BRITISH AIRWAYS SIX MONTH RESULTS (unaudited)

1 January 2017 – 30 June 2017

British Airways Plc ('BA' or the 'Group') presents its consolidated results for the six month period ended 30 June 2017. All of the information below was included within the results announcement presented by International Consolidated Airlines Group S.A. ('IAG') on 28 July 2017.

Period highlights

- Total revenue of £5,844 million (2016: £5,350 million) up 9.2 per cent from last year.
- Operating profit (before exceptional items) of £633 million (2016: £487 million) £146 million better than last year.
- Fuel cost up 1.0 per cent from last year.
- Non fuel unit costs per ASK up 7.9 per cent from last year.
- Non-operating items down by £81 million to £21 million (2016: £60 million gain) driven mainly by the decrease in profit on sale of property, plant and equipment.

Performance summary

For the six months ended 30 June

Financial data £ million	2017	*2016*	Better/(Worse)
Passenger revenue	**5,285**	*4,860*	8.7%
Total revenue	**5,844**	*5,350*	9.2%
Total expenditure on operations	**(5,211)**	*(4,863)*	(7.2)%
Operating profit before exceptional items	**633**	*487*	30.0%
Exceptional items	**(66)**	*40*	nm
Non-operating items	**(21)**	*60*	nm
Profit before tax	**546**	*587*	(7.0)%

nm = not meaningful

Operating figures	2017	*2016*	Better/(Worse)
Available seat kilometres (ASK[1]) (m)	**88,705**	*87,602*	1.3%
Revenue passenger kilometres (RPK[1]) (m)	**71,210**	*69,896*	1.9%
Cargo tonne kilometres (CTK[1]) (m)	**2,198**	*2,075*	5.9%
Passenger load factor[1] (%)	**80.3**	*79.8*	0.5pts
Passengers carried (000)	**21,673**	*21,189*	2.3%
Passenger revenue per ASK (p)	**5.96**	*5.55*	7.4%
Passenger revenue per RPK (p)	**7.42**	*6.95*	6.8%
Non-fuel costs per ASK (p)	**4.48**	*4.15*	(7.9)%

[1] Defined in the Annual Report and Accounts for the year ended 31 December 2016 and should be read in conjunction with this document.

Management review

BA has made an operating profit before exceptional items of £633 million for the half year (2016: £487 million), mainly driven by stronger passenger unit revenues. Total revenue is up by 9.2 per cent from last year and this is predominantly driven by the increase in passenger revenues of 8.7 per cent as a result of strong business sector performance across Rest of the World and North America as market share improved following increased longhaul premium leisure travel.

The Group continues to operate in a challenging external environment. This included: low fuel prices and interest rates promoting growth in market capacity and competition; uncertainty following the UK vote to leave the European Union (EU) and the UK 2017 General Election and terrorist attacks in key destination markets and London. The power outage in May 2017 caused significant operational and customer disruption which also impacted our performance.

As part of Plan4 the Group is investing in the customer experience. During the period, the Group opened new lounges including the First Wing at Heathrow Terminal 5 and lounges at London Gatwick and Boston.

During the period the Group operated more than 290 aircraft, carrying customers to more than 200 destinations in over 80 countries.

Outlook

BA has built a robust plan for the future, Plan4, which will build on four key strategic pillars. This plan will help British Airways become a more agile and efficient company that can innovate and deliver for its customers competitively.

- Customer – to invest and innovate where customers value it most;
- Operations – to be safe, reliable and responsible;
- Efficiency – to improve capital efficiency and have competitive costs; and
- People – to unleash our true potential.

Financial Review

Consolidated income statement
For the six months ended 30 June

£ million	2017	*2016*	Better/(Worse)
Passenger revenue	**5,285**	*4,860*	8.7%
Cargo revenue	**320**	*272*	17.6%
Other revenue	**239**	*218*	9.6%
Total revenue	**5,844**	*5,350*	**9.2%**
Employee costs	**1,280**	*1,233*	(3.8)%
Depreciation, amortisation and impairment	**377**	*375*	(0.5)%
Aircraft operating lease costs	**115**	*63*	(82.5)%
Fuel, oil and emission charges	**1,236**	*1,224*	(1.0)%
Engineering and other aircraft costs	**400**	*329*	(21.6)%
Landing fees and en-route charges	**457**	*419*	(9.1)%
Handling, catering and other operating costs	**833**	*716*	(16.3)%
Selling costs	**241**	*211*	(14.2)%
Currency differences	**4**	*31*	nm
Property, IT and other costs	**268**	*262*	(2.3)%
Total expenditure on operations[1]	**5,211**	*4,863*	**(7.2)%**
Operating profit before exceptional items	**633**	*487*	**30.0%**
Exceptional item	**(66)**	*40*	nm
Non-operating items	**(21)**	*60*	nm
Profit before tax	**546**	*587*	(7.0)%
Tax	**(96)**	*(91)*	(5.5)%
Profit after tax	**450**	*496*	(9.3)%

[1] Total operating expenditure excluding fuel, oil costs and emission charges was £3,975 million (2016: £3,639 million).
nm = not meaningful

Total revenue
Overall capacity, measured by ASKs, was up by 1.3 per cent in the first six months of the year and traffic increased by 1.9 per cent, increasing passenger load factor by 0.5 pts. This translated to total revenue for the first half of the year of £5,844 million (2016: £5,350 million). The increase in revenue is driven by rising premium yields which saw passenger revenue per RPK increase by 1.9 per cent in line with strong business sector performance across Rest of the World and North Atlantic routes. There was a 17.6 per cent rise in cargo revenue following high Asia Pacific exports to Latin America and North America. The increase in revenue is aided by all major currencies strengthening against sterling.

