

BRITISH AIRWAYS NINE MONTH RESULTS (unaudited)

1 January 2020 – 30 September 2020

British Airways Plc ('BA' or the 'Group') presents its consolidated results for the nine month period ended 30 September 2020.

The results for the nine month period were significantly impacted by the outbreak of COVID-19, which has had a devastating impact on the global airline and travel sectors, particularly from late February 2020 onwards, with a significantly reduced flying programme operated for most of the period.

COVID-19 situation and management actions

- Most aircraft were grounded from late March, those aircraft retained serviced a small passenger operation to limited destinations as well as operating cargo only flights.
- From April, capacity, measured by ASKs, has reduced by 88 per cent compared to the same period in 2019. Total revenue (before exceptional items) reduced by 87% over the same period compared to 2019.
- The entire fleet of Boeing 747 has been retired, with the last two aircraft taking their final flights on 8 October 2020.
- Cash and deposits at 30 September 2020 was £1.2 billion. Undrawn general and committed aircraft facilities at 30 September 2020 were £0.8 billion.
- Over £1.2 billion of cash has been raised through management actions to partially mitigate the reduction in liquidity, including accessing the UK's CCFF with £298 million received, extending the Revolving Credit Facility by one year to 23 June 2021, a syndicated mortgage loan of \$750 million secured on aircraft, a £250 million unsecured loan from an associated group undertaking and the sale and leaseback of property for proceeds of £70 million.
- On 12 November 2020 the Group secured a three year Term Loan with its parent company, International Consolidated Airlines Group S.A. (the 'Parent Company') for an amount of €1.65 billion, which is available to draw upon through to 31 January 2021, but is subject to minimum and maximum cash levels within which amounts can be drawn. In addition, the Term Loan is repayable in full in the event that the Group sells, in part or in full, certain of the Groups investments.
- Despite very limited flying, British Airways continues to incur significant operating costs, resulting in a negative operating cash flow of £1,969 million compared to a positive operating cash flow of £2,219 million in the equivalent period last year. Management initiatives to mitigate this impact have included management pay cuts, pilots unpaid leave, deferral of certain tax payments and the participation in the UK Government's Job Retention Scheme. Capital expenditure in the first nine months has been reduced from initial plans through management actions from £1,721 million to £681 million.
- British Airways does not expect passenger demand to recover to 2019 levels until at least 2023, hence the Group is restructuring its cost-base to adapt to being a smaller airline. British Airways formally notified trade unions about a proposed restructuring and redundancy programme, with most of the labour agreements concluded by the period end. As of 30 September 2020, 9,016 British Airways employees have left the business as the restructuring and consultation process continues. The average number of people employed by BA in 2019 was 42,322.

Period results summary

- Total revenue of £3,329 million (before exceptional items of £54 million) (2019: £10,048 million) down 66.9 per cent from last year.
- Operating loss (before exceptional items) of £1,696 million (2019: profit of £1,404 million).
- Loss before tax of £3,410 million (2019: profit before tax of £1,498 million)
- Loss after tax of £2,853 million (2019: profit after tax of £1,238 million)
- Exceptional charge of £840 million on derecognition of fuel and foreign exchange hedges, £404 million from impairment of fleet and inventory due to early retirement of certain fleet, £226 million from restructuring and a £20 million fine in relation to theft of customer data.
- Non-operating items adverse by £318 million resulting in a loss of £224 million (2019: net credit of £94 million) primarily due to the adverse share of losses in associates.
- Cash and interest-bearing deposits of £1,193 million (31 December 2019: £2,588 million).

Performance summary

For the nine months ended 30 September

Financial data £ million	2020	2019 ¹	Better/(worse)
Passenger revenue	2,528	9,009	(71.9)%
Total revenue	3,329	10,048	(66.9)%
Total expenditure on operations ²	(5,025)	(8,644)	41.9%
Operating (loss)/profit before exceptional items	(1,696)	1,404	nm
Exceptional items	(1,490)	-	nm
Non-operating items	(224)	94	nm
(Loss)/profit before tax	(3,410)	1,498	nm
nm = not meaningful			
Operating figures ⁴	2020	2019	Better/(worse)
Available seat kilometres (ASK ³) (m)	51,047	140,614	(63.7)%
Revenue passenger kilometres (RPK ³) (m)	33,815	117,434	(71.2)%
Cargo tonne kilometres (CTK ³) (m)	1,969	3,156	(37.6)%
Passenger load factor ³ (%)	66.2%	83.5%	(17.3)%
Passengers carried (000)	10,653	36,154	(70.5)%
Passenger revenue per ASK (p) ¹	4.95	6.41	(22.8)%
Passenger revenue per RPK (p) ¹	7.48	7.67	(2.5)%
Non-fuel costs per ASK (p) ¹	8.01	4.40	(82.0)%

¹ The 2019 results include a reclassification of costs that the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the nine months to 30 September 2019 was £49 million. Further information is given in note 1.

