## BRITISH AIRWAYS SIX MONTH RESULTS (unaudited)

## 1 January 2021 – 30 June 2021

British Airways Plc ('BA' or the 'Group') presents its consolidated results for the six month period ended 30 June 2021.

**COVID-19 situation and management actions**

- Passenger capacity in the first six months of 2021 was 14 per cent of the equivalent period in 2019 and continues to be severely impacted by the COVID-19 pandemic, together with government restrictions and quarantine requirements.
- 1,069 cargo-only flights operated in quarter 2, up from 1,018 in quarter 1.
- Strong liquidity, increasing to £3.1 billion at the end of the period (from total liquidity of £2.7 billion at 31 December 2020), driven by successful conclusion of financing initiatives in the period and following, together with cost actions and pension contribution deferral. These included:
    - Drawdown of previously committed borrowing for British Airways (£2.0 billion UK Export Finance).
    - New 3-year $1.3 billion (£973 million) committed, secured Revolving Credit Facility which remains undrawn; and cancellation of British Airways' previous revolving credit facility which was scheduled to mature in June 2021 (value at 31 December 2020: $0.8 billion (£599 million)).
    - Agreement to defer monthly pension deficit contributions totalling £450 million between October 2020 and September 2021.
    - Sustainability-linked EETC financing executed in July for British Airways' remaining fleet deliveries for 2021, with total financing to be drawn of $785 million.

**Period results summary**

- Total revenue of £924 million (2020: £2,773 million) down 66.7 per cent from last year.
- Operating loss (before exceptional items) of £1,264 million (2020: £978 million).
- Loss before tax of £1,311 million (2020: £2,307 million).
- Loss after tax of £1,031 million (2020: £1,949 million).
- Exceptional credit of £106 million on de-designated fuel and foreign exchange hedges (2020: £1,176 million charge).
- Non-operating costs of £153 million (2020: £153 million).
- Cash and cash equivalents increased by £408 million to £1,669 million from £1,261 million at 31 December 2020.

**Performance summary**

For the six months ended 30 June

| Financial data £ million | 2021 | *2020* [1] | Better/(Worse) |
|---|---|---|---|
| Passenger revenue | **375** | *2,235* | (83.2)% |
| Total revenue | **924** | *2,773* | (66.7)% |
| Total expenditure on operations[2] | **(2,188)** | *(3,751)* | 41.7% |
| Operating loss before exceptional items | **(1,264)** | *(978)* | nm |
| Exceptional items | **106** | *(1,176)* | nm |
| Non-operating costs | **(153)** | *(153)* | nm |
| Loss before tax | **(1,311)** | *(2,307)* | *43.2%* |

nm = not meaningful

| Operating figures | 2021 | *2020* [1] | Better/(Worse) |
|---|---|---|---|
| Available seat kilometres (ASK[3]) (m) | **13,270** | *41,655* | (68.1)% |
| Revenue passenger kilometres (RPK[3]) (m) | **5,227** | *29,784* | (82.5)% |
| Cargo tonne kilometres (CTK[3]) (m) | **1,409** | *1,371* | 2.8% |
| Passenger load factor[3] (%) | **39.4%** | *71.5%* | (44.9)% |
| Passengers carried (000) | **1,597** | *8,728* | (81.7)% |
| Passenger revenue per ASK (p) | **2.83** | *5.37* | (47.3)% |
| Passenger revenue per RPK (p) | **7.17** | *7.50* | (4.4)% |
| Non-fuel costs per ASK (p) | **13.90** | *7.24* | (92.0)% |

[1] The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

[2] Total operating expenditure before exceptional items excluding fuel, oil costs and emission charges was £1,844 million (2020: £3,029 million).

[3] Defined in the Annual Report and Accounts for the year ended 31 December 2020 and should be read in conjunction with that document.

**Management review**

British Airways made a loss before tax of £1,311 million for the first six months of the year (2020: £2,307 million). Capacity fell by 68.1 per cent compared to the equivalent period in 2020 where the first two months' operations were largely unaffected by the COVID-19 pandemic.

**Management review (continued)**

In 2020 and through the first six months of 2021, British Airways took tough and decisive action to rapidly reduce costs to protect the long term future of the business, which included a business restructuring programme, the early exit of the entire B747 fleet, reprioritisation of capital spend and various supplier discussions. Had these actions not been taken, BA would be facing a much tougher situation today. To ensure survival and the long-term future of the business, a number of liquidity actions have been made to strengthen the airline's balance sheet. In February 2021, BA entered into a five-year term loan of £2.0 billion, underwritten by a syndicate of banks, partially guaranteed by UK Export Finance. In March 2021, International Airlines Group ('IAG') agreed a $1.8 billion multi-borrower secured three-year Revolving Credit Facility, of which BA's share is $1.3 billion (£973 million) and cancelled the previously held revolving credit facility which was scheduled to mature in June 2021 (31 December 2020: $0.8 billion (£599 million)). In July 2021, BA entered into a sustainability-linked EETC structure, where a total of $785 million was raised to finance future aircraft deliveries.

On 27 January 2021, the UK government announced new rules for travel, where unless there was a legally permitted reason to do so, it was illegal to travel abroad for holidays and other leisure purposes. On 17 May 2021 these restrictions were replaced with the traffic light system. Travel to the United States, one of BA's key markets, from the UK has remained suspended since March 2020 to most travellers following a presidential proclamation in March 2020. BA is a leader in the US market, flying to more airports directly out of Heathrow than any other carrier in Europe before the pandemic, serving 26 cities in the US and over 30 North American destinations. Should the US administration look to repeal the current restrictions and the UK government facilitate meaningful travel from the US, thanks to the successful vaccination programmes in both countries, the UK and US are in a strong position to lead the way in opening air travel, subject to the rise in COVID-19 variants in either country.

**Sustainability update**

IAG became the first European airline group to commit to powering 10 per cent of its flights with sustainable aviation fuel ('SAF') by 2030. IAG will purchase one million tonnes of SAF each year, equating to the removal of one million cars from Europe's roads each year. BA has invested in LanzaJet, a SAF technology provider and SAF producer, to offtake fuel from the company's first commercial scale Freedom Pines Fuels facility in Georgia, USA from 2022 and to implement early stage planning and design for a potential commercial facility for British Airways in the UK. Along with SAF targets and partnerships, BA has also invested in ZeroAvia, a leading innovator in decarbonising commercial aviation, in a project to explore the future of hydrogen-powered aircraft. These partnerships are all part of BA's and IAG's commitment to net zero carbon emissions by 2050.

**Financial Review**

**Consolidated income statement**

| £ million | 2021 | *2020* [1] | Better/(Worse) [2] |
|---|---|---|---|
| Passenger revenue | **375** | 2,235 | (83.2)% |
| Cargo revenue | **509** | 394 | 29.2% |
| Other revenue | **40** | 144 | (72.2)% |
| **Total revenue** | **924** | *2,773* | (66.7)% |
| | | | |
| Employee costs | **637** | 982 | 35.1% |
| Depreciation, amortisation and impairment | **450** | 585 | 23.1% |
| Fuel, oil costs and emission charges | **344** | 722 | 52.4% |
| Engineering and other aircraft costs | **158** | 266 | 40.6% |
| Landing fees and en route charges | **127** | 257 | 50.6% |
| Handling, catering and other operating costs | **230** | 533 | 56.8% |
| Selling costs | **41** | 101 | 59.4% |
| Currency differences | **(39)** | 52 | nm |
| Property, IT and other costs | **240** | 253 | 5.1% |
| **Total expenditure on operations** [3] | **2,188** | *3,751* | **41.7%** |
| **Operating loss before exceptional items** | **(1,264)** | *(978)* | **nm** |
| Exceptional items | **106** | (1,176) | nm |
| **Operating loss after exceptional items** | **(1,158)** | (2,154) | **nm** |
| Non-operating costs | **(153)** | (153) | nm |
| Loss before tax | **(1,311)** | *(2,307)* | nm |
| Tax | **280** | 358 | nm |
| **Loss after tax** | **(1,031)** | *(1,949)* | nm |

[1] The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

[2] Before exceptional items

[3] Total operating expenditure excluding fuel, oil costs and emission charges was £1,844 million (2020: £3,029 million).

**Financial Review (continued)**

*Total revenue*

Overall capacity, measured by ASKs, was down by 68.1 per cent in the first six months of the year compared to the corresponding period in 2020 and the number of passengers carried decreased by 81.7 per cent to less than 1.6 million. Capacity and load factors were significantly reduced across all regions in the first six months of 2021 while the equivalent period in 2020 saw capacity reductions limited only to the Asia Pacific region in January and February, with extensive reductions across the network from late February of that year. This translated to total revenue before exceptional items for the first six months of the year of £924 million (2020: £2,773 million). Cargo carried, measured in cargo tonne kilometres (CTKs), increased by 2.8 per cent. In 2020 the Group adapted the Cargo business to ensure that cargo only flights have a positive cash contribution, and as a result Cargo revenue increased by 29.2 per cent to £509 million.

*Expenditure on operations*

Total operating costs excluding exceptional items have decreased 41.7 per cent to £2,188 million (2020: £3,751 million) in the first six months of the year. Fuel costs (excluding the exceptional charge for overhedging) decreased by £378 million, or 52.4 per cent, to £344 million reflecting the reduced capacity.