Expenditure on operations
There has been an increase in half year operating costs to £5,211 million (2016: £4,863 million). Fuel costs increased by £12 million, or 1.0 per cent, to £1,236 million compared to £1,224 million in the prior period. The increase is mainly attributed to adverse foreign exchange caused by the weakening of sterling against the US Dollar due to continued uncertainty following the UK vote to leave the European Union (EU). This increase has been partially offset by the favourable impact of lower average fuel price net of hedging.

Group expenditure excluding fuel increased to £3,975 million (2016: £3,639 million) principally driven by an increase in ASKs of 1.3 per cent as well as the weakening of sterling against all major curriencies. Aircraft operating lease costs increased 82.5 per cent reflecting the full six month effect of the nine 787-9s and twelve Airbus A319 aircraft that were financed under operating lease agreements in 2016. Engineering and other aircraft costs increased 21.6 per cent in line with planned maintenance cycles and contractual price escalation on pay as you go engine maintenance contracts. Handling, catering and other operating costs increased 16.3 per cent. A significant proportion of the increase is due to £56 million of additional compensation fees and baggage claims related to operational disruption following the power outage in May 2017. BA continues to work with customers to fully honour compensation obligations.

Exceptional items
BA has embarked on a series of transformation proposals to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs. Costs incurred in the six months to 30 June 2017 in respect of this programme amount to £66 million, with a related tax credit of £13 million. Management expect to improve employee productivity as a result of this restructuring program.

In 2016, the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to bring the level of benefits in line with national trends in the US. These changes resulted in recognition of a one-off gain in employee costs of £40 million during the period.

Non-operating items
Non-operating items comprise of £41 million of fuel derivative losses driven by losses in the time-value on fuel options and a fall in the forward fuel price, £55 million of finance costs primarily relating to loan and finance lease interest and £11 million of other costs, offset by £86 million relating to the share of post tax profits in associates.

In 2016, a gain on loss of control of a subsidiary of £70 million was recognised following a business transfer agreement with Avios Group (AGL) Limited ('AGL') which transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in AGL.

Tax
The tax charge on continuing operations for the period ended 30 June 2017 was £96 million (2016: £91 million). After removing the share of after-tax profits of associates, the effective tax rate for the period was 20.9 per cent (2016: 19.4 per cent).

Capital expenditure
Total capital expenditure in the period amounted to £208 million (2016: £956 million) which includes £149 million (2016: £896 million) of fleet related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £58 million on property, equipment and software.

Liquidity
The Group's liquidity position remains robust with £3.3 billion of cash and cash equivalents and other interest bearing deposits (31 December 2016: £2.5 billion). Net debt stood at £1.6 billion (31 December 2016: £2.7 billion).

Principal risks and uncertainties
The Group continued to maintain and operate our structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting BA are detailed on pages 8 to 10 of the 2016 Annual Report and Accounts and remain relevant for this period and the remaining six months of the year.

DTR and Companies Act 2006 requirement
This half year announcement represents BA's half-yearly financial report for the purposes of the Disclosure and Transparency Rules made by the UK Financial Conduct Authority. Pages 1-3 represent the interim management report, the Directors' responsibility statement can be found on page 3 and the condensed consolidated interim financial statements can be found on pages 5-22.

Directors' responsibility statement

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

- The condensed consolidated interim financial statements in this report, which have been prepared in accordance with IAS 34 as adopted by the European Union, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The management report contained in this report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Alex Cruz
Chairman and Chief Executive Officer
25 September 2017

Steve Gunning
Chief Financial Officer
25 September 2017

Ends

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Forward-looking statements:

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as "expects", "may", "will", "could", “should”, "intends", "plans", "predicts", "envisages" or "anticipates" and include, without limitation, any projections relating to results of operations and financial conditions of British Airways Plc 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 expenditures and divestments relating to the Group and discussions of the Group’s Business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the forward-looking statements in this report to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2016; these documents are available on www.iagshares.com.