² Total operating expenditure before exceptional items excluding fuel, oil costs and emission charges was £4,089 million (2019: £6,184 million).

³ Defined in the Annual Report and Accounts for the year ended 31 December 2019 and should be read in conjunction with this document.

⁴ Before exceptional items

Management review

British Airways has made a loss before tax of £3,410 million for the first nine months of the year (2019: profit of £1,498 million). The operating result up to the end of February was in line with the equivalent period last year. However, from March, following the rapid spread of COVID-19, performance was severely affected by worldwide governments travel restrictions, which significantly affected demand.

In light of the severe effects of the COVID-19 pandemic on the aviation industry, British Airways has had to act decisively to ensure it can remain competitive in a structurally changed industry. To boost liquidity the airline has taken on new debt as detailed in note 15, a large proportion of which must be repaid or renewed in the short term (less than 12 months). Further opportunities to preserve the cash position have been implemented including management pay cuts, pilots unpaid leave, participation in the UK Government's Job Retention Scheme, agreeing with HMRC to defer certain tax payments and robust financial controls to ensure only business critical spend is made.

In response to the long-term impact and outlook of the COVID-19 pandemic on global aviation, British Airways is redesigning the destination network and fleet composition. The airline is retiring older, less fuel-efficient aircraft including early retirement of the entire B747 fleet in 2020. The early retirement of older aircraft, including the B747 fleet has resulted in a non-cash exceptional impairment charge of £404 million in the period. British Airways has taken delivery of new generation aircraft in 2020, including the first two B787-10s that were ordered before the pandemic. These new aircraft will help with meeting the Flightpath Net Zero carbon reduction commitment. As part of the initiatives to preserve liquidity, the Group has worked with suppliers to defer aircraft deliveries and associated delivery payments.

In April 2020, British Airways formally notified trade unions about a proposed restructuring and redundancy programme, subject to consultation. Every option to save as many jobs as possible was explored, and continues to be explored, together with trade unions. Under those proposals it was expected that up to 13,000 employees could be made redundant and that the majority of British Airways' 38,000 UK-based employees could be affected by the restructuring. British Airways has concluded labour agreements with its pilots, cabin crew, LHR ground handling, contact centre, engineers, head office and Heathrow customer service staff. Other consultation discussions continue with BA's cargo operations staff. As at the end of September, 9,016 British Airways employees have left the business as the restructuring process continues, with the total expected to be less than 10,000 once the restructuring and redundancy programme is completed.

The airline continues to operate in a time of great uncertainty, where continually changing global travel restrictions create significant challenges in network planning and scheduling. Travel to the United States, one of BA's key markets, from the UK has remained suspended since March to most travellers. Travellers arriving into the UK must self-isolate for 14 days, unless arriving from a country on the UK Government's exempt list, which since its announcement on 3 July has had a number of countries, territories or regions removed and/or added at short notice. Initiatives designed to replace quarantine periods and increase customer confidence to book and travel, such as pre-departure testing and air corridor arrangements, have not been adopted by governments as quickly as anticipated.

Financial review
Consolidated income statement

£ million	Before exceptional items 2020	Exceptional items	Total 2020	2019 ¹	Better/(worse) ²
Passenger revenue	2,528	(54)	2,474	9,009	(71.9)%
Cargo revenue	615		615	531	15.8%
Other revenue	186		186	508	(63.4)%
Total revenue	3,329	(54)	3,275	10,048	(66.9)%
Employee costs	1,352	221	1,573	1,904	29.0%
Depreciation, amortisation and impairment	831	386	1,217	820	(1.3)%
Fuel, oil costs and emission charges	936	786	1,722	2,460	62.0%
Engineering and other aircraft costs	350	18	368	568	38.4%
Landing fees and en route charges	360		360	707	49.1%
Handling, catering and other operating costs	676		676	1,418	52.3%
Selling costs	113		113	408	72.3%
Currency differences	48		48	14	nm
Property, IT and other costs	359	25	384	345	(4.1)%
Total expenditure on operations³	5,025	1,436	6,461	8,644	41.9%
Operating (loss)/profit	(1,696)	(1,490)	(3,186)	1,404	nm
Non-operating items	(224)		(224)	94	nm
(Loss)/profit before tax	(1,920)	(1,490)	(3,410)	1,498	nm
Tax	277	280	557	(260)	nm
(Loss)/profit after tax	(1,643)	(1,210)	(2,853)	1,238	nm

¹ The 2019 results include a reclassification of costs that the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the nine months to 30 September 2019 was £49 million. Further information is given in note 1.

² Before exceptional items

³ Total operating expenditure before exceptional items excluding fuel, oil costs and emission charges was £4,089 million (2019: £6,184 million).