Group expenditure before exceptional items excluding fuel decreased by 39.1 per cent to £1,844 million (2020: £3,029 million). Employee costs decreased 35.1 per cent compared to last year, largely because of management actions in response to COVID-19 which included colleague restructuring, pay cuts and a recruitment freeze. The Group has recorded a credit of £144 million relating to amounts received from the UK Government under the COVID Job Retention Scheme (CJRS) for the six months ended 30 June 2021 (2020: £122 million).

*Exceptional items*

Exceptional items have been recognised in respect of the impact of overhedging due to the COVID-19 related capacity reductions. This included fuel and foreign currency overhedging included in Fuel, oil costs and emission charges of a credit of £100 million (2020: a loss of £688 million) and Passenger revenue of a credit of £6 million (2020: charge of £34 million). In the first six months of 2021, the Group incurred net cash outflows of £108 million (2020: £395 million) to settle those derivatives recognised as exceptional. Exceptional items are detailed in note 3.

*Non-operating costs*

The Group's net non-operating costs for the six month period were £153 million in 2021 (2020: £153 million). Non-operating costs in 2021 include finance costs of £206 million (2020: £135 million), net gains of £32 million (2020: £47 million) relating to the revaluation of foreign currency denominated debts and related derivatives, a loss of £6 million (2020: £89 million) relating to the share of post-tax results of associates and a gain of £25 million (2020: £6 million) on the sale of assets.

*Tax*

The tax credit for the period was £280 million (2020: £358 million). The effective rate for the period was 21.4 per cent (2020: 15.5 per cent) being higher (2020: lower) than the tax credit (2020: tax credit) at the standard UK corporation tax rate of 19.0 per cent (2020: 19.0 per cent) mainly due to the share of associates losses (2020: profits), non-deductible expenses and the impact of the tax rate change (2020: tax rate change).

*Capital expenditure*

Total capital expenditure in the period amounted to £171 million (2020: £583 million) which included £144 million (2020: £530 million) of fleet related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £27 million (2020: £53 million) on property, equipment and software. In response to the COVID-19 pandemic, the Group is constantly reviewing its capital expenditure programme to identify expenditure that can be deferred or cancelled but has ringfenced amounts related to mandatory engineering work and essential cyber defence. Fleet related spend relates to orders that were made before the COVID-19 pandemic.

**Liquidity**

The Group's liquidity position was £3.1 billion (31 December 2020: £2.7 billion), including £1.7 billion of cash and cash equivalents (31 December 2020: £1.3 billion) and £1.4 billion of undrawn general and committed aircraft facilities (31 December 2020: £1.4 billion). Liquidity increased during the period due to the aforementioned drawdown of the UK Export Finance Facility partially offset by continued losses from operations as a result of COVID-19. Net debt increased to £8.2 billion at 30 June 2021 (31 December 2020: £7.5 billion) with the utilisation of available deposits and an increase in borrowings. In February 2021, British Airways entered into a five year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UK Export Finance.

In March 2021, IAG announced that it has signed a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is $1,346 million (£973 million) and will be available for a period of three years plus two one-year extension periods at the discretion of the lenders. The facility remains undrawn at 30 June 2021 and through to the date of this report. In July 2021, BA entered into a sustainability-linked EETC structure, where a total of $785 million was raised to finance future aircraft deliveries.

On 18 December 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between 1 October 2020 and 31 January 2021. On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to extend the deferral of deficit contributions through to 30 September 2021, resulting in a total of £450 million of deficit contributions being deferred.

**Principal risks and uncertainties**

The Group has continued to maintain its framework and processes to identify, assess and manage risks. The principal risks and uncertainties affecting BA, detailed on pages 8 to 14 of the 2020 Annual Report and Accounts, remain relevant. The risk of pandemic impact has been considered under "Event causing significant network disruption" although the consequences of the pandemic continue to impact negatively the risk environment and a number of BA's other principal risks. The prolonged duration of the pandemic driven by subsequent waves of variants and corresponding governmental responses require BA to carefully assess how its principal risks have evolved and how the severity or likelihood of occurrence of certain risks has increased as a result of the pandemic and its consequences, as well as identifying emerging risks related to competitive and market risk changes. Where further action has been required, BA has assessed potential mitigations and where appropriate or feasible, BA has implemented or confirmed plans that would address those risks.

The BA Board continue to meet frequently to assess the situation and review updates, including the results of modelling of potential scenarios.

From the risks identified in the 2020 Annual Report and Accounts, the main risks that continue to be impacted by the COVID-19 pandemic are highlighted below. Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in BA's latest business plan and scenarios. No new principal risks were identified through the risk management assessment discussions across the business in the six months to 30 June 2021.

- *Airports, infrastructure and critical third parties*. Restrictions at hubs and airports have required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. BA has pro-actively worked with suppliers across all categories to ensure that operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary. Operational bottlenecks such as immigration resource at airports remains outside of the BA's control, although management continue to liaise with the relevant providers to identify potential solutions.
- *Competition, consolidation and government regulation*. The scale of governmental support and aviation specific state-aid measures and the potential impact to the competitive landscape is under continuous assessment.
- *Data and cyber security*. BA has maintained its planned investment in cyber security. The threat of ransomware attacks on critical infrastructure and services has increased throughout 2021 and BA continues to focus its efforts on further mitigating the risk.
- *IT systems and IT infrastructure*. BA is reliant upon the resilience of its systems for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. BA is currently engaged in a number of initiatives to modernise its IT systems, whilst also delivering an ongoing efficiency programme and upgrading its digital capability, customer propositions and core IT infrastructure and network where required. Some of these initiatives have been delayed or impacted by actions BA is taking to respond to the prolonged nature of the COVID-19 pandemic.
- *People, culture and employee relations*. The Group is focussed on staff wellbeing and people morale and motivation, which have been impacted by continued restrictions and lockdowns. Welfare support schemes are in place to support our staff and initiatives to build trust and engagement are underway. Skills and capabilities that are required to manage the BA's transformation plans, include empowering colleagues to make the best decisions for customers and delivering on BA's diversity and inclusion plans. Employee consultations were undertaken as required in relation to previously announced restructuring that has been necessitated by the ongoing impact of the pandemic.
- *Political and economic environment*. National governments continue to impose varying and complex travel and quarantine restrictions, which will continue to impact BA's operations and dampen demand where customers choose not to fly given the uncertainty around the application of restrictions. These changes in restrictions are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status. The economic impact of the pandemic, especially with the focus on variants and vaccine efficacy driving further uncertainty, is expected to be significant and BA will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required.
- *Debt funding and financial risk*. Financial markets have been volatile since the spread of the pandemic, although BA has been able to secure new funding and facilities as needed. The Group has an established process to monitor financial and counterparty risk on an ongoing basis. The Group has implemented new guidelines over fuel hedging to increase flexibility.

The BA Board has been appraised of regulatory, competitor and governmental responses on an ongoing basis.

By order of the Board

Sean Doyle
Chief Executive Officer
30 July 2021

Rebecca Napier
Chief Financial Officer
30 July 2021

Ends

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**Forward-looking statements:**

Certain statements included in this announcement are forward-looking. These statements can be identified by the fact that they do not relate only to historical or current facts. By their nature, they involve risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Actual results could differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements often use words such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group, S.A. and its subsidiary undertakings from time to time (the 'Group'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group's business plan. All forward-looking statements in this announcement are based upon information known to the Group on the date of this announcement and speak as of the date of this announcement. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

Actual results may differ from those expressed or implied in the forward-looking statements in this announcement as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this announcement are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group's risk management process is set out in the Risk management and principal risk factors section in the Annual Report and Accounts 2020; these documents are available on www.iairgroup.com. All forward-looking statements made on or after the date of this announcement and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section. Many of these risks are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the global airline industry and economic environment as a result.

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**BRITISH AIRWAYS PLC**

Unaudited Condensed Consolidated Interim Financial Statements
1 January 2021 – 30 June 2021

# Consolidated income statement (unaudited)

| £ million | Note | For the six months ended 30 June 2021 | *2020*[1] |
|---|---|---|---|
| Passenger revenue | | **375** | *2,235* |
| Cargo revenue | | **509** | *394* |
| Other revenue | | **40** | *144* |
| **Total revenue** | 5 | **924** | *2,773* |
| Employee costs | | **637** | *982* |
| Depreciation, amortisation and impairment | 9 | **450** | *585* |
| Fuel, oil costs and emission charges | | **344** | *722* |
| Engineering and other aircraft costs | | **158** | *266* |
| Landing fees and en route charges | | **127** | *257* |
| Handling, catering and other operating costs | | **230** | *533* |
| Selling costs | | **41** | *101* |
| Currency differences | | **(39)** | *52* |
| Property, IT and other costs | | **240** | *253* |
| **Total expenditure on operations before exceptional items** | | **2,188** | *3,751* |
| **Operating loss before exceptional items** | | **(1,264)** | *(978)* |
| Execptional items | 3 | **106** | *(1,176)* |
| **Operating loss after exceptional items** | | **(1,158)** | *(2,154)* |
| Finance costs | 6 | **(206)** | *(135)* |
| Finance income | 6 | **1** | *12* |
| Share of post-tax losses in investments accounted for using the equity method | 13 | **(6)** | *(89)* |
| Net financing credit relating to pensions | | **1** | *6* |
| Net currency retranslation credits | | **32** | *47* |
| Other non operating credits | 6 | **25** | *6* |
| Non-operating costs | | **(153)** | *(153)* |
| **Loss before tax** | | **(1,311)** | *(2,307)* |
| Tax | 7 | **280** | *358* |
| **Loss after tax** | | **(1,031)** | *(1,949)* |

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

# Consolidated statement of other comprehensive income (unaudited)

| £ million | Note | For the six months ended 30 June 2021 | 2020[1] |
|---|---|---|---|
| Loss after tax for the period | | **(1,031)** | *(1,949)* |
| Other comprehensive income: | | | |
| **Items that will not be reclassified to net profit** | | | |
| Remeasurement of post-employment benefit obligations | | **638** | *(901)* |
| Fair value movements on cash flow hedges that will subsequently be transferred to the balance sheet | | **(31)** | *153* |
| Equity investments - fair value movements in equity | | **-** | *(9)* |
| | | **607** | *(757)* |
| **Items that may be reclassified to net profit** | | | |
| Currency translation differences | | **(7)** | *16* |
| Fair value movements on cash flow hedges | | **361** | *(1,289)* |
| Fair value of cash flow hedges reclassified to net profit | | **-** | *668* |
| Other movements in comprehensive income of associates | 13 | **1** | *(27)* |
| | | **355** | *(632)* |
| **Total other comprehensive income/(loss)** | | **962** | *(1,389)* |
| **Total comprehensive loss for the period, net of tax** | | **(69)** | *(3,338)* |

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

Items in the consolidated Statement of other comprehensive income above are disclosed net of tax.