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BRITISH AIRWAYS PLC

Unaudited Condensed Consolidated Interim Financial Statements
1 January 2017 – 30 June 2017

Consolidated income statement

For the six months ended 30 June £ million	Note	2017	2016
Passenger revenue		**5,285**	*4,860*
Cargo revenue		**320**	*272*
Traffic revenue		**5,605**	*5,132*
Other revenue		**239**	*218*
Total revenue	4	**5,844**	*5,350*
Employee costs		**1,280**	*1,233*
Depreciation, amortisation and impairment		**377**	*375*
Aircraft operating lease costs		**115**	*63*
Fuel, oil and emission charges		**1,236**	*1,224*
Engineering and other aircraft costs		**400**	*329*
Landing fees and en route charges		**457**	*419*
Handling, catering and other operating costs		**833**	*716*
Selling costs		**241**	*211*
Currency differences		**4**	*31*
Property, IT and other costs		**268**	*262*
Total expenditure on operations		**5,211**	*4,863*
Operating profit before exceptional items		**633**	*487*
Exceptional items	3	**(66)**	*40*
Operating profit after exceptional items		**567**	*527*
Finance costs	6	**(55)**	*(76)*
Finance income	6	**10**	*11*
(Loss)/profit on sale of property, plant and equipment and investments		**(4)**	*68*
Net gain relating to available-for-sale financial assets		**1**	*4*
Share of post-tax profits in associates accounted for using the equity method		**86**	*48*
Realised (losses)/gains on derivatives not qualifying for hedge accounting		**(6)**	*7*
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting		**(35)**	*2*
Net financing (charge)/credit relating to pensions		**(13)**	*6*
Net currency retranslation charges		**(5)**	*(10)*
Profit before tax		**546**	*587*
Tax	7	**(96)**	*(91)*
Profit after tax for the period		**450**	*496*
Attributable to:			
Equity holders of the parent		**441**	*488*
Non-controlling interest		**9**	*8*
		450	*496*

The above results are all in respect of continuing operations.

Consolidated statement of other comprehensive income

For the six months ended 30 June £ million	Note	2017	2016
Profit after tax for the period		**450**	*496*
Other comprehensive income:			
Items that will not be reclassified to the income statement			
Remeasurement of post-employment benefit obligations		**193**	*(1,220)*
Income taxes		**(36)**	*240*
		157	*(980)*
Items that may be reclassified to the income statement			
Currency translation differences		**9**	*27*
Fair value movements on cash flow hedges		**(271)**	*(386)*
Fair value of cash flow hedges reclassified to the income statement		**15**	*430*
Share of other movements in reserves of associates	12	**(10)**	*2*
Available-for-sale financial assets - fair value movements		**3**	*-*
Income taxes		**49**	*(5)*
		(205)	*68*
Total other comprehensive loss		**(48)**	*(912)*
Total comprehensive income/(loss) for the period (net of tax)		**402**	*(416)*
Attributable to:			
Equity holders of the parent		**393**	*(424)*
Non-controlling interest		**9**	*8*
		402	*(416)*

Consolidated balance sheet

£ million	Note	30 June 2017	31December 2016
Non-current assets			
Property, plant and equipment:			
Fleet		**6,942**	*7,105*
Property		**776**	*784*
Equipment		**224**	*235*
	8	**7,942**	*8,124*
Intangibles:			
Goodwill		**40**	*40*
Landing rights		**656**	*656*
Emissions allowances		**2**	*3*
Software		**294**	*293*
	8	**992**	*992*
Investments in associates accounted for using the equity method	12	**1,871**	*1,857*
Available-for-sale financial assets	16	**57**	*53*
Employee benefit assets	17	**869**	*866*
Derivative financial instruments	16	**14**	*61*
Loan to related party	16	**264**	*253*
Other non-current assets	16	**188**	*194*
Total non-current assets		**12,197**	*12,400*
Current assets and receivables			
Inventories		**149**	*133*
Trade receivables	16	**808**	*710*
Other current assets	16	**510**	*543*
Derivative financial instruments	16	**43**	*139*
Loan to related party	16	**53**	*51*
Other current interest-bearing deposits		**2,005**	*1,425*
Cash and cash equivalents		**1,252**	*1,070*
		3,257	*2,495*
Total current assets and receivables		**4,820**	*4,071*
Total assets		**17,017**	*16,471*
Shareholders' equity			
Issued share capital		**290**	*290*
Share premium		**1,512**	*1,512*
Other reserves		**2,532**	*2,239*
Total shareholders' equity		**4,334**	*4,041*
Non-controlling interests		**200**	*200*
Total equity		**4,534**	*4,241*
Non-current liabilities			
Interest-bearing long-term borrowings	14	**4,201**	*4,470*
Employee benefit obligations	17	**1,434**	*1,991*
Deferred tax liability		**144**	*62*
Provisions for liabilities and charges	15	**315**	*307*
Derivative financial instruments	16	**41**	*5*
Other long-term liabilities	16	**53**	*61*
Total non-current liabilities		**6,188**	*6,896*
Current liabilities			
Current portion of long-term borrowings	14	**699**	*680*
Trade and other payables	16	**1,792**	*1,697*
Deferred revenue on ticket sales		**3,450**	*2,639*
Derivative financial instruments	16	**129**	*18*
Current tax payable		**32**	*64*
Provisions for liabilities and charges	15	**193**	*236*
Total current liabilities		**6,295**	*5,334*
Total liabilities		**12,483**	*12,230*
Total equity and liabilities		**17,017**	*16,471*