Total revenue

Overall capacity, measured by ASKs, was down by 63.7 per cent in the first nine months of the year and the number of passengers carried decreased by 70.5 per cent to below 11 million. The significant fall in demand was experienced across all regions due to the worldwide governments travel restrictions, following the spread of the virus globally, particularly from late February 2020 onwards. Capacity reductions were first seen in the Asia Pacific region in January and February, with extensive reductions from late February, as the pandemic spread to Italy, the rest of Europe and then to many countries across the globe. This translated to total revenue before exceptional items for the first nine months of the year of £3,329 million (2019: £10,048 million). Cargo carried, measured in cargo tonne kilometres (CTKs), fell by 37.6 per cent, due to the significant reduction in passenger schedules. The Group has adapted the Cargo business to ensure that cargo only flights have a positive cash contribution. Cargo revenue increased by 15.8 per cent to £615 million.

Expenditure on operations

The COVID-19 pandemic has resulted in a severe reduction in the Group's operations leading to an overall reduction in operating expenses in the nine month period ended 30 September 2020. Total operating costs excluding exceptional items decreased 41.9 per cent to £5,025 million (2019: £8,644 million) in the first nine months of the year. Fuel costs (excluding the exceptional charge for overhedging) decreased by £1,524 million, or 62.0 per cent, to £936 million reflecting the reduced capacity. During the nine month period to 30 September 2020, British Airways took delivery of two A350, two A320 neo, two A321 neo and two B787-10 aircraft. These are next generation aircraft which benefit from improved fuel performance and reduced emissions. On 8 October 2020, the final two Boeing 747 aircraft exited the fleet.

Group expenditure excluding fuel, before exceptional items, decreased by 33.9 per cent to £4,089 million (2019: £6,184 million). Employee costs decreased 29.0 per cent compared to last year, largely because of management actions in response to COVID-19, which included pay cuts, a freeze on management pay awards and a recruitment freeze. The reduction in employee costs also included a credit of £194 million relating to amounts received from the UK Government under the COVID Job Retention Scheme (CJRS) from the start of April to 30 September 2020. British Airways continues to avail itself of those government schemes globally to which it is eligible.

Exceptional items

Exceptional items are detailed in note 3. Exceptional items have been recognised in respect of the impact of overhedging relating to the COVID-19 related capacity reductions, being the aggregate of fuel and foreign currency overhedging in fuel costs (a loss of £786 million), and passenger revenue (a loss of £54 million). At 30 September 2020, £466 million has been paid in respect of these items. In addition, there is an exceptional impairment expense of £386 million related to fleet and other assets, together with an associated inventory impairment expense of £18 million. An exceptional expense of £226 million has been recorded in relation to the restructuring programme. A further exceptional expense of £20 million has been recorded in respect of a fine issued on 16 October 2020 in relation to the theft of customer data at British Airways in 2018.

There were no exceptional items in the first nine months of 2019.

Non-operating items

The Group's net non-operating losses for the nine month period were £224 million in 2020, compared with a credit of £94 million in 2019. Non-operating items in 2020 include net gains of £56 million (2019: £63 million) relating to the revaluation of foreign currency denominated debts and related derivatives and a loss of £137 million (2019: profit of £135 million) relating to the share of post-tax results of associates.

Tax

The tax credit for the period (2019: charge) was £277 million before exceptional items (2019: £260 million). The effective rate for the period was 16.3 per cent (2019: 17.4 per cent).

Loss after tax

The loss after tax and exceptional items for the period was £2,853 million (2019: profit after tax £1,238 million), driven by the impact of COVID-19 on operating losses and the exceptional items relating to the fuel and foreign currency overhedged position, the impairment of non-current assets and inventory and the severance and associated legal costs relating to the restructuring programme.

Capital expenditure

Total capital expenditure in the period amounted to £681 million (2019: £918 million) which included £619 million (2019: £783 million) of fleet related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £62 million (2019: £135 million) on property, equipment and software. In response to the COVID-19 pandemic, the Group is reducing capital expenditure, 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 is £2.0 billion (31 December 2019: £4.1 billion), including £1.2 billion of cash and cash equivalents and other interest-bearing deposits (31 December 2019: £2.6 billion), and £0.8 billion of undrawn general and committed aircraft facilities (31 December 2019: £1.5 billion). The decrease in liquidity was due to loss from operations due to the impact of COVID-19. Net debt increased to £6.6 billion at 30 September 2020 (31 December 2019: £3.7 billion) with utilisation of available deposits and an increase in borrowings. On 12 November 2020 the Group secured a three year Term Loan with its parent company for an amount of £1.5 billion (€1.65 billion), which is available to draw upon through to 31 January 2021, but is subject to minimum and maximum cash levels within which amounts can be drawn. In addition, the Term Loan is repayable in full in the event that the Group sells, in part or in full, certain of the Groups investments.

Principal risks and uncertainties

The Group has continued to maintain its framework and its processes to identify, assess and manage risks. The principal risks and uncertainties affecting BA, detailed on pages 10 to 14 of the 2019 Annual Report and Accounts, remain relevant and included the risk of pandemic within "Event causing significant network disruption".