# Consolidated balance sheet (unaudited)

| £ million | Note | 30 June 2021 | 31 December 2020[1] | 31 December 2019[1] |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 9 | **10,088** | *10,381* | *10,488* |
| Intangibles | 9 | **1,026** | *1,062* | *1,094* |
| Investments accounted for using the equity method | 13 | **1,690** | *1,688* | *1,838* |
| Other equity investments | | **2** | *2* | *49* |
| Employee benefit assets | 17 | **994** | *303* | *450* |
| Deferred tax assets | | **405** | *401* | *-* |
| Derivative financial instruments | | **49** | *20* | *59* |
| Other non-current assets | | **171** | *174* | *191* |
| **Total non-current assets** | | **14,425** | *14,031* | *14,169* |
| **Current assets and receivables** | | | | |
| Inventories | | **74** | *73* | *156* |
| Trade receivables | | **400** | *356* | *1,202* |
| Other current assets | | **350** | *351* | *683* |
| Derivative financial instruments | | **190** | *52* | *91* |
| Other current interest-bearing deposits | | **-** | *-* | *1,330* |
| Cash and cash equivalents | | **1,669** | *1,261* | *1,258* |
| **Total current assets and receivables** | | **2,683** | *2,093* | *4,720* |
| **Assets held for sale** | 10 | **32** | *-* | *-* |
| **Total assets** | | **17,140** | *16,124* | *18,889* |
| **Shareholders' equity** | | | | |
| Issued share capital | | **290** | *290* | *290* |
| Share premium | | **1,512** | *1,512* | *1,512* |
| Other reserves | | **(36)** | *32* | *4,251* |
| **Total shareholders' equity** | | **1,766** | *1,834* | *6,053* |
| **Total equity** | | **1,766** | *1,834* | *6,053* |
| **Non-current liabilities** | | | | |
| Borrowings | 16 | **8,967** | *7,477* | *5,378* |
| Employee benefit obligations | 17 | **274** | *431* | *276* |
| Deferred tax liabilities | | **-** | *-* | *184* |
| Provisions | 18 | **347** | *344* | *423* |
| Derivative financial instruments | | **87** | *168* | *156* |
| Other long-term liabilities | | **68** | *69* | *29* |
| **Total non-current liabilities** | | **9,743** | *8,489* | *6,446* |
| **Current liabilities** | | | | |
| Borrowings | 16 | **951** | *1,310* | *932* |
| Trade and other payables | | **1,291** | *1,243* | *2,104* |
| Deferred revenue on ticket sales | | **3,000** | *2,429* | *2,934* |
| Derivative financial instruments | | **146** | *552* | *105* |
| Current tax payable | | **14** | *37* | *142* |
| Provisions | 18 | **229** | *230* | *173* |
| **Total current liabilities** | | **5,631** | *5,801* | *6,390* |
| **Total equity and liabilities** | | **17,140** | *16,124* | *18,889* |

[1]The 2020 and 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

# Consolidated cash flow statement (unaudited)

| £ million | For the six months ended 30 June 2021 | *2020[1, 2]* |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating loss from continuing operations after exceptional items | **(1,158)** | *(2,154)* |
| Exceptional items | **(106)** | *1,176* |
| Operating loss before exceptional items from continuing operations | **(1,264)** | *(978)* |
| Depreciation, amortisation and impairment | **450** | *585* |
| Movement in working capital | **611** | *98* |
| *(Increase)/decrease in trade and other receivables, prepayments, inventories and current assets* | *(25)* | *994* |
| *Increase/(decrease) in trade and other payables, deferred revenue on ticket sales and current liabilities* | *636* | *(896)* |
| Payments related to restructuring | **(11)** | *(18)* |
| Employer contributions to defined benefit pension schemes net of service and administration costs | **(18)** | *(145)* |
| Provisions and other non-cash movements | **94** | *55* |
| Realised loss on discontinuance of fuel and foreign exchange hedge accounting | **(108)** | *(395)* |
| Interest paid | **(150)** | *(111)* |
| Interest received | **1** | *11* |
| Tax paid | **(27)** | *(51)* |
| **Net cash used in operating activities** | **(422)** | *(949)* |
| | | |
| **Cash flow from investing activities** | | |
| Acquisition of PPE and intangible assets | **(171)** | *(583)* |
| Sale of property, plant and equipment and intangible assets | **24** | *126* |
| Loan repaid by parent company | **5** | *5* |
| Other investing movements | **(7)** | *2* |
| Decrease in other current interest-bearing deposits | **-** | *500* |
| **Net cash (used in)/generated from investing activities** | **(149)** | *50* |
| | | |
| **Cash flow from financing activities** | | |
| Proceeds from borrowings | **2,006** | *1,345* |
| Repayments of borrowings | **(395)** | *(34)* |
| Repayment of lease liabilities | **(341)** | *(409)* |
| Settlement of derivative financial instruments | **(242)** | *22* |
| Other financing movements | **(11)** | - |
| **Net cash flow generated from financing activities** | **1,017** | *924* |
| Increase in cash and cash equivalents | **446** | *25* |
| Net foreign exchange differences | **(38)** | *6* |
| Cash and cash equivalents at 1 January | **1,261** | *1,257* |
| **Cash and cash equivalents as at 30 June** | **1,669** | *1,288* |
| | | |
| **Interest-bearing deposits maturing after more than three months** | **-** | *830* |
| | | |
| **Cash, cash equivalents and other interest-bearing deposits at 30 June** | **1,669** | *2,118* |

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.
[2]The 2020 results include a reclassification to conform with the current period of presentation regarding settlement of derivative financial instruments. Further information is given in note 1 to this report.

# Consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2021

| £ million | Issued share capital | Share premium | Other reserves[1] | **Total equity** |
|---|---|---|---|---|
| At 1 January 2021 as reported | 290 | 1,512 | (235) | **1,567** |
| Change in accounting policy[2] | - | - | 267 | **267** |
| At 1 January 2021 restated | 290 | 1,512 | 32 | **1,834** |
| Loss for the period | - | - | (1,031) | **(1,031)** |
| Other comprehensive income for the period | - | - | 962 | **962** |
| Total comprehensive loss for the period, net of tax | - | - | (69) | **(69)** |
| Hedges reclassified and reported in property, plant and equipment | - | - | 1 | **1** |
| **As at 30 June 2021** | **290** | **1,512** | **(36)** | **1,766** |

For the six months ended 30 June 2020

| £ million | *Issued share capital* | *Share premium* | *Other reserves*[1] | *Total equity* |
|---|---|---|---|---|
| At 1 January 2020 as reported | *290* | *1,512* | *4,005* | *5,807* |
| Change in accounting policy[2] | - | - | *246* | *246* |
| At 1 January 2020 restated | *290* | *1,512* | *4,251* | *6,053* |
| Loss for the period | - | - | *(1,949)* | *(1,949)* |
| Other comprehensive loss for the period | - | - | *(1,389)* | *(1,389)* |
| Total comprehensive loss for the period, net of tax | - | - | *(3,338)* | *(3,338)* |
| Hedges reclassified and reported in property, plant and equipment | - | - | *(13)* | *(13)* |
| **As at 30 June 2020** | *290* | *1,512* | *900* | *2,702* |

[1]The retained earnings for the Group at 30 June 2021 were £141 million (2020: £1,734 million).

[2]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

# Notes to the accounts (unaudited)

For the six months ended 30 June 2021

## 1 Corporate information and basis of preparation

British Airways Plc (hereinafter 'British Airways', 'BA' or the 'Group') is a public limited company incorporated and domiciled in England.

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on 30 July 2021. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited.

BA's Annual Report and Accounts for the year ended 2020 have been filed with the Registrar of Companies in England and Wales and are prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. As a result of the UK's withdrawal from the European Union on 31 December 2020, the financial statements of the Group for the year ending 31 December 2021 will be prepared under UK-adopted International Accounting Standards. Accordingly, BA has applied UK-adopted International Accounting Standards in these condensed consolidated interim statements. There are no changes in accounting policies except for those changes disclosed in note 2. The report of the auditors on those financial statements was unqualified, drew attention by way of emphasis of matter to the material uncertainty related to going concern without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

**Presentation of results**

Consistent with the presentation of results for the year ended 31 December 2020, the Group has re-presented its results in the Income statement from using a three-column approach to a single column approach. The comparative figures have also been re-presented.