Consolidated cash flow statement

For the six months ended 30 June £ million	Note	2017	*2016*
Cash flow from operating activities			
Operating profit		**633**	*487*
Depreciation, amortisation and impairment	8	**377**	*375*
Movement in working capital			
Increase in trade and other receivables, prepayments, inventories and current assets		**(75)**	*(275)*
Increase in trade and other payables, deferred revenue on ticket sales and current liabilities		**899**	*959*
Payments related to restructuring		**(50)**	*(16)*
Cash payments to pension schemes (excluding service costs)		**(379)**	*(439)*
Provision and other non-cash movement		**(16)**	*71*
Interest paid		**(38)**	*(59)*
Interest received		**11**	*9*
Taxation		**(32)**	*(80)*
Net cash generated from operating activities		**1,330**	*1,032*
Cash flow used in investing activities			
Purchase of property, plant and equipment and intangible assets		**(208)**	*(956)*
Sale of property, plant and equipment and intangible assets		**-**	*4*
Increase in other current interest-bearing deposits	13	**(580)**	*(596)*
Dividends received	12	**69**	*52*
Other investing movements		**-**	*4*
Net cash used in investing activities		**(719)**	*(1,492)*
Cash flow from financing activities			
Net proceeds from long-term borrowings	13	**-**	*541*
Repayment of borrowings	13	**(76)**	*(51)*
Repayment of finance leases	13	**(214)**	*(165)*
Dividends paid		**(100)**	*-*
Distributions made to holders of perpetual securities		**(9)**	*(9)*
Net cash flow from financing activities		**(399)**	*316*
Net change in cash and cash equivalents		**212**	*(144)*
Net foreign exchange differences		**(30)**	*(32)*
Cash and cash equivalents at 1 January		**1,070**	*848*
Cash and cash equivalents at 30 June		**1,252**	*672*
Interest-bearing deposits maturing after more than three months		**2,005**	*1,795*
Cash and cash equivalents and other interest-bearing deposits at 30 June		**3,257**	*2,467*

Consolidated statement of changes in equity

For the six months ended 30 June 2017

£ million	Issued capital	Share premium	Other reserves[1]	**Total shareholders' equity**	Non-controlling interest	**Total equity**
Balance at 1 January 2017	290	1,512	2,239	**4,041**	200	**4,241**
Profit for the period	-	-	441	**441**	9	**450**
Other comprehensive income for the period	-	-	(48)	**(48)**	-	**(48)**
Total comprehensive income for the period (net of tax)	-	-	393	**393**	9	**402**
Dividends	-	-	(100)	**(100)**	**-**	**(100)**
Distributions made to holders of perpetual securities	-	-	-	**-**	(9)	**(9)**
At 30 June 2017	**290**	**1,512**	**2,532**	**4,334**	**200**	**4,534**

For the six months ended 30 June 2016

£ million	*Issued capital*	*Share premium*	*Other reserves* [1]	*Total shareholders' equity*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2016	*290*	*1,512*	*2,596*	*4,398*	*200*	*4,598*
Profit for the period	-	-	*488*	*488*	*8*	*496*
Other comprehensive income for the period	-	-	*(912)*	*(912)*	-	*(912)*
Total comprehensive income for the period (net of tax)	-	-	*(424)*	*(424)*	*8*	*(416)*
Distributions made to holders of perpetual securities	-	-	-	-	*(8)*	*(8)*
At 30 June 2016	*290*	*1,512*	*2,172*	*3,974*	*200*	*4,174*

[1]The retained earnings for the Group at 30 June 2017 were £3,065 million (2016: £2,540 million).

Notes to the accounts (continued)

For the six months ended 30 June 2017

1 Corporate information and basis of preparation

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

The financial information shown in this publication, which was approved by the Board of Directors on 25 September 2017, is unaudited and does not constitute statutory financial statements. BA's Annual Report and Accounts 2016 have been filed with the Registrar of Companies in England and Wales; the report of the auditors on those accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the UK Companies Act 2006.

The basis of preparation and accounting policies set out in the Annual Report and Accounts for the year ended 31 December 2016 have been applied in the preparation of these condensed consolidated interim financial statements. BA's financial statements for the year ended 31 December 2016 are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with those of the Standing Interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

The summary condensed consolidated interim financial statements have been prepared on the going concern basis. The Directors consider this appropriate given that the Group has adequate resources to continue in operational existence for the foreseeable future.

2 Accounting policies

The Group has not adopted any standard, interpretation or amendment in the six months to 30 June 2017 which has had an impact on its accounting policies and has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The following new standards are effective for periods beginning on or after 1 January 2018:

IFRS 15 'Revenue from contracts with customers' effective from 1 January 2018. BA is currently in the process of finalising its accounting policies under the new standard. It is anticipated that the main changes on adoption will be as follows:

- Passenger revenue – revenue associated with ancillary services that is currently recognised when paid, such as change fees, will be deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – interline cargo revenue will be presented gross rather than net of related costs as BA is considered to be principal rather than agent in these transactions.
- Other revenue – holiday revenue with performance obligations that are fulfilled over time, will be deferred (with the related costs) and recognised over the performance obligation period.

The Group expects to apply the standard on a fully retrospective basis and does not expect a significant change to its financial performance or position on adoption of the standard.