As the pandemic continues to impact the aviation industry worldwide, the risk landscape has evolved and British Airways continues to assess how the principal risks have changed in impact and likelihood and how to best respond. As a result, where additional mitigating actions have been identified, they have been implemented and embedded to minimise the continued impact to British Airways and protect its businesses and people. These actions have been discussed with the Board through regular updates and include consideration of potential scenarios outlining the impact of further stress on the Group driven by the wider political and economic environment.

From the risks identified in the 2019 Annual Report and Accounts, the main risks impacted by the COVID-19 pandemic are highlighted below, with business responses implemented by management and reflected in the latest business plan and scenarios. No new principal risks were identified through the risk management assessment discussions.

- 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. The Group has pro-actively worked with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.
- Competition, consolidation and government regulation. The scale of governmental support and aviation specific state-aid measures have varied in different countries and the potential impact to the competitive landscape is under continuous assessment. Governmental restrictions have been fragmented and volatile and have required significant agility within our networks to manage the impact on our customers.
- Cyber-attack and data security. The Group has continued with its planned investment in cyber security, and taken steps to mitigate IT and other risks as a result of remote working.
- People, culture and employee relations. Additional safety procedures have been introduced to protect the Group's staff and customers, in line with industry recommendations. Where possible, the Group's staff worked from home and in line with governments' recommendations. Employee consultations have been undertaken as required and appropriate in relation to restructuring necessitated by COVID-19.
- Political and economic environment. National governments are imposing a range of travel and quarantine restrictions, which will continue to impact Group operations. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status. If the significant economic impact of COVID-19 continues, the Group will adjust its future capacity plans accordingly, retaining flexibility to adapt as required.
- Debt funding and financial risk. Despite disruption in the financial markets since the spread of COVID-19, the Group has focused on protecting liquidity and extending credit facilities and agreeing new aircraft leases, together with agreeing additional one year funding facilities in advance of an improvement in market conditions and the anticipated availability of regular aircraft financing arrangements. The Group has an established process to monitor financial and counterparty risk on an ongoing basis.

The Board and its sub committees have been appraised of regulatory, competitor and governmental responses on an ongoing basis. British Airways also continues to evaluate and monitor the arrangements over Brexit as the UK prepares to end the transition period with the European Union on 31 December 2020.

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

Sean Doyle
Chief Executive Officer
13 November 2020

Rebecca Napier
Chief Financial Officer
13 November 2020

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 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 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 2019; these documents are available on www.iairgroup.com. All forward-looking statements made on or after the date of this announcement and attributable to BA 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 2020 – 30 September 2020

Consolidated income statement (unaudited)

£ million	Note	For the nine months ended 30 September			Total 2019 ¹
		Before exceptional items 2020	Exceptional items	Total 2020	
Passenger revenue		2,528	(54)	2,474	9,009
Cargo revenue		615		615	531
Traffic revenue		3,143		3,089	9,540
Other revenue		186		186	508
Total revenue		3,329	(54)	3,275	10,048
Employee costs		1,352	221	1,573	1,904
Depreciation, amortisation and impairment		831	386	1,217	820
Fuel, oil costs and emission charges		936	786	1,722	2,460
Engineering and other aircraft costs		350	18	368	568
Landing fees and en route charges		360		360	707
Handling, catering and other operating costs		676		676	1,418
Selling costs		113		113	408
Currency differences		48		48	14
Property, IT and other costs		359	25	384	345
Total expenditure on operations		5,025	1,436	6,461	8,644
Operating (loss) / profit		(1,696)	(1,490)	(3,186)	1,404
Finance costs	6	(199)		(199)	(158)
Finance income	6	14		14	27
Share of post-tax (losses)/profits in associates accounted for using the equity method	12	(137)		(137)	135
Net financing credit relating to pensions	6	4		4	17
Net currency retranslation credits		56		56	63
Other non operating credits	6	38		38	10
Total net non-operating items		(224)		(224)	94
(Loss) / profit before tax		(1,920)	(1,490)	(3,410)	1,498
Tax credit/(charge)	7	277	280	557	(260)
(Loss) / profit after tax		(1,643)	(1,210)	(2,853)	1,238

¹ The 2019 results include a reclassification of costs that the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense before exceptional items. There is no change in operating profit. The amount reclassified for the nine months ended 30 September 2019 was £49 million. Further information is given in note 1.

Consolidated statement of other comprehensive income (unaudited)

£ million	Note	For the nine months ended 30 September	
		2020	2019
(Loss)/profit after tax for the period		(2,853)	1,238
Other comprehensive income:			
Items that will not be reclassified to net (loss)/profit			
Remeasurement of post-employment benefit obligations		(777)	(45)
Fair value movements on cash flow hedges that will subsequently be transferred to the balance sheet		90	58
Equity investments - fair value movements in equity		(48)	(5)
		<u>(735)</u>	<u>8</u>
Items that may be reclassified to net (loss)/profit			
Currency translation differences		16	(7)
Fair value movements on cash flow hedges		(1,330)	235
Fair value of cash flow hedges reclassified to net (loss)/profit		874	74
Movements in other comprehensive income of associates	12	(26)	13
		<u>(466)</u>	<u>315</u>
Total other comprehensive (loss)/income		(1,201)	323
Total comprehensive (loss)/income for the period, net of tax		(4,054)	1,561

The amounts in the Consolidated statement of other comprehensive income have been presented net of tax. The 2019 comparatives have also been represented on a consistent basis.