The prior period Cash flow statement includes a reclassification to conform with the current period of presentation regarding the settlement of foreign currency derivative financial instruments not designated in a hedge relationship, but entered into to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentation currency of the Group. Accordingly, the Group has reclassified the comparative six months to 30 June 2020 to recognise £22 million of derivative settlement cash inflows as Settlement of derivative financial instruments within cash flows from financing activities with a corresponding increase in cash outflows within cash flows from operating activities.

**Change in accounting policy**

During the six months to 30 June 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the APS and NAPS Defined benefit schemes. The change in policy has been adopted to better reflect the underlying management and operation of these schemes. This change in accounting policy has been applied retrospectively to the Condensed consolidated interim financial statements and are detailed below.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both 31 December 2020 and 31 December 2019. It has in addition increased the charge to Employee costs and the Financing charge relating to pensions in the Income statement for the six months to 30 June 2020.

The impact of the changes in these accounting policies on the Consolidated income statement and the Consolidated statement of comprehensive income for the six months to 30 June 2020, as well as the Consolidated balance sheet at 31 December 2020 and 31 December 2019 are shown below:

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 1 Corporate information and basis of preparation (continued)

### Change in accounting policy (continued)

**Consolidated income statement (extract for the six months to 30 June 2020)**

| £ million | Reported | Adjustment - administration costs[1] | Restated |
|---|---|---|---|
| **Total revenue** | **2,773** | **-** | **2,773** |
| Employee costs | 970 | 12 | 982 |
| **Total expenditure on operations before exceptional items** | **3,739** | **12** | **3,751** |
| **Operating loss after exceptional items** | **(2,142)** | **(12)** | **(2,154)** |
| Net financing credit relating to pensions | 2 | 4 | 6 |
| **Total non-operating costs** | **(157)** | **4** | **(153)** |
| **Loss before tax** | **(2,299)** | **(8)** | **(2,307)** |
| Tax | 356 | 2 | 358 |
| **Loss after tax** | **(1,943)** | **(6)** | **(1,949)** |

**Consolidated statement of other comprehensive income (extract for the six months to 30 June 2020)**

| £ million | Reported | Adjustment - administration costs[1] | Restated |
|---|---|---|---|
| **Loss after tax** | **(1,943)** | **(6)** | **(1,949)** |
| *Items that will not be reclassified to net profit* | | | |
| Remeasurements of post-employment benefit obligations | (865) | (36) | (901) |
| **Total other comprehensive loss** | **(1,353)** | **(36)** | **(1,389)** |
| **Total comprehensive loss for the period, net of tax** | **(3,296)** | **(42)** | **(3,338)** |

**Consolidated balance sheet (extract at 31 December 2020 and 31 December 2019)**

| £ million | Reported 2020 | Adjustment - administration costs[1] | Restated 2020 | Reported 2019 | Adjustment - administration costs[1] | Restated 2019 |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| Employee benefit assets | 256 | 47 | 303 | 266 | 184 | 450 |
| **Total non-current assets** | **13,984** | **47** | **14,031** | **13,985** | **184** | **14,169** |
| **Total assets** | **16,077** | **47** | **16,124** | **18,705** | **184** | **18,889** |
| Other reserves | (235) | 267 | 32 | 4,005 | 246 | 4,251 |
| **Total equity** | **1,567** | **267** | **1,834** | **5,807** | **246** | **6,053** |
| | | | | | | |
| **Non-current liabilities** | | | | | | |
| Employee benefit obligations | 651 | (220) | 431 | 338 | (62) | 276 |
| **Total non-current liabilities** | **8,709** | **(220)** | **8,489** | **6,508** | **(62)** | **6,446** |
| **Total equity and liabilities** | **16,077** | **47** | **16,124** | **18,705** | **184** | **18,889** |

[1]Adjustments made to Employee benefit assets and Employee benefit obligations are presented net of the impact of withholding tax.

### Going concern

The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Group's results and cash flows. At 30 June 2021, the Group had total liquidity of £3.1 billion (31 December 2020: £2.7 billion), comprising cash and cash equivalents of £1.7 billion, £1.0 billion of undrawn general facilities and a further £0.4 billion of committed and undrawn aircraft specific facilities.

The increase in liquidity during the six months ended 30 June 2021 was attributable to, amongst other actions, accessing a five year term loan of £2.0 billion from the UK Export Credit Facility and as a participant in the IAG Group's new three year Revolving Credit Facility, of which the Group has access to £1.0 billion ($1.3 billion). In July 2021, the Group further improved liquidity by securing a £0.6 billion aircraft-specific facility achieved as part of an Enhanced Equipment Trust Certificate (EETC) financing structure. The Group's facilities do not contain financial covenants, but there are a number of non-financial covenants to protect the position of the banks, including restrictions on the upstreaming of cash to the IAG Group or lending to other Group companies.

## 1 Corporate information and basis of preparation (continued)

### Going concern (continued)

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

- As part of the recovery, the Group has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines during the year. Travel corridors between countries are assumed to be introduced from quarter 3 2021, first in Europe, then North America, with other regions following in the first half of 2022;
- Capacity (forecast by geographical region (and in certain regions, by key destinations)) gradually increasing from a reduction of 60 per cent in the third quarter of 2021 (compared to the equivalent period in 2019) to a reduction of 10 per cent in the fourth quarter of 2022 (again compared to the equivalent period in 2019), with the average over the going concern period being 26 per cent down;
- Passenger unit revenue per ASK, although forecast to continue recovering, is expected to still remain below 2019 levels by the end of the going concern period, which is based on, amongst other assumptions, a greater weighting of shorthaul versus longhaul, leisure versus business and economy versus premium compared to 2019. Specifically, the Group's expectation is that traffic related to shorthaul will recover faster than longhaul and business;
- The Group has agreed with the Trustees of the NAPS pension scheme to defer contributions to 30 September 2021. The Group is in discussions with the Trustees to defer contributions of £113 million due in 2021 that are not yet subject to a deferral agreement, and this deferral has been assumed in the Base Case cash flows. The Base Case also assumes a further reduction in deficit contributions of £225 million over the remainder of the going concern period;
- The Group has assumed that its committed and undrawn general facilities of £1.0 billion will not be drawn over the going concern period;
- The Group has assumed that of the committed and undrawn aircraft specific facilities of £1.0 billion (including the EETC finance structure), £0.8 billion would be available to be drawn over the going concern period if required, but is not expected to be drawn; and
- Of the capital commitments detailed in note 10, £1.5 billion is due to be paid over the going concern period and the Group has forecast securing 80 per cent, or £0.7 billion, of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. This loan to value assumption is below the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date.

The Downside Case applies stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case. The Downside Case is representative of a slower roll out of the vaccination programme on a regional basis, with travel restrictions remaining in place and the gradual recovery of capacity being delayed longer than in the Base Case. The Downside Case models a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul. The result of which is that the levels of capacity assumed under the Base Case for the fourth quarter of 2021 are not achieved under the Downside Case until the second quarter of 2022. In the Downside Case, over the going concern period capacity would be 48 per cent down on 2019. The Group has assumed it will draw down its committed undrawn general facilities of £1.0 billion over the going concern period. The Directors consider the Downside Case to be a severe but plausible scenario.

In addition, the Group has sensitised the Downside Case to incorporate the occurrence of a two-month lockdown, and associated travel restrictions, over the Winter of 2021/2022, a scenario referred to as the Downside Lockdown Case. The Downside Lockdown Case is representative of the emergence of more virulent strains of COVID-19 and/or strains for which the efficacy of existing vaccines is reduced. Subsequent to this lockdown, capacity is expected to recover gradually through to the end of the second quarter of 2022, at which time capacity is expected to align with that of the Downside Case. In this additional scenario, over the going concern period capacity would be 62 per cent down on 2019. Consistent with the Downside Case, the Directors consider the Downside Lockdown Case to be an alternative severe but plausible scenario.

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

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

Having reviewed the Base Case, Downside Case, Downside Lockdown Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for the foreseeable future and hence continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the six months to 30 June 2021.

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 1 Corporate information and basis of preparation (continued)

### Going concern (continued)

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are outside of the control of the Group, including: the status and impact of the pandemic worldwide; the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Group, therefore, is not able to provide certainty that there could not be a more severe downside scenario than those it has considered, including the sensitivities in relation to the timing of recovery from the COVID-19 pandemic, capacity operated, impact on yield, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe scenario was to occur, the Group will need to secure sufficient additional funding. As set out above, sources of additional funding are expected to include securing additional long term financial facilities or asset disposals. However, the Group's ability to obtain additional funding in the event of a more severe downside scenario represents a material uncertainty at 30 July 2021 that could cast significant doubt upon the Group's ability to continue as a going concern.

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

## 2 Accounting policies

### New standards, interpretations and amendments adopted by the Group

The following amendments and interpretations apply for the first time in the six months to 30 June 2021, but do not have an impact on the condensed consolidated interim financial statements of the Group:

- Interest rate benchmark reform - Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

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

- Property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after 1 January 2022;
- Reference to the Conceptual Framework – amendments to IFRS 3 effective for periods beginning on or after 1 January 2022;
- Onerous contracts – cost of fulfilling a contract - amendments to IAS 37 effective for periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018–2020 - effective for periods beginning on or after 1 January 2022;
- Classification of liabilities as current or non-current - amendments to IAS 1 effective for periods beginning on or after 1 January 2023.
- Definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after 1 January 2023;
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 effective for periods beginning on or after 1 January 2023; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 effective for periods beginning on or after 1 January 2023.