IFRS 9 'Financial Instruments' effective from 1 January 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 will allow the Group to hedge account for specific risk components of its fuel purchases, such as crude oil price risk. It also requires movements in the time value of options (currently recognised in the Income statement) to be recognised in other comprehensive income. These changes will result in a reduction in the gains and losses on derivatives not qualifying for hedge accounting recognised in the income statement. The standard also requires the Group to make a policy choice on whether gains and losses on equity instruments measured at fair value should be recognised in the income statement or other comprehensive income, with no recycling. The Group is currently in the process of finalising its accounting policies under the new standard. The Group does not expect any significant changes to its financial performance or position or its hedging activities on the adoption of the standard.

IFRS 16 'Leases' (not yet endorsed by the EU) effective from 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group is currently assessing the impact of the new standard. Interest-bearing borrowings and non-current assets will increase on implementation of this standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the balance sheet, along with the related 'right-of-use' asset. There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense. Foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, creating volatility in the income statement.

Notes to the accounts (continued)

For the six months ended 30 June 2017

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	**2017**	*2016*
Employee costs	**(66)**	*40*
Exceptional items	**(66)**	*40*

Employee costs

BA has embarked on a series of transformation proposals to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs. Costs incurred in the six months to 30 June 2017 in respect of this programme amount to £66 million, with a related tax credit of £13 million.

During the six months to 30 June 2016 the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to further bring the level of benefits in line with national trends seen in the US. This scheme is accounted for in a similar way to a defined benefit plan, so any reduction in benefit results in the recognition of a past service gain, when the plan amendment occurs. This change has resulted in a one-off gain in employee costs of £40 million in the period, and a related tax charge of £8 million.

4 Segment information

a Business segments

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

b Geographical analysis – by area of original sale

For the six months ended 30 June		
£ million	**2017**	*2016*
UK	**2,646**	*2,641*
USA	**1,288**	*1,041*
Rest of the world	**1,910**	*1,668*
Revenue	**5,844**	*5,350*

The total of non-current assets excluding available-for-sale financial assets, employee benefit assets, other non-current assets, loans to related parties and derivative financial instruments located in the UK is £10,583 million (31 December 2016: £10,750 million) and the total of these non-current assets located in other countries is £222 million (31 December 2016: £223 million).

5 Seasonality

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.

Notes to the accounts (continued)

For the six months ended 30 June 2017

6 Finance costs and income

For the six months ended 30 June

£ million	2017	2016
Finance costs		
Interest payable on bank and other loans, finance charges payable under finance leases	**(57)**	*(75)*
Unwinding of discounting on provisions (note 15)	**-**	*(1)*
Capitalised interest on progress payments	**2**	*1*
Change in fair value of cross currency swaps	**-**	*(1)*
Total finance costs	**(55)**	*(76)*
Finance income		
Interest on other interest-bearing deposits	**10**	*11*
Total finance income	**10**	*11*

7 Tax

The total tax charge through the income statement for the six month period ended 30 June 2017 was £96 million (2016: £91 million) on a profit before tax of £546 million (2016: £587 million). After removing the share of after-tax profits of associates, the effective tax rate for the period was 20.9 per cent. After removing the non-taxable gain related to the transfer of the British Airways Executive Club business to Avios Group (AGL) Ltd and share of after-tax profits of associates, the effective tax rate for 2016 was 19.4 per cent. The effective tax rate is higher (2016: lower) than the tax charge at the standard UK corporation tax rate of 19.5 per cent (2016: 20 per cent).

The UK corporation tax rate reduced from 20 per cent to 19 per cent effective from 1 April 2017 and is reducing from 19 per cent to 17 per cent effective from 1 April 2020.

8 Property, plant, equipment and intangibles

a Property, plant and equipment

£ million	2017	2016
Net book value at 1 January	**8,124**	*8,120*
Additions	**176**	*910*
Disposals	**(8)**	*(26)*
Depreciation	**(350)**	*(356)*
Reclassifications	**-**	*(9)*
Net book value at 30 June	**7,942**	*8,639*

b Intangibles

£ million	2017	2016
Net book value at 1 January	**992**	*981*
Additions	**32**	*32*
Disposals	**(6)**	*(6)*
Amortisation	**(27)**	*(19)*
Reclassifications	**-**	*9*
Exchange differences	**1**	*3*
Net book value at 30 June	**992**	*1,000*

Notes to the accounts (continued)
For the six months ended 30 June 2017

9 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £5,788 million (31 December 2016: £6,025 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

10 Impairment review

Goodwill and intangible assets with indefinite lives are tested for impairment annually (in the fourth quarter) and when circumstances indicate the carrying value may be impaired. The key assumptions used to determine the recoverable amount for the different cash generating units are disclosed in the Annual Report and Accounts for the year ended 31 December 2016. For the six months to 30 June 2017, there are no indicators that the carrying value may exceed the recoverable amount.