Consolidated balance sheet (unaudited)

£ million	Note	30 September 2020	31 December 2019 ¹
Non-current assets			
Property, plant and equipment:	9	9,968	10,488
Intangibles	9	1,076	1,094
Investments in associates	12	1,683	1,838
Equity investments	13	2	49
Employee benefit assets	16	304	266
Deferred tax assets		306	-
Derivative financial instruments	13	116	59
Other non-current assets	13	146	191
Total non-current assets		13,601	13,985
Current assets and receivables			
Inventories		79	156
Trade receivables	13	522	1,202
Other current assets	13	452	683
Derivative financial instruments	13	106	91
Other current interest-bearing deposits	13	230	1,330
Cash and cash equivalents	13	963	1,258
Total current assets and receivables		2,352	4,720
Total assets		15,953	18,705
Shareholders' equity			
Issued share capital		290	290
Share premium		1,512	1,512
Other reserves		(62)	4,005
Total shareholders' equity		1,740	5,807
Total equity		1,740	5,807
Non-current liabilities			
Interest-bearing long-term borrowings	15	5,957	5,378
Employee benefit obligations	16	909	338
Deferred tax liabilities		-	184
Provisions	17	355	423
Derivative financial instruments	13	169	156
Other non-current liabilities	13	60	29
Total non-current liabilities		7,450	6,508
Current liabilities			
Borrowings	15	1,831	932
Trade and other payables	13	1,454	2,104
Deferred revenue on ticket sales		2,371	2,934
Derivative financial instruments	13	812	105
Current tax payable		23	142
Provisions	17	272	173
Total current liabilities		6,763	6,390
Total equity and liabilities		15,953	18,705

¹ The 2019 Consolidated balance sheet includes a reclassification in the presentation of assets and liabilities for employee benefits and deferred tax – refer to note 1 for further information.

Consolidated cash flow statement (unaudited)

For the nine months ended 30 September

£ million	Note	2020	Group 2019
Cash flow from operating activities			
Operating (loss)/profit from continuing operations after exceptional items		(3,186)	1,404
Exceptional items		1,490	-
Operating (loss)/profit before exceptional items from continuing operations		(1,696)	1,404
Depreciation and amortisation		831	820
Employer contributions to defined benefit pension schemes net of service cost		(271)	(395)
Movement in working capital		(43)	615
<i>Decrease/(increase) in inventories, trade receivables and other current assets</i>		1,050	(502)
<i>(Decrease)/increase in trade and other payables and deferred revenue on ticket sales</i>		(1,093)	1,117
Provisions and other non-cash movements		74	54
Payments related to restructuring	17	(194)	(40)
Realised loss on derecognition of fuel and foreign exchange hedges		(466)	-
Interest paid		(169)	(113)
Interest received		16	24
Tax paid		(51)	(150)
Net cash (used in)/generated from operating activities		(1,969)	2,219
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets		(681)	(918)
Sale of property, plant and equipment and intangible assets		215	428
Loan repaid by parent company		7	185
Other investing movements		2	2
Decrease/(increase) in other current interest-bearing deposits		1,100	(765)
Net cash generated/(used in) investing activities		643	(1,068)
Cash flow from financing activities			
Proceeds from borrowings		1,661	133
Repayments of borrowings		(37)	(39)
Repayment of asset financed liabilities		(22)	-
Repayment of lease liabilities		(551)	(524)
Dividends paid	8	-	(360)
Net cash flow generated/(used in) financing activities		1,051	(790)
(Decrease)/increase in cash and cash equivalents		(275)	361
Net foreign exchange differences		(20)	3
Cash and cash equivalents at 1 January		1,258	1,327
Cash and cash equivalents as at 30 September		963	1,691
Interest-bearing deposits maturing after more than three months		230	1,941
Cash, cash equivalents and other interest-bearing deposits as at 30 September		1,193	3,632

Consolidated statement of changes in equity (unaudited)

For the nine months ended 30 September 2020

£ million	Group			Total equity
	Issued share capital	Share premium	Other reserves	
Balance at 1 January 2020	290	1,512	4,005	5,807
Loss for the period	-	-	(2,853)	(2,853)
Other comprehensive loss for the period	-	-	(1,201)	(1,201)
Total comprehensive loss for the period	-	-	(4,054)	(4,054)
Cash flow hedges transferred to the balance sheet, net of tax	-	-	(13)	(13)
As at 30 September 2020	290	1,512	(62)	1,740

For the nine months ended 30 September 2019

£ million	Group			Total equity
	Issued share capital	Share premium	Other reserves	
Balance at 1 January 2019	290	1,512	3,741	5,543
Profit for the period	-	-	1,238	1,238
Other comprehensive income for the period	-	-	323	323
Total comprehensive income for the period	-	-	1,561	1,561
Dividends	-	-	(360)	(360)
Cash flow hedges transferred to the balance sheet, net of tax	-	-	(4)	(4)
As at 30 September 2019	290	1,512	4,938	6,740

Notes to the accounts (unaudited)

For the nine months ended 30 September 2020

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 13 November 2020. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited.

