b>               | <b>5,759</b> | <b>10.5 %</b>      |
| <i>Other revenue</i>   | 321                        | 381          | (15.7) %           |
| <b>REVENUE</b>   | <b>6,683</b>               | <b>6,140</b> | <b>8.8 %</b>       |
| Employee costs   | 1,547                      | 1,523        | (1.6) %            |
| Restructuring  | 6                          | 62           | nm                 |
| Depreciation, amortisation and impairment  | 570                        | 544          | (4.8) %            |
| Aircraft operating lease costs   | 51                         | 52           | 1.9 %              |
| Fuel and oil costs   | 1,869                      | 1,813        | (3.1) %            |
| Engineering and other aircraft costs   | 412                        | 372          | (10.8) %           |
| Landing fees and en route charges  | 464                        | 467          | 0.6 %              |
| Handling charges, catering and other operating costs                                   | 765                        | 772          | 0.9 %              |
| Selling costs  | 235                        | 210          | (11.9) %           |
| Currency differences   | (1)                        | (3)          | nm                 |
| Accommodation, ground equipment and IT costs   | 423                        | 414          | (2.2) %            |
| <b>TOTAL EXPENDITURE ON OPERATIONS</b>   | <b>6,341</b>               | <b>6,226</b> | <b>(1.8) %</b>     |
| <b>OPERATING PROFIT / (LOSS)</b>   | <b>342</b>                 | <b>(86)</b>  | <b>nm</b>          |
| Fuel derivative (losses) / gains   | (2)                        | 11           | nm                 |
| Finance costs  | (125)                      | (110)        | (13.6) %           |
| Finance income   | 18                         | 16           | 12.5 %             |
| Net financing expense relating to pensions   | (49)                       | (150)        | 67.3 %             |
| Retranslation (charges) / gains on currency borrowings                                 | (12)                       | 13           | nm                 |
| Loss on sale of property, plant and equipment and investments                          | (3)                        | (16)         | 81.3 %             |
| Share of post-tax profits/(losses) in associates accounted for using the equity method | 6                          | (21)         | nm                 |
| Net (charge)/income relating to available-for-sale financial assets                    | (18)                       | 1            | nm                 |
| <b>PROFIT / (LOSS) BEFORE TAX</b>  | <b>157</b>                 | <b>(342)</b> | <b>nm</b>          |
| Tax  | 13                         | 97           | nm                 |
| <b>PROFIT / (LOSS) AFTER TAX</b>   | <b>170</b>                 | <b>(245)</b> | <b>nm</b>          |

nm: Not meaningful

**APPENDIX**  
**CONSOLIDATED BALANCE SHEET**

| £ million                                   | <u>31 December</u><br>2010 | <u>31 December</u><br>2009 |
|---|----------------------------|----------------------------|
| <b>NON-CURRENT ASSETS</b>                   |                            |                            |
| Property, plant and equipment               |                            |                            |
| <i>Fleet</i>                                | 5,758                      | 5,778                      |
| <i>Property</i>                             | 885                        | 936                        |
| <i>Equipment</i>                            | 221                        | 238                        |
|   | <b>6,864</b>               | <b>6,952</b>               |
| <br>  |                            |                            |
| Intangibles                                 |                            |                            |
| <i>Goodwill</i>                             | 40                         | 40                         |
| <i>Landing rights</i>                       | 209                        | 202                        |
| <i>Software</i>                             | 37                         | 24                         |
|   | <b>286</b>                 | <b>266</b>                 |
| <br>  |                            |                            |
| Investments in associates                   | 244                        | 203                        |
| Available-for-sale financial assets         | 65                         | 64                         |
| Employee benefit assets                     | 575                        | 397                        |
| Derivative financial instruments            | 19                         | 29                         |
| Prepayments and accrued income              | 40                         | 24                         |
| <b>TOTAL NON-CURRENT ASSETS</b>             | <b>8,093</b>               | <b>7,935</b>               |
| <hr/>                                       |                            |                            |
| <b>NON-CURRENT ASSETS HELD FOR SALE</b>     | <b>33</b>                  | <b>36</b>                  |
| <hr/>                                       |                            |                            |
| <b>CURRENT ASSETS AND RECEIVABLES</b>       |                            |                            |
| Inventories                                 | 98                         | 95                         |
| Trade receivables                           | 384                        | 372                        |
| Other current assets                        | 260                        | 246                        |
| Derivative financial instruments            | 132                        | 44                         |
| Other current interest-bearing deposits     | 1,173                      | 1,065                      |
| Cash and cash equivalents                   | 779                        | 522                        |
|   | <b>1,952</b>               | <b>1,587</b>               |
| <b>TOTAL CURRENT ASSETS AND RECEIVABLES</b> | <b>2,826</b>               | <b>2,344</b>               |
| <hr/>                                       |                            |                            |
| <b>TOTAL ASSETS</b>                         | <b>10,952</b>              | <b>10,315</b>              |
| <hr/>                                       |                            |                            |
| <b>SHAREHOLDERS' EQUITY</b>                 |                            |                            |
| Issued share capital                        | 288                        | 288                        |
| Share premium                               | 937                        | 937                        |
| Investment in own shares                    | (3)                        | (6)                        |
| Other reserves                              | 978                        | 856                        |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>           | <b>2,200</b>               | <b>2,075</b>               |
| <hr/>                                       |                            |                            |
| <b>NON-CONTROLLING INTEREST</b>             | <b>200</b>                 | <b>200</b>                 |
| <hr/>                                       |                            |                            |
| <b>TOTAL EQUITY</b>                         | <b>2,400</b>               | <b>2,275</b>               |
| <hr/>                                       |                            |                            |
| <b>NON-CURRENT LIABILITIES</b>              |                            |                            |
| Interest-bearing long-term borrowings       | 3,496                      | 3,365                      |
| Employee benefit obligations                | 219                        | 204                        |
| Provisions for deferred tax                 | 788                        | 787                        |
| Other provisions                            | 164                        | 245                        |
| Derivative financial instruments            | 4                          | 7                          |
| Other long-term liabilities                 | 306                        | 201                        |
| <b>TOTAL NON-CURRENT LIABILITIES</b>        | <b>4,977</b>               | <b>4,809</b>               |
| <hr/>                                       |                            |                            |
| <b>CURRENT LIABILITIES</b>                  |                            |                            |
| Current portion of long-term borrowings     | 457                        | 532                        |
| Trade and other payables                    | 2,815                      | 2,486                      |
| Derivative financial instruments            | 10                         | 45                         |
| Current tax payable                         | 10                         | 6                          |
| Short-term provisions                       | 283                        | 162                        |
| <b>TOTAL CURRENT LIABILITIES</b>            | <b>3,575</b>               | <b>3,231</b>               |
| <hr/>                                       |                            |                            |
| <b>TOTAL EQUITY AND LIABILITIES</b>         | <b>10,952</b>              | <b>10,315</b>              |