11 Dividends

For the six months ended 30 June £ million	2017	2016
A1 Ordinary shares: £87.41 per share (2016: £nil)	78	-
A2 Ordinary shares: £87.41 per share (2016: £nil)	9	-
C Ordinary shares: £87.41 per share (2016: £nil)	13	-
	100	-

12 Investment in associates

£ million	2017	2016
Balance at 1 January	1,857	1,775
Exchange differences	7	17
Share of attributable results	86	48
Share of movements on other reserves	(10)	2
Dividends received	(69)	(52)
Balance at 30 June	1,871	1,790

13 Reconciliation of net cash flow to movement in net debt

£ million	2017	2016
Increase/(decrease) in cash and cash equivalents from continuing operations	212	(144)
Increase in other current interest-bearing deposits	580	596
Net cash outflow from decrease in debt and lease financing	290	216
New loans and finance leases taken out	-	(541)
Decrease in net debt resulting from cash flow	1,082	127
Exchange differences and other non-cash movements	(69)	(531)
Decrease/(increase) in net debt during the period	1,013	(404)
Net debt at 1 January	(2,656)	(2,463)
Net debt at 30 June	(1,643)	(2,867)

Net debt is calculated as total cash and cash equivalents and current interest bearing deposits less total interest bearing borrowings.

Notes to the accounts (continued)

For the six months ended 30 June 2017

14 Long-term borrowings

£ million	**30 June 2017**	*31December 2016*
a Current		
Bank and other loans	**84**	*121*
Finance leases	**615**	*559*
	699	*680*
b Non-current		
Bank and other loans	**398**	*431*
Finance leases	**3,803**	*4,039*
	4,201	*4,470*

15 Provisions for liabilities and charges

£ million	Restoration and handback	Restructuring	Legal claims	Other	**Total**
Balance at 1 January 2017					
Current	26	94	92	24	236
Non-current	292	-	3	12	307
	318	94	95	36	543
Arising during the period	31	73	-	85	189
Utilised	(6)	(50)	(93)	(48)	(197)
Release of unused amounts	(4)	(8)	-	(5)	(17)
Exchange differences	(13)	1	2	-	(10)
Unwinding of discount	-	-	-	-	-
As at 30 June 2017	**326**	**110**	**4**	**68**	**508**
Analysis:					
Current	24	110	1	58	**193**
Non-current	302	-	3	10	**315**
	326	**110**	**4**	**68**	**508**

During the period the Group recognised a £66 million provision in relation to the restructuring plans at British Airways (see note 3 for further details).

The legal claims provision includes the payment of £89 million (€104 million) for the reissued fine in March 2017 against the Group, related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses (note 18).

Other provisions includes a £56 million provision recognised during the period on additional compensation fees and baggage claims related to the operational disruption due to a power outage in May 2017.

Notes to the accounts (continued)
For the six months ended 30 June 2017

16 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 30 June 2017 and 31 December 2016 by nature and classification for measurement purposes is as follows:

At 30 June 2017

£ million	Financial assets				
	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	**Total carrying amount**
Non-current financial assets					
Available-for-sale financial assets	-	-	57	-	**57**
Derivative financial instruments	-	14	-	-	**14**
Other non-current assets	320	-	-	132	**452**
Current financial assets					
Trade receivables	808	-	-	-	**808**
Derivative financial instruments	-	43	-	-	**43**
Other current assets	203	-	-	360	**563**
Other current interest-bearing deposits	2,005	-	-	-	**2,005**
Cash and cash equivalents	1,252	-	-	-	**1,252**

£ million	Financial liabilities			
	Loans and payables	Derivatives used for hedging	Non-financial liabilities	**Total carrying amount**
Non-current financial liabilities				
Interest-bearing long-term borrowings	4,201	-	-	**4,201**
Derivative financial instruments	-	41	-	**41**
Other long-term liabilities	7	-	46	**53**
Current financial liabilities				
Current portion of long-term borrowings	699	-	-	**699**
Trade and other payables	1,746	-	46	**1,792**
Derivative financial instruments	-	129	-	**129**

16 Financial instruments (continued)

a Financial assets and liabilities by category (continued)

At 31 December 2016

£ million	Financial assets: Loans and receivables	Financial assets: Derivatives used for hedging	Financial assets: Available-for-sale	Non-financial assets	**Total carrying amount**
Non-current financial assets					
Available-for-sale financial assets	-	-	53	-	**53**
Derivative financial instruments	-	61	-	-	**61**
Other non-current assets	253	-	-	194	**447**
Current financial assets					
Trade receivables	710	-	-	-	**710**
Derivative financial instruments	-	139	-	-	**139**
Other current assets	155	-	-	439	**594**
Other current interest-bearing deposits	1,425	-	-	-	**1,425**
Cash and cash equivalents	1,070	-	-	-	**1,070**

£ million	Financial liabilities: Loans and payables	Financial liabilities: Derivatives used for hedging	Non-financial liabilities	**Total carrying amount**
Non-current financial liabilities				
Interest-bearing long-term borrowings	4,470	-	-	**4,470**
Derivative financial instruments	-	5	-	**5**
Other long-term liabilities	10	-	51	**61**
Current financial liabilities				
Current portion of long-term borrowings	680	-	-	**680**
Trade and other payables	1,662	-	35	**1,697**
Derivative financial instruments	-	18	-	**18**

b Fair values of financial assets and financial liabilities

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3: Inputs for the asset or liability that are not based on observable market data.