#### Critical accounting estimates, assumptions and judgements

*Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of COVID-19*

As a result of COVID-19 the Group has experienced a significant decline in the level of flight activity and does not expect to return to the level of 2019 activity until at least 2024. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of COVID-19 regarding the recognition and measurement of assets and liabilities within the Condensed consolidated interim financial statements.

*Critical accounting estimates, assumptions and judgements – cash flow forecast estimation*

The Group has applied estimation and judgement in the evaluation of the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of the approved business plans. The details regarding the inputs and assumptions used in the determination of these cash flow forecasts are given in the going concern basis of preparation.

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

*a Discontinuance of hedge accounting*

In determining whether hedge accounting is required to be discontinued or to remain in a hedge relationship, judgement is required as to whether a forecast transaction that was previously highly probable continues to be expected to occur or is no longer expected to occur. The Group applied the capacity output from the cash flow forecasts as part of the approved Business plans in order to determine the forecast level of revenue generation and fuel consumption over the periods in which hedge accounting has been applied.

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 2 Accounting policies (continued)

**Critical accounting estimates, assumptions and judgements (continued)**

In the six months to 30 June 2021, the Group recognised a credit of £106 million (six months to 30 June 2020: expense of £722 million) arising from a combination of the discontinuance of hedge accounting in the six months to 30 June 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to 31 December 2020, but for which the underlying hedging instrument had not matured at 30 June 2021. This credit was represented by a credit of £109 million (six months to 30 June 2020: expense of £749 million) relating to fuel derivatives and an expense of £9 million (six months to 30 June 2020: credit of £61 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of £6 million (six months to 30 June 2020: charge of £34 million) relates to the discontinuation of hedge accounting of the associated fuel derivatives and the foreign currency derivatives on forecast revenue and fuel consumption.

The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

*b Long-term fleet plans and associated impairment*

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

During the six months to 30 June 2021 the Group recognised no impairment charge. For the six months to 30 June 2020 the Group recognised an impairment charge of £416 million, relating to impairment of fleet and rotable inventory spares relating to the entire B747 fleet, spare engines and four Embraer E170 aircraft.

*c Impairment testing of the Group's cash generating unit*

Due to the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group has adopted a weighted average multi-scenario discounted cash flow model derived from the cash flow forecasts from the approved business plans. The Group exercises judgement in determining the weighting between these scenarios in the value-in-use model.

Having undertaken this impairment testing, the Group has not recognised any impairment charge (six months to 30 June 2020: £nil). While no impairment charge is arising, the headroom in the impairment test of the Group is particularly sensitive to changes in key assumptions. Further information is given in note 12.

*d Recoverability of deferred tax assets*

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

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date.

As at 30 June 2021, the Group had unrecognised temporary differences of £311 million (30 June 2020: £284 million) relating to UK capital losses the Group does not reasonably expect to utilise.

*Critical accounting estimates, assumptions and judgements – other transactions*

In addition to the estimation uncertainty relating to cash flow forecasts, the Group has applied the following critical accounting estimates, assumptions and judgements that impact the Condensed consolidated interim financial statements:

*e Revenue recognition*

Historically, where a voucher has been issued to a customer in the event of a flight cancellation, the Group estimated, based on historical evidence, the level of such vouchers that would not be used prior to expiry and recognised revenue accordingly. Due to the significant level of flight cancellations arising from COVID-19 there remains insufficient historical data by which to reliably estimate the amount of these vouchers that will not be used prior to expiry. Accordingly, consistent with the approach taken at 31 December 2020, the Group has not recognised revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher is redeemed or it expires.

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 2 Accounting policies (continued)

**Critical accounting estimates, assumptions and judgements (continued)**

*Significant transactions as a result of COVID-19*

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

*f Loans and borrowings*

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing arrangements during 2021, which have been fully drawn unless otherwise stated, including:

On 22 February 2021, British Airways entered into a 5 year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UK Export Finance (UKEF);

On 23 March 2021, IAG entered into a three-year US dollar secured Revolving Credit Facility. The amount available to British Airways under the facility is $1.3 billion. As at 30 June 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021; and

In April 2021, British Airways fully repaid the Coronavirus Corporate Finance Facility of £298 million, which was entered into in April 2020.

Further information is given in note 16.

*g Government assistance*

Given the significant reduction in operations that have occurred as a result of COVID-19, the Group has availed itself of the various employee support mechanisms. In the period to 30 June 2021 this has led to an amount of £144 million (six months to 30 June 2020: £122 million) being received directly from the UK government (classified as government grants). Those amounts received in the form of government assistance have been recorded net within Employee costs. Further information is given in note 20.

*h Defined benefit pension scheme contributions*

On 18 December 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between 1 October 2020 and 31 January 2021. The deferral of such contributions amounted to £150 million. On 19 February 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions through to 30 September 2021. The deferral of such contributions will amount to £300 million. Further information is given in note 17.

**Impact of climate change on financial reporting**

As detailed in the British Airways Annual report and accounts 2020, as a result of the society-wide need to tackle climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to achieving net zero emissions by 2050.

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a lower carbon economy. Where the strategy is sufficiently developed, the potential financial impacts have been considered as part of recoverability analysis of the assets and liabilities of the Group at 30 June 2021, including, but not limited to, the carrying value of the Group.

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. The Group has addressed this estimation uncertainty through the provision of sensitivity analysis over its long-term assumptions relating to the recoverability of the carrying value of the Group (note 12).

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 3 Exceptional items

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

For the six months ended 30 June

| £ million | 2021 | *2020* |
|---|---|---|
| Credit/(charge) on derecognition of foreign currency passenger revenue hedges | 6 | *(34)* |
| **Recongnised in traffic revenue** | **6** | *(34)* |
| (Credit)/charge on derecognition of fuel and foreign exchange hedges | (100) | *688* |
| Impairment of fleet and rotable inventory | - | *416* |
| Impairment of expendable engineering inventories | - | *18* |
| Litigation expense | - | *20* |
| **Recongnised in expenditure on operations** | **(100)** | *1,142* |
| **Total exceptional (credit)/charge before tax** | **(106)** | *1,176* |
| Tax on exceptional items | 20 | *(220)* |
| **Total exceptional (credit)/charge after tax** | **(86)** | *956* |

The exceptional credit to Fuel, oil costs and emissions charges of £100 million (six months ended 30 June 2020: charge of £688 million) is represented by a credit of £109 million relating to fuel derivatives and a charge of £9 million related to the associated fuel foreign currency derivatives (six months ended 30 June 2020: represented by a charge of £749 million relating to fuel derivatives and a credit of £61 million relating to associated fuel foreign currency derivatives). The exceptional credit to Passenger revenue of £6 million (six months ended 30 June 2020: charge of £34 million) relates to the discontinuance of hedge accounting of the associated foreign currency derivatives on forecast revenue. These amounts have arisen from the substantial deterioration in demand for air travel caused by COVID-19, which has caused a significant level of hedged fuel purchases in US dollars and hedged passenger revenue transactions in a variety of foreign currencies to no longer be expected to occur, based on the Group's operating forecasts prevailing at the balance sheet date. The Group's risk management strategy is to build up these hedges gradually over a two-year period (previously a three-year period) when the level of forecast fuel consumption and passenger revenues were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the associated credits recognised in the Income statement.

No impairment charge or litigation expenses classified as exceptional were recognised during the period (six months ended 30 June 2020: £434 million and £20 million respectively).

The related tax charge was £20 million (six months ended 30 June 2020: credit of £220 million).

## 4 Seasonality

Except for the impact of COVID-19, the Group's business is highly seasonal with demand strongest during the summer months. Accordingly, higher revenues and operating profits are usually expected in the latter six months of the financial year than in the first six months.

## 5 Segment information

### a Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Management Committee makes resource allocation decisions based on route profitability, which consider 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 the consolidated financial results. While the operations of certain subsidiaries are considered to be separate operating businesses, their activities are considered to be sufficiently similar in nature to aggregate all segments. The primary financial information reviewed by the Management Committee is based on the consolidated results of the Group. Based on the way the Group manages its operating business, and the manner in which resource allocation decisions are made, the Group has only one reportable segment for financial reporting purposes, being the consolidated results of the Group's airline operations.

## 5 Segment information (continued)

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

For the six months ended 30 June

| £ million | 2021 | *2020* |
|---|---|---|
| UK | 319 | *1,353* |
| USA | 113 | *500* |
| Rest of the world | 492 | *920* |
| **Revenue** | **924** | *2,773* |

The total of non-current assets excluding equity investments, employee benefit assets, other non-current assets, deferred tax assets and derivative financial instruments located in the UK is £12,693 million (2020: £12,984 million), USA is £94 million (2020: £124 million) and the total of these non-current assets located in other countries is £17 million (2020: £23 million).