The same basis of preparation and accounting policies set out in the BA Annual Report and Accounts for the year ended 31 December 2019 have been applied in the preparation of these condensed consolidated interim financial statements, except for those disclosed in note 2. BA's Annual Report and Accounts for the year ended 2019 have been filed with the Registrar of Companies in England and Wales, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 and did not include any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The prior year Consolidated income statement and balance sheet include reclassifications that were made to conform to the current period presentation as follows:

- In September 2019, the IFRS Interpretations Committee ('IFRIC') clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy during the fourth quarter of 2019, which previously classified this compensation as an operating expense. Accordingly, the Group has reclassified the comparative nine months to 30 September 2019 to reflect £49 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs; and
- Deferred tax assets arising on the restriction of surpluses to reflect minimum funding requirements of the British Airways APS and NAPS defined benefit schemes, as detailed in note 16, previously recognised within Employee benefit assets in the Balance sheet at 31 December 2019, have been reclassified to be presented net within Deferred tax liabilities at both 31 December 2019 and 1 January 2019 to conform to the current period presentation. At 31 December 2019, the reclassification had the effect of reducing Deferred tax liabilities by £239 million, reducing the Employee benefit assets by £177 million and increasing the Employee benefit obligations by £62 million. At 1 January 2019, the reclassification had the effect of reducing Deferred tax liabilities by £335 million, increasing Deferred tax assets by £118 million, reducing the Employee benefit assets by £329 million and increasing the Employee benefit obligations by £124 million. There is no impact to the Profit after tax, Total other comprehensive income, Net assets or the Statement of changes in equity in any period presented.

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 September 2020, the Group had cash and interest-bearing deposits of £1.2 billion and a further £0.8 billion of committed and undrawn general and aircraft facilities. Liquidity reduced in the nine month period ended 30 September 2020, which was partially mitigated by, amongst other actions, accessing the UK's Coronavirus Corporate Finance Facility, agreeing a one-year bridge financing facility for old and new aircraft and agreeing a three-year facility with an associated group undertaking as disclosed in note 15. These actions raised an additional £1.2 billion in the period, of which £0.9 billion matures within 12 months from the date of this report. In its assessment of going concern over the period to 31 December 2021, the Group has modelled two scenarios referred to below as the Base Case and the Downside Case.

The Base Case takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group and overall business across the going concern period. The key inputs and assumptions underlying the Base Case include:

- Capacity recovery modelled regionally (and in certain regions by key destinations) with capacity gradually increasing from the reduction of 80 per cent reported in quarter 3 of 2020, to 50 per cent in quarter 1 of 2021 and an average in 2021 of 30 per cent down, all in comparison to 2019;
- The Group has assumed the current period of lockdowns announced in the UK and in Europe will come to an end as currently planned by the respective governments. It has further assumed that these lockdowns will be replaced with localised / regional restrictions for the first quarter of 2021 with further easing of restrictions through the remainder of 2021;
- Passenger unit revenue per ASK, although forecast to continue recovering, is expected to still remain below those of 2019 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 domestic and leisure will recover faster than longhaul and business;
- The Group is in negotiations with the trustees of the NAPS pension scheme regarding the deferral of contributions. As such the Base Case cash flows assume a reduction in deficit contributions of £562 million in the period to 31 December 2021;
- While uncommitted as at date of this report, the Group has agreed in principle additional cash inflows of £300 million from an associated Group undertaking which have been incorporated into the Base Case; and
- The Group has forecast securing 80 per cent, or £1.1 billion, of the financing required that is currently uncommitted to align with the timing and payments for aircraft deliveries in the going concern period. 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.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

1 Corporate information and basis of preparation (continued)

Going concern (continued)

The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a deeper and more gradual recovery relative to the Base Case. The Downside Case is representative of a prolonged second wave of outbreaks of COVID-19 on a regional basis, which models a more acute impact on the longhaul sector, with the domestic and European shorthaul sectors recovering faster than longhaul. In the Downside Case, in 2021 capacity would be 44 per cent down on 2019, with the first quarter of 2021 down a further 18 per cent versus 2019 than in the Base Case. The Directors consider the Downside Case to be a severe but plausible scenario.

The Group has modelled the impact of further downside sensitivities in relation to capacity operated and yield, together with the cost mitigations achievable and other potential mitigating actions it would pursue in the event of adverse liquidity experience, to offset further deteriorations in demand and capacity, including reductions in operating and capital expenditure and selling certain of the Group's assets.