The carrying amounts and fair values of the Group's financial assets and liabilities as at 30 June 2017 are set out below:

£ million	Level 1	Level 2	Level 3	Fair value **Total**	Carrying value **Total**
Financial assets:					
Available-for-sale financial assets	17	-	40	**57**	**57**
Derivatives	-	57	-	**57**	**57**
Financial liabilities:					
Interest-bearing loans and borrowings	-	5,031	-	**5,031**	**4,900**
Derivatives	-	170	-	**170**	**170**

Notes to the accounts (continued)
For the six months ended 30 June 2017

16 Financial instruments (continued)

b Fair values of financial assets and financial liabilities (continued)

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2016 are set out below:

				Fair value	Carrying value
£ million	Level 1	Level 2	Level 3	**Total**	**Total**
Financial assets:					
Available-for-sale financial assets	13	-	40	**53**	**53**
Amounts owed by parent	-	305	-	**305**	**304**
Derivatives	-	200	-	**200**	**200**
Financial liabilities:					
Interest-bearing loans and borrowings	-	5,356	-	**5,356**	**5,150**
Derivatives	-	23	-	**23**	**23**

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

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

Available-for-sale financial assets and loan notes
Listed fixed asset investments (Level 1) are stated at market value as at 30 June 2017. For unquoted investments (Level 3) where the fair value cannot be measured reliably, the investment is stated at historic cost less accumulated impairment losses.

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

Bank and other loans and finance leases
The fair value of the Group's interest-bearing borrowings including leases, are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 30 June 2017 (Level 2).

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

c Level 3 financial assets reconciliation

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

£ million	**Six months ended 30 June 2017**	Year ended 31 December *2016*
Balance at 1 January	**40**	*40*
As at period end	**40**	*40*

The fair value of Level 3 financial assets cannot be measured reliably; as such these assets are stated at historic cost less accumulated impairment losses with the exception of the Group's investment in The Airline Group Limited. This unlisted investment had previously been valued at nil, since the fair value could not be reasonably calculated. During the year to 31 December 2014 other shareholders disposed of a combined holding of 49.9 per cent providing a market reference from which to determine a fair value. The investment remains classified as a Level 3 financial asset due to the valuation criteria applied not being observable.

Notes to the accounts (continued)

For the six months ended 30 June 2017

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'), both of which are in the UK and are closed to new members.

				As at 30 June 2017
£ million	APS	NAPS	Other	**Total**
Scheme assets at fair value	**8,050**	**16,100**	**378**	**24,528**
Present value of scheme liabilities	**(6,700)**	**(17,250)**	**(648)**	**(24,598)**
Net pension asset/(liability)	**1,350**	**(1,150)**	**(270)**	**(70)**
Effect of the asset ceiling	**(487)**	**-**	**-**	**(487)**
Other employee benefit obligations	**-**	**-**	**(8)**	**(8)**
	863	**(1,150)**	**(278)**	**(565)**
Represented by:				
Employee benefit assets				**869**
Employee benefit obligations				**(1,434)**
				(565)

				As at 31 December 2016
£ million	*APS*	*NAPS*	*Other*	***Total***
Scheme assets at fair value	*8,127*	*15,488*	*367*	*23,982*
Present value of scheme liabilities	*(6,777)*	*(17,183)*	*(649)*	*(24,609)*
Net pension asset / (liability)	*1,350*	*(1,695)*	*(282)*	*(627)*
Effect of the asset ceiling	*(489)*	-	-	*(489)*
Other employee benefit obligations	-	-	*(9)*	*(9)*
	861	*(1,695)*	*(291)*	*(1,125)*
Represented by				
Employee benefit assets				*866*
Employee benefit obligations				*(1,991)*
				(1,125)

At 30 June 2017, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect market conditions at that date. The change in assumptions has resulted in a credit to other comprehensive income of £157 million (net of tax). Key assumptions were as follows:

		At 30 June 2017				*At 31 December 2016*
Per cent per annum	**APS**	**NAPS**	**Other schemes**	*APS*	*NAPS*	*Other schemes*
Discount rate	**2.55**	**2.65**	**2.7 – 4.1**	*2.60*	*2.70*	*2.7 – 4.1*
Rate of increase in pensionable pay	**3.15**	**3.15**	**3.0 – 3.7**	*3.20*	*3.20*	*3.0 – 3.7*
Rate of increase of pensions in payment	**2.05**	**2.05**	**1.5 – 3.5**	*2.10*	*2.10*	*1.5 – 3.5*
RPI rate of inflation	**3.15**	**3.15**	**3.0 – 3.2**	*3.20*	*3.20*	*3.0 – 3.2*
CPI rate of inflation	**2.05**	**2.05**	**2.1 – 3.0**	*2.10*	*2.10*	*2.1 – 3.0*

Further information on the basis of the assumptions is included in note 31 of the Annual Report and Accounts for the year to 31 December 2016.