## 6 Finance costs and income

For the six months ended 30 June

### a Finance costs

| £ million | 2021 | *2020* |
|---|---|---|
| Interest expenses on: | | |
| Bank borrowings | (37) | *(5)* |
| Asset financed liabilities | (29) | *(10)* |
| Lease liabilities | (88) | *(109)* |
| Other borrowings | (50) | *(8)* |
| Provisions unwinding of discount | - | *(1)* |
| Other finance costs | (3) | *(8)* |
| Capitalised interest on progress payments | 1 | *6* |
| **Total finance costs** | **(206)** | *(135)* |

### b Finance income

| £ million | 2021 | *2020* |
|---|---|---|
| Interest on other investments and interest-bearing deposits | 1 | *12* |
| **Total finance income** | **1** | *12* |

### c Other non-operating credits

| £ million | 2021 | *2020* |
|---|---|---|
| Gain on sale of property, plant and equipment and investments | 25 | *3* |
| Credit relating to equity investments | - | *3* |
| **Total other non-operating credits** | **25** | *6* |

## 7 Tax

The tax credit in the Income statement was as follows:

| £ million | 30 June 2021 | *30 June 2020*[1] |
|---|---|---|
| Current tax | 2 | *204* |
| Deferred tax | 278 | *154* |
| Total tax | 280 | *358* |

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

## 7 Tax (continued)

The effective rate for the period was 21.3 per cent (2020: 15.5 per cent) being higher (2020: lower) than the tax credit (2020: tax credit) at the standard UK corporation tax rate of 19.0 per cent (2020: 19.0 per cent). Finance Act 2021 set the main rate of corporation tax at 25 per cent from April 2023, which has led to the remeasurement of deferred tax balances at 30 June 2021 and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances, a credit of £39 million is recorded in the Income statement and a credit of £28 million is recorded in Other comprehensive income.

| **Reconciliation of the Total Tax Credit**<br>£ million | **30 June 2021** | *30 June 2020*[1] |
|---|---|---|
| Accounting loss before tax: | **1,311** | *2,307* |
| Corporation tax rate | **19%** | *19%* |
| Tax at standard corporation tax rate | **(249)** | *(438)* |
| Non-deductible expenses | **7** | *8* |
| Intra-group associates' profits | **2** | *12* |
| Effect of pension fund accounting | **(1)** | *(1)* |
| Adjustments in respect of prior years | **-** | *(5)* |
| Movement relating to rate change | **(39)** | *65* |
| Other non-taxable income | **-** | *1* |
| **Tax credit in the income statement** | **(280)** | *(358)* |

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

*Uncertain tax positions for which no amount has been recognised*

The Group has uncertain tax positions for which no amount has been recognised, across all taxes, which at 30 June 2021 gave rise to a total maximum exposure of £84 million (31 December 2020: £87 million). No material losses are likely to arise from such uncertain tax positions. As such the Group does not consider it appropriate to recognise a provision for these amounts.

*Recoverability of deferred tax assets*

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

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date.

As at 30 June 2021, the Group had unrecognised temporary differences of £311 million (31 December 2020: £318 million) relating to UK capital losses the Group does not reasonably expect to utilise.

## 8 Dividends

No dividends were paid during the six months to 30 June 2021 (30 June 2020: £nil). Certain debt obligations, including the Export Development Guarantee Facility, place restrictions and/or conditions on the payments of dividends to the parent company, IAG. These loans can be repaid early without penalty at the election of British Airways. In addition, under the contribution deferral agreement between British Airways and the Trustee of the New Airways Pension Scheme (NAPS), in the period up to 31 December 2024, no dividend payment is permitted from British Airways to IAG, and any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend, until the deferred pension contributions have been paid.

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 9 Property, plant, equipment and intangibles

| £ million | Property, plant and equipment | Right of use assets | **Total property, plant and equipment** | **Intangible assets** |
|---|---|---|---|---|
| Net book value at 1 January 2021 | 4,933 | 5,448 | **10,381** | **1,062** |
| Additions | 126 | 4 | **130** | **18** |
| Modification of leases | - | 37 | **37** | **-** |
| Disposals | (11) | - | **(11)** | **(21)** |
| Depreciation and amortisation | (200) | (217) | **(417)** | **(33)** |
| Reclassifications | 23 | (55) | **(32)** | **-** |
| Net book value at 30 June 2021 | 4,871 | 5,217 | **10,088** | **1,026** |

| £ million | Property, plant and equipment | Right of use assets | **Total property, plant and equipment** | **Intangible assets** |
|---|---|---|---|---|
| Net book value at 1 January 2020 | *4,954* | *5,534* | *10,488* | *1,094* |
| Additions | *539* | *118* | *657* | *33* |
| Modification of leases | - | *47* | *47* | - |
| Disposals | *(128)* | *(1)* | *(129)* | *(12)* |
| Depreciation and amortisation | *(304)* | *(254)* | *(558)* | *(27)* |
| Impairment | *(416)* | - | *(416)* | - |
| Reclassifications | *136* | *(136)* | - | - |
| Net book value at 30 June 2020 | *4,781* | *5,308* | *10,089* | *1,088* |

At 30 June 2021, bank and other loans of the Group are secured on fleet assets with a net book value of £1,806 million (31 December 2020: £1,774 million). There is also property pledged as security with a net book value of £578 million (31 December 2020: £nil).

## 10 Non-current assets held for sale

The non-current assets held for sale of £32 million represent five Embraer E170 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. The aircraft will exit the business within 12 months of 30 June 2021

## 11 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £5,556 million (31 December 2020: £5,937 million). The majority of capital expenditure commitments are denominated in US dollars and as such the commitments are subject to changes in foreign exchange rates.

## 12 Impairment review

**Basis for calculating recoverable amount**

At each reporting date, the Group considers the existence of indicators of potential impairment. At 30 June 2021, the continued disruption caused by COVID-19 has led to a decrease in demand across the Group and economic uncertainty over the short and medium term.

As a result, a full impairment test at 30 June 2021 has been conducted.

The recoverable amounts have been measured based on their value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 1, with a weighting of 70 per cent to the base case, 20 per cent to the downside case and 10 per cent to the downside lockdown case. Cash flow projections are based on the business plans covering a three-year period. As a result of the slower recovery than previously expected, management have extended the period of cash flows in the value-in-use model, to four years. Cash flows extrapolated beyond the four-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the pre-tax discount rate.

BA annually prepares and approves the three-year business plan in the fourth quarter of the year. The business plan cash flows used in the value-in-use calculations reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by Management under existing agreements.

## 12 Impairment review (continued)

**Key assumptions**

The value-in-use calculations reflected the increased risks arising from COVID-19, including updated projected cash flows for the decreased activity for the remaining six months of 2021 through to the end of 2023, an increase in the pre-tax discount rates to incorporate increased equity market volatility and a decrease in long-term growth rates. The key assumptions utilised over the forecast period in the value-in-use calculations are as follows:

| Per cent | **30 June 2021** | 31 December 2020 |
|---|---|---|
| Operating margin[1] | **(16)-15** | (12)-16 |
| ASKs as a proportion of 2019[1] | **28-96** | 45-95 |
| Long-term growth rate | **2.1** | 2.1 |
| Pre-tax discount rate | **11.5** | 11.2 |

[1] Operating margin and ASKs as a proportion of 2019 are the weighted average of the base case, downside case and downside lockdown case scenarios.

| Jet fuel price ($ per MT) | **To 31 December 2021** | **To 31 December 2022** | **To 31 December 2023** | **To 31 December 2024** | **2025 and thereafter** |
|---|---|---|---|---|---|
| 30 June 2021 | **623** | **624** | **609** | **597** | **597** |
| 31 December 2020 | 373 | 420 | 449 | 449 | 449 |

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

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

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

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

**Summary of results**

At 30 June 2021, Management reviewed the recoverable amount of the business and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered, where applicable, which include reducing operating margin by 2 per cent in each year, ASKs by 5 per cent in each year, long-term growth rates to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the downside lockdown case to 100 per cent, and increasing the fuel price by 40 per cent.

While the recoverable amounts are estimated to exceed the carrying amounts by £5,732 million, the recoverable amounts would be below the carrying amounts when applying the following reasonable possible changes in assumptions:

(i) if ASKs had been five per cent lower combined with a fuel price increase of 18 per cent; and
(ii) if the fuel price had been 28 per cent higher.

For the remainder of the reasonable possible changes in key assumptions applied and for all the reasonable possible changes in key assumptions applied, no impairment arises.

In addition, at 30 June 2021, the Directors have considered the existence of indicators of impairment for individual assets, including but not limited to, landing rights and fleet assets, and concluded no impairment charge is deemed necessary.

# Notes to the accounts (unaudited) (continued)
For the six months ended 30 June 2021

## 13 Investments accounted for using the equity method

| £ million | **2021** | *2020* |
|---|---|---|
| Balance at 1 January | **1,688** | *1,838* |
| Additions | **7** | *-* |
| Share of attributable results | **(6)** | *(89)* |
| Share of movements in other comprehensive income of investments | **1** | *(27)* |
| Exchange differences | **-** | *9* |
| **As at 30 June** | **1,690** | *1,731* |

## 14 Financial instruments

### a Financial assets and liabilities by category
The detail of the Group's financial instruments as at 30 June 2021 and 31 December 2020 by nature and classification for measurement purposes is as follows:

**At 30 June 2021**

| | Financial assets | | | | |
|---|---|---|---|---|---|
| £ million | Amortised cost | Fair value through OCI | Fair value through income statement | Non-financial assets | **Total carrying amount** |
| **Non-current financial assets** | | | | | |
| Equity investments | - | 2 | - | - | **2** |
| Derivative financial instruments[1] | - | - | 49 | - | **49** |
| Other non-current assets | 84 | - | - | 87 | **171** |
| **Current financial assets** | | | | | |
| Trade receivables | 400 | - | - | - | **400** |
| Other current assets | 132 | - | - | 218 | **350** |
| Derivative financial instruments[1] | - | - | 190 | - | **190** |
| Cash and cash equivalents | 1,669 | - | - | - | **1,669** |

| | Financial liabilities | | | | |
|---|---|---|---|---|---|
| £ million | Amortised cost | Fair value through OCI | Fair value through income statement | Non-financial liabilities | **Total carrying amount** |
| **Non-current financial liabilities** | | | | | |
| Interest-bearing loans | 4,667 | - | - | - - | **4,667** |
| Lease liabilities | 4,300 | - | - | - | **4,300** |
| Derivative financial instruments[1] | - | - | 87 | - | **87** |
| Other long-term liabilities | 53 | - | - | 15 | **68** |
| **Current financial liabilities** | | | | | |
| Interest-bearing loans | 172 | - | - | - | **172** |
| Lease liabilities | 779 | - | - | - | **779** |
| Trade and other payables | 957 | - | - | 335 | **1,292** |
| Derivative financial instruments[1] | - | - | 146 | - | **146** |

[1] For further information regarding derivative financial instruments, refer to note 21 'Financial risk management'.