On 12 November 2020 the Group secured a three year Term Loan with its parent company, International Consolidated Airlines Group S.A. (the 'Parent Company') for an amount of £1.5 billion which is available to draw upon through to 31 January 2021, but is subject to minimum and maximum cash levels within which amounts can be drawn. The Base and Downside Cases assume that 90 per cent of the Term Loan will be drawn by 31 January 2021.

Furthermore, to add resilience to the liquidity position of the Group, the Directors have resolved to undertake a range of financing, including: renegotiations of existing financing arrangements, and; securing additional long term financing facilities to raise approximately £3 billion of additional liquidity.

Having reviewed the Base Case, Downside 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 interim financial statements.

However, due to the uncertainty created by COVID-19 and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the sensitivities in relation to the capacity operated, yield and cost mitigations achievable. In the event that such a scenario were to occur, or in the event that certain other assumptions, outside management's control, are not met, including funding secured against aircraft, agreement for the deferral of pension contributions or the additional cash inflows from an associated Group undertaking, the Group will need to secure sufficient additional funding. As set out above, sources of additional funding are expected to include the renegotiation of existing financing arrangements and securing additional long term financial facilities. The Group's ability to obtain additional funding represents a material uncertainty at 13 November 2020 that could cast significant doubt upon the Group's ability to continue as a going concern.

The 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 nine months to 30 September 2020, but do not have an impact on the condensed consolidated interim financial statements of the Group:

- Amendments to references to conceptual framework in IFRS standards;
- Definition of a business (amendments to IFRS 3 'Business combinations');
- Definition of material (amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'); and
- Amendments to IFRS 9 'Financial instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures', which conclude on phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

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

New and changes in accounting policies

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. Loans provided and/or guaranteed by governments that represent market rates of interest are recorded at the amount of the proceeds received and recognised within Borrowings. Those loans provided and/or guaranteed by governments that represent below market rates of interest are measured at inception at their fair value and recognised within Borrowings, with the differential to the proceeds received recorded within Deferred income and released to the relevant financial statement caption in the Consolidated income statement on a systematic basis. Grants that compensate the Group for expenses incurred are recognised in the income statement in the relevant financial statement caption on a systematic basis in the periods in which the expenses are recognised.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

2 Accounting policies (continued)

Critical accounting estimates, assumptions and judgements

Judgement and estimates in the determination of the impact of COVID-19 on the interim financial statements

The Group has applied judgement in evaluating the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of approved business plans. These cash flow forecasts underpin the following areas of these interim financial statements:

- The going concern basis of preparation (refer to note 1);
- Hedged forecast transactions, predominantly of fuel and foreign currency, which are no longer expected to occur and accordingly the associated hedges de-designated (refer to note 3 and note 20);
- The long-term fleet plans and accordingly number of aircraft permanently stood down and impaired at the balance sheet date (refer to note 3 and note 9);
- The value-in-use calculations used in the cash generating unit (CGU) impairment assessment (refer to note 11); and
- The recoverability of deferred tax assets (refer to note 7).

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 nine months ended 30 September

£ million	2020	Group 2019
Loss on derecognition of foreign currency passenger revenue hedges ¹	(54)	-
Recognised in revenue	(54)	-
Loss on derecognition of fuel and foreign exchange hedges ¹	786	-
Impairment of fleet and associated assets ²	386	-
Restructuring costs ³	226	-
Engineering and other aircraft costs ²	18	-
Settlement provision ⁴	20	-
Recognised in expenditure on operations	1,436	-
Total exceptional charge before tax	1,490	-
Tax on exceptional items	(280)	-
Total exceptional charge after tax	1,210	-

¹ The exceptional charge to Fuel, oil costs and emissions charges of £786 million represented by an expense of £855 million relating to fuel derivatives and a credit of £69 million related to the associated fuel foreign currency derivatives, and the exceptional charge to Passenger revenue of £54 million related to the de-designation of hedge accounting of the associated fuel derivatives and the foreign currency derivatives on forecast revenue and fuel consumption. These losses have arisen from the substantial deterioration in demand for air travel caused by the COVID-19 outbreak, 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 has been to build up these hedges gradually over 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 de-designated and the losses recognised in the Consolidated income statement. The related tax credit was £160 million, with £11 million being attributable to the charge to passenger revenue and £149 million being attributable to the fuel expense. Further details are given in note 20 'Financial risk management'.

² There is a total impairment charge of £404 million presented as a charge of £386 million in Depreciation, amortisation and impairment and £18 million in Engineering and other aircraft costs. The amounts in Depreciation, amortisation and impairment relate to impairment of fleet and rotatable inventory spares relating to the entire B747 fleet, spare engines and four Embraer E170 aircraft. The amounts in Engineering and other aircraft costs relate to expendable engineering inventories. Subsequent to these impairments, all assets are held at their recoverable amounts. The impairment expense has arisen from the substantial deterioration in current and forecast demand for air travel caused by the COVID-19 outbreak, which has led the Group to re-assess the medium and long term capacity and utilisation of the fleet. The related tax credit was £77 million.