Pension contributions for APS and NAPS were determined by actuarial valuations made as at 31 March 2012 and 31 March 2015 respectively, using assumptions and methodologies agreed between the Company and Trustees of each scheme.

The triennial valuation as at 31 March 2015 for APS was deferred as a result of legal proceedings (note 18).

18 Contingent liabilities

Cargo
The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined British Airways and ten other airline groups for participating in a cartel in respect of air cargo prices. The decision was partially annulled against British Airways but in full against other carriers and the fine was refunded in full. British Airways has appealed the partial annulment judgment and the appeal decision is awaited. In March 2017 the European Commission adopted a new decision and reissued the fine against British Airways for the same amount, being £89 million (€104 million). British Airways subsequently repaid the fine which had been recognised as a provision. The new decision has been appealed.

Pensions
The Trustees of the Airways Pension Scheme (APS) have proposed an additional discretionary increase above CPI for pensions in payment for the year to 31 March 2014. British Airways has challenged the decision, as it considers the Trustees have no power to grant such increases, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees do have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group has appealed the judgment and await an appeal hearing, currently expected to be in May 2018. Payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways appeal. The delayed 2015 triennial valuation will now resume. The discretionary increase has not been reflected in the accounting assumptions used as the outcome is uncertain.

The Group and Company have provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which at 30 June 2017 amounted to £250 million (31 December 2016: £250 million). This amount would be payable in the event that the pension schemes are not fully funded on a gilts basis on 1 January 2019 and will be determined by the Scheme Actuary.

In addition, a guarantee amounting to £230 million (31 December 2016: £230 million) was issued by a third party in favour of APS, triggered in the event of a BA insolvency.

Fuel surcharges on loyalty programme redemption tickets
British Airways is the defendant in a case filed in the United States of America in respect of fuel surcharges on loyalty programme redemption tickets. The class has been certified. British Airways intends to vigorously defend the claim and the outcome of the proceedings is uncertain.

There were no other significant movements in contingent liabilities and guarantees occurring during the period.

19 Related party transactions

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

£ million	2017	2016
Parent[1]:		
Sales to/purchases on behalf of IAG	**32**	*26*
Purchases from IAG	**20**	*21*
Amounts owed by IAG	**37**	*35*
Amounts owed to IAG	**10**	*20*
Subsidiary undertakings of the parent:		
Sales to subsidiary undertakings of the parent	**55**	*27*
Purchases on behalf of subsidiary undertakings of the parent	**81**	*59*
Amounts owed by subsidiary undertakings of the parent	**336**	*322*
Amounts owed to subsidiary undertakings of the parent	**34**	*63*
Associates[2]:		
Sales to associates	**227**	*191*
Purchases from associates	**185**	*179*
Amounts owed by associates	**70**	*184*
Amounts owed to associates	**944**	*996*

[1] The transactions between the Group and International Consolidated Airlines Group S.A. ('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.
[3] Comparatives in the above table are 30 June 2016 for income statement items and 31 December 2016 for balance sheet items.

In addition, costs borne by the Group on behalf of the Group's retirement benefit plans amounted to £3 million in relation to the Pension Protection Fund levy (2016: £2 million).

19 Related party transactions (continued)

The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the period ended 30 June 2017 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (year ended 31 December 2016: £nil).

Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or officers of the Group at 30 June 2017 or that arose during the period that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006.

20 Post balance sheet events

The company paid an interim dividend of £87.41 per share on 2 August 2017.

Fleet table

Number in service with Group companies at 30 June 2017

	On Balance Sheet fixed assets	Off Balance Sheet operating leases	Total June 2017	Total December 2016	Changes since December 2016 (Note 2)	Future deliveries (Note 3)	Options (note 4)
Continuing airline operations (note 1)							
Airbus A318	2	-	**2**	*2*	**-**	-	-
Airbus A319	19	25	**44**	*44*	**-**	-	-
Airbus A320	40	27	**67**	*67*	**-**	25	33
Airbus A321	14	4	**18**	*18*	**-**	10	-
Airbus A350	-	-	**-**	-	**-**	18	36
Airbus A380	12	-	**12**	*12*	**-**	-	7
Boeing 747-400	36	-	**36**	*37*	**(1)**	-	-
Boeing 757-200	1	2	**3**	*3*	**-**	-	-
Boeing 767-300	8	-	**8**	*8*	**-**	-	-
Boeing 777-200	41	5	**46**	*46*	**-**	-	-
Boeing 777-300	9	3	**12**	*12*	**-**	-	-
Boeing 787-8	8	-	**8**	*8*	**-**	4	-
Boeing 787-9	7	9	**16**	*16*	**-**	2	6
Boeing 787-10	-	-	**-**	-	**-**	12	-
Embraer E170	6	-	**6**	*6*	**-**	-	-
Embraer E190	9	5	**14**	*14*	**-**	-	-
Total Continuing Operations	**212**	**80**	**292**	**293**	**(1)**	**71**	**82**

Notes:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.
2. One Boeing 747-400 was temporarily stood down from service in the period.
3. Future deliveries are unchanged from prior quarter.
4. Fifteen options on Embraer E190 aircraft expired in the period.