# Notes to the accounts (unaudited) (continued)

For the six months ended 30 June 2021

## 14 Financial instruments (continued)

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

**At 31 December 2020**

| £ million | Financial assets: Amortised cost | Financial assets: Fair value through OCI | Financial assets: Fair value through income statement | Non-financial assets | **Total carrying amount** |
|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | |
| Equity investments | - | *2* | - | - | *2* |
| Derivative financial instruments | - | - | *20* | - | *20* |
| Other non-current assets | *94* | - | - | *80* | *174* |
| **Current financial assets** | | | | | |
| Trade receivables | *356* | - | - | - | *356* |
| Other current assets | *86* | - | - | *265* | *351* |
| Derivative financial instruments | | - | *52* | - | *52* |
| Cash and cash equivalents | *1,261* | - | - | - | *1,261* |

| £ million | Financial liabilities: Amortised cost | Financial liabilities: Fair value through OCI | Financial liabilities: Fair value through income statement | Non-financial liabilities | **Total carrying amount** |
|---|---|---|---|---|---|
| **Non-current financial liabilities** | | | | | |
| Interest-bearing loans | *2,831* | - | - | - | *2,831* |
| Lease liabilities | *4,646* | - | - | - | *4,646* |
| Derivative financial instruments | - | - | *168* | - | *168* |
| Other long-term liabilities | *54* | - | - | *15* | *69* |
| **Current financial liabilities** | | | | | |
| Interest-bearing loans | *465* | - | - | - | *465* |
| Lease liabilities | *845* | - | - | - | *845* |
| Trade and other payables | *1,206* | - | - | *37* | *1,243* |
| Derivative financial instruments | - | - | *552* | - | *552* |

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

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

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

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

Derivative instruments are measured based on the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models, which include forward exchange rates, forward interest rates and forward fuel curves at the reporting date. The fair value of derivative financial liabilities and derivative financial assets are adjusted for own credit risk and counterparty credit risk, respectively.

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

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

# Notes to the accounts (unaudited) (continued)
For the six months ended 30 June 2021

## 14 Financial instruments (continued)
### b Fair values of financial assets and financial liabilities (continued)

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

The carrying amounts and fair values of the Group's financial assets and liabilities as at 30 June 2021 are set out below:

| £ million | Level 1 | Level 2 | Level 3 | Fair value Total | Carrying value Total |
|---|---|---|---|---|---|
| **Financial assets:** | | | | | |
| Amounts owed by associated group undertakings | - | 99 | - | **99** | **93** |
| Derivative financial assets | - | 239 | - | **239** | **239** |
| Equity investments | - | - | 2 | **2** | **2** |
| **Financial liabilities:** | | | | | |
| Interest-bearing loans and borrowings | - | 5,010 | - | **5,010** | **4,839** |
| Derivative financial liabilities | - | 233 | - | **233** | **233** |

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

| £ million | Level 1 | Level 2 | Level 3 | Fair value Total | Carrying value Total |
|---|---|---|---|---|---|
| **Financial assets:** | | | | | |
| Amounts owed by associated group undertakings | - | *109* | - | ***109*** | ***104*** |
| Derivative financial assets | - | *72* | - | ***72*** | ***72*** |
| Equity investments | - | - | *2* | ***2*** | ***2*** |
| **Financial liabilities:** | | | | | |
| Interest-bearing loans and borrowings | - | *3,510* | - | ***3,510*** | ***3,296*** |
| Derivative financial liabilities | - | *720* | - | ***720*** | ***720*** |

The fair value of financial assets and liabilities is included at the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

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

### c Level 3 financial assets reconciliation

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

| £ million | **Six months ended 30 June 2021** | *Year ended 31 December 2020* |
|---|---|---|
| Balance at 1 January | **2** | *40* |
| Fair value adjustment[1] | - | *(38)* |
| **As at period end** | **2** | *2* |

[1]During 2020, evidence of a decline in the fair value of shares held in The Airline Group Limited became available. The Company's most recent Annual Report and Accounts indicated an expected dividend distribution of nil for the foreseeable future and as such a valuation based on the future cash flows resulted in a fair value reduction of this asset of £38 million recognised in the Consolidated statement of other comprehensive income.

## 15 Share capital

The number of shares in issue at 30 June 2021 was 896,700 A1 shares (31 December 2020: 896,700) and 99,308 A2 shares (31 December 2020: 99,308) with a par value of £289.70 each and 1,000,000 B shares (31 December 2020: 1,000,000) and 147,963 C shares (31 December 2020: 147,963) with a par value of £1.00 each.

## 16 Borrowings

| £ million | 30 June 2021 | 31 December 2020 |
|---|---|---|
| **Current** | | |
| Bank and other loans | 81 | 358 |
| Other financing liabilities[1] | 15 | 33 |
| Asset financed liabilities | 76 | 74 |
| Lease liabilities | 779 | 845 |
| | 951 | 1,310 |
| **Non-current** | | |
| Bank and other loans | 3,571 | 1,714 |
| Asset financed liabilities | 1,096 | 1,117 |
| Lease liabilities | 4,300 | 4,646 |
| | 8,967 | 7,477 |

[1]Other financing liabilities relate to the sale and repurchase agreements entered into during the course of 2020 and 2021 with regard to emission allowances and represents the amount the Group is expected to repurchase during the course of 2021.

Bank and other loans are repayable up to 2027. Long-term borrowings of the Group amounting to £1,347 million (2020: £1,394 million) are secured on fleet assets with a net book value of £1,806 million (2020: £1,774 million). Asset financed liabilities are all secured on the associated aircraft.

In February 2021, British Airways entered into a five year term loan Export Development Guarantee Facility of £2.0 billion underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The annual rate of interest associated with the UKEF loan is consistent with the prevailing market rate of interest at the time of executing the term loan.

In March 2021, British Airways entered into a Revolving Credit Facility with a syndicate of banks. The total amount available under the facility for British Airways is £973 million ($1,346 million) and will be available for a period of three years plus two one-year extension periods at the discretion of the lenders. The facility is undrawn at the date of this report.

As at 30 June 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility that was due to mature in June 2021. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft.

In April 2020, British Airways availed itself of the £298 million Coronavirus Corporate Finance Facility ("CCFF"). This was fully repaid in April 2021.

## 17 Employee benefits

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme ('APS') and the New Airways Pension Scheme ('NAPS'). The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan ('US PRMB').

NAPS has been closed to new members since 2004 and was closed to future accrual from 31 March 2018. Members' deferred pensions are increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments relating to the 2021 valuation, which remains subject to finalisation at the date of this report, has been made in the valuation of the defined benefit obligation. The NAPS actuarial valuation at 31 March 2018 resulted in a deficit of £2,399 million.

APS has been closed to new members since 1984 but remains open to future accrual. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment. The APS actuarial valuation at 31 March 2018 resulted in a surplus of £599 million.

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

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

## 17 Employee benefits (continued)

The actuarial valuations performed as at 31 March 2018 for APS and NAPS are different to the valuation performed as at 30 June 2021 under 'IAS 19: Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Company of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

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

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

| | | | | **As at 30 June 2021** |
|---|---|---|---|---|
| £ million | APS | NAPS | Other | **Total** |
| Scheme assets at fair value | **7,354** | **19,933** | **398** | **27,685** |
| Present value of scheme liabilities | **(6,919)** | **(18,252)** | **(649)** | **(25,820)** |
| Net pension asset/(liability) | **435** | **1,681** | **(251)** | **1,865** |
| Effect of the asset / (liability) ceiling[1] | **(142)** | **(992)** | **-** | **(1,134)** |
| Other employee benefit obligations | **-** | **-** | **(11)** | **(11)** |
| | **293** | **689** | **(262)** | **720** |
| Represented by: | | | | |
| Employee benefit assets | | | | **994** |
| Employee benefit obligations | | | | **(274)** |
| | | | | **720** |

[1]Both APS and NAPS have an IAS 19 accounting surplus and NAPS has future minimum funding requirements, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.

| | | | | *As at 31 December 2020 (re-stated)*[2] |
|---|---|---|---|---|
| £ million | *APS* | *NAPS* | *Other* | *Total* |
| Scheme assets at fair value | *7,752* | *20,196* | *369* | *28,317* |
| Present value of scheme liabilities | *(7,323)* | *(19,776)* | *(646)* | *(27,745)* |
| Net pension asset / (liability) | *429* | *420* | *(277)* | *572* |
| Effect of the asset ceiling[1] | *(138)* | *(553)* | *-* | *(691)* |
| Other employee benefit obligations | *-* | *-* | *(9)* | *(9)* |
| | *291* | *(133)* | *(286)* | *(128)* |
| Represented by | | | | |
| Employee benefit assets | | | | *303* |
| Employee benefit obligations | | | | *(431)* |
| | | | | *(128)* |

[1]Both APS and NAPS have an IAS 19 accounting surplus and NAPS has future minimum funding requirements, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.
[2]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

At 30 June 2021, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect market conditions at that date. The key assumptions were as follows:

| | **At 30 June 2021** | | *At 31 December 2020* | |
|---|---|---|---|---|
| Per cent per annum | **APS** | **NAPS** | *APS* | *NAPS* |
| Discount rate | **1.70%** | **1.90%** | *1.20%* | *1.40%* |
| Rate of increase in pensionable pay | **3.25%** | **n/a** | *2.95%* | *n/a* |
| Rate of increase of pensions in payment | **3.25%** | **2.55%** | *2.95%* | *2.25%* |
| RPI rate of inflation | **3.25%** | **n/a** | *2.95%* | *n/a* |
| CPI rate of inflation | **n/a** | **2.55%** | *n/a* | *2.25%* |

Further information on the basis of the assumptions is included in note 29 of the Annual Report and Accounts for the year to 31 December 2020.