³ The Group has recognised an exceptional charge of £226 million comprising £221 million of employee severance pay and £5 million of legal costs in relation to the Group wide restructuring programme that was announced in March 2020. In response to the devastating impact of the COVID-19 pandemic on the global airline industry, the Group is restructuring its cost-base to adapt to being a smaller airline. The related tax credit was £43 million.

⁴ The exceptional charge relating to litigation expense of £20 million represents the fine issued by the Information Commissioner's Office (ICO) in the United Kingdom on 16 October 2020, relating to the theft of customer data at British Airways in 2018. The exceptional charge has been recorded within Property, IT and other costs in the Consolidated income statement, with a corresponding amount recorded in Provisions for liabilities and charges. There is no tax impact on the recognition of this charge.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

4 Seasonality

The results for the Group were significantly affected by the outbreak of COVID-19, which has had a significant impact on the global airline and travel sectors, with the spread of the virus worldwide, resulting in lockdowns and travel restrictions, particularly from late February 2020 onwards. This has had a significant effect on the seasonality of the Group's business.

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 and with 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.

b Geographical analysis - by area of original sale

For the nine months ended 30 September	<i>Group</i>	
£ million	2020	2019
UK	1,604	4,910
USA	564	2,087
Rest of the world	1,161	3,051
Revenue (excluding exceptional items)	3,329	10,048

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 £12,519 million (31 December 2019: £13,012 million), USA is £138 million (31 December 2019: £174 million) and the total of these non-current assets located in other countries is £70 million (31 December 2019: £234 million).

6 Finance costs and income

For the nine months ended 30 September

£ million	2020	2019
Finance costs		
Interest payable on bank and other loans, asset financed liabilities and lease liabilities	(196)	(169)
Unwinding of discounts on provisions	(1)	(1)
Other finance costs	(9)	-
Capitalised interest on progress payments	7	12
Total finance costs	(199)	(158)
Finance income		
Interest on interest-bearing deposits	14	27
Total finance income	14	27
Net credit relating to pensions		
Net financing credit relating to pensions	4	17
Other non-operating credits		
Profit on sale of property, plant and equipment	36	6
Net credit relating to equity investments	2	2
Realised gains on derivatives not qualifying for hedge accounting	-	2
Total other non-operating credits	38	10

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

7 Tax

The total tax credit through the Consolidated income statement after exceptional items for the nine months ended 30 September 2020 was £557 million (2019: £260 million charge) on a loss before tax of £3,410 million (2019: profit before tax of £1,498 million). The effective rate for the period was 16.3 per cent (2019: 17.4 per cent) being lower (2019: lower) than the tax credit (2019: tax charge) at the standard UK corporation tax rate of 19.0 per cent (2019: 19.0 per cent) mainly due to the non-taxable share of associates and the cancellation of the UK tax rate reduction and its impact on the deferred tax balances.

8 Dividends

For the nine months ended 30 September

£ million	2020	2019
A1 Ordinary shares: £nil per share (2019: £314.69)	-	282
A2 Ordinary shares: £nil per share (2019: £314.69)	-	31
C Ordinary shares: £nil per share (2019: £314.69)	-	47
	-	360

The Directors propose that no dividend be paid for the nine months to 30 September 2020.

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 2020	4,954	5,534	10,488	1,094
Additions	633	135	768	38
Modification of leases	-	49	49	-
Disposals	(164)	-	(164)	(12)
Depreciation, amortisation and impairment ¹	(792)	(381)	(1,173)	(44)
Reclassifications	137	(137)	-	-
Net book value at 30 September 2020	4,768	5,200	9,968	1,076

£ million	Property, plant and equipment	Right of use assets	Total property, plant and equipment	Intangible assets
Net book value at 1 January 2019	4,395	5,539	9,934	1,067
Additions	916	328	1,244	59
Modification of leases	-	33	33	-
Disposals	(404)	-	(404)	(34)
Depreciation, amortisation and impairment	(427)	(357)	(784)	(36)
Reclassifications	159	(159)	-	-
Net book value at 30 September 2019	4,639	5,384	10,023	1,056

¹ Includes impairment charge of £386m. See note 3 for more detail.

At 30 September 2020, bank and other loans of the Group are secured on fleet assets with a net book value of £1,157 million (31 December 2019: £275 million).

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

10 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £5,941 million (31 December 2019: £6,497 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to changes in foreign exchange rates.

11 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 of the cash generating unit are disclosed in the Annual Report and Accounts for the year ended 31 December 2019. At each other reporting date, the Group considers the existence of indicators of potential impairment. At 30 September 2020, the disruption caused by COVID-19 has led to a decrease in demand for aviation travel and economic uncertainty over the short and medium term. As a result, a full impairment test at 30 September 2020 has been conducted. The impairment test included assessment of the carrying value