### 17 Employee benefits (continued)

Pension contributions for NAPS were determined by actuarial valuations made as at 31 March 2018, using assumptions and methodologies agreed between the Group and Trustees of each scheme.

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

### 18 Provisions for liabilities and charges

| £ million | Restoration and handback | Restructuring | Legal claims | Other | **Total** |
|---|---|---|---|---|---|
| Current | *119* | *52* | *27* | *32* | *230* |
| Non-current | *323* | - | *5* | *16* | *344* |
| Balance at 1 January 2021 | *442* | *52* | *32* | *48* | *574* |
| Provisions recorded during the period | 43 | 9 | 27 | 16 | 95 |
| Utilised during the period | (8) | (11) | (4) | (32) | (55) |
| Release of unused amounts | (1) | (3) | (6) | (1) | (11) |
| Reclassifications | - | - | (6) | - | (6) |
| Exchange differences | (21) | - | - | - | (21) |
| **As at 30 June 2021** | **455** | **47** | **43** | **31** | **576** |
| Analysis: | | | | | |
| Current | 131 | 47 | 37 | 14 | **229** |
| Non-current | 324 | - | 6 | 17 | **347** |
| | **455** | **47** | **43** | **31** | **576** |

The provision for restorations and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft, including those of right of use. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. The provisions relate to leases up to 2034.

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

Legal claims provisions include amounts for multi-party claims from groups or employees on a number of matters related to the Group's operations, including claims for additional holiday pay.

Other provisions include a provision for the EU Emissions Trading Scheme that represents the $CO_2$ emitted on a flight within the EU in excess of the EU Emissions Allowances granted. The provision also consists of staff leaving indemnities that were set up based on Collective Labour Agreements or local jurisdiction regulations.

### 19 Contingent liabilities & guarantees

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

*Legal and regulatory proceedings*

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at 30 June 2021 amounted to £12 million (31 December 2020: £15 million).

*Voucher issuance*

On 9 June 2021, the Competition and Markets Authority (CMA) opened an enforcement case regarding British Airways' policy in relation to refunding passengers who were prevented from taking their British Airways operating flights as a result of the UK Government's lockdown restrictions. British Airways maintains that its policy was in accordance with its terms and conditions of carriage and was lawful. At 30 June 2021 and as at the date of this report, British Airways continues to engage with the CMA regarding their investigation.

## 19 Contingent liabilities & guarantees (continued)

*Guarantees and indemnities*

The Group has guarantees and indemnities entered into as part of the normal course of business, which at 30 June 2021 are not expected to result in material losses for the Group.

## 20 Government grants

In April 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility ("CCFF") implemented by the government of the United Kingdom. Under the CCFF, British Airways received £298 million, with interest incurred at the prevailing market rate. This was fully repaid in April 2021.

To mitigate the impact of the COVID-19 pandemic on employment, the UK Government introduced the Coronavirus Job Retention Scheme ("JRS"). This is a temporary scheme open to employers from 1 March 2020 and is anticipated to run until the end of September 2021. Employers receive a grant from HMRC to cover the lower of a percentage of an employee's regular wage, or £2,187.50 per month as at the date of this report. British Airways received £144 million from the JRS in the period to 30 June 2021 (period to 30 June 2020: £122 million). This amount is recorded in Employee costs in the Consolidated income statement.

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

## 21 Financial risk management

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The principal impact of these on the condensed consolidated interim financial statements are discussed below:

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

During the six months ended 30 June 2021, following a rise in the global fuel prices, the fair value of such fuel derivative instruments was a £130 million net asset at 30 June 2021, representing a favourable movement from 1 January 2021 of £511 million.

**Foreign currency risk**
The Group is exposed to foreign currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies in which these transactions are denominated are primarily US dollar and euro. The Group has a number of strategies to hedge foreign currency risk. The Group strategy is to hedge a proportion of its foreign currency sales and purchases for up to three years, a proportion of the committed US dollar capital expenditure and the translation risk on US dollar and euro denominated debt, within certain defined limits.

At 30 June 2021, the fair value of foreign currency derivatives instruments was a £109 million net liability, representing a favourable movement of £136 million since 1 January 2021.

**Interest rate risk**
The Group is exposed to changes in interest rates on debt, lease commitments and on cash deposits. Interest rate risk on floating rate debt is managed through floating to fixed interest rate swaps.

**Credit risk**
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by only entering into transactions with counterparties with a very low credit risk.

## 22 Post balance sheet events

In July 2021, the Group entered into an asset financing structure, under which seven aircraft are expected to be sold and leased back. This asset-financing structure matures between 2033 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2021-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). The Group expects to recognise £568 million ($785 million) through these aforementioned sale and lease backs from the second half of 2021 and during 2022.

## 23 Related party transactions

The Group had transactions in the ordinary course of business during the six months ended 30 June with related parties.

Sales and purchases of goods and services:

| | Six months to 30 June | |
|---|---|---|
| £ million | **2021** | *2020* |
| **Sales of good and services** | | |
| Sales to/purchases on behalf of IAG[1] | **6** | *3* |
| Sales to/purchases on behalf of subsidiary undertakings of the parent | **19** | 50 |
| Sales to associates[2] | **29** | 77 |
| **Purchases of goods and services** | | |
| Purchases from IAG[1] | **16** | 17 |
| Purchases from subsidiary undertakings of the parent | **95** | 105 |
| Purchases from associates[2] | **47** | 48 |

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

| | **30 June** | 31 December |
|---|---|---|
| £ million | **2021** | *2020* |
| **Receivables from related parties** | | |
| Amounts owed by IAG[1] | **100** | 105 |
| Amounts owed by subsidiary undertakings of the parent | **55** | 64 |
| Amounts owed by associates[2] | **58** | 19 |
| **Payables to related parties** | | |
| Amounts owed to IAG[1] | **1416** | 1483 |
| Amounts owed to subsidiary undertakings of the parent | **28** | 21 |
| Amounts owed to associates[2] | **1,374** | 1,082 |

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

[2] Sales and purchases with associates are on an arms length basis and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms.

The Group has not benefitted from any guarantees for any related party receivables or payables. During the period ended 30 June 2021 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2020: £nil).

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

**Directors' and Officers' loans and transactions**

There were no loans or credit transactions with Directors or Officers of the Group at 30 June 2021 or that arose during the period that need to be disclosed in accordance with the requirements of Sections 412 and 413 of the Companies Act 2006.

## Fleet table

# AIRCRAFT FLEET

### Number in service with Group companies at 30 June 2021

| | On balance sheet fixed assets | Right of use IFRS16 operating leases | Total June 2021 | Total December 2020 | Changes since December 2020 (Note 2) | Future deliveries | Options |
|---|---|---|---|---|---|---|---|
| **AIRLINE OPERATIONS (NOTE 1)** | | | | | | | |
| Airbus A319 | 13 | 22 | **35** | *35* | | | |
| Airbus A320 | 33 | 48 | **81** | *80* | **1** | 8 | 10 |
| Airbus A321 | 13 | 15 | **28** | *28* | | 3 | |
| Airbus A350 | 8 | | **8** | *8* | | 10 | 36 |
| Airbus A380 | 2 | 10 | **12** | *12* | | | |
| Boeing 777-200 | 36 | 7 | **43** | *43* | | | |
| Boeing 777-300 | 3 | 13 | **16** | *16* | | | |
| Boeing 777-900 | | | | | | 18 | 24 |
| Boeing 787-8 | | 12 | **12** | *12* | | | |
| Boeing 787-9 | 1 | 17 | **18** | *18* | | | |
| Boeing 787-10 | 2 | | **2** | *2* | | 10 | |
| Embraer E170 | | | | *1* | **(1)** | | |
| Embraer E190 | 9 | 14 | **23** | *22* | **1** | 1 | |
| **TOTAL OPERATIONS** | **120** | **158** | **278** | **277** | **1** | **50** | **70** |

Notes:
1. Includes aircraft operated by British Airways Plc and BA Cityflyer Limited.
2. Aircraft Movements during the period were:
1xA320neo: Aircraft delivered and entered into service in the six months ended 30 June 2021
(1)xEmbraer E170: Aircraft permanently stood down in the six months ended 30 June 2021
1xEmbraer E190: Aircraft delivered in and entered into service in the six months ended 30 June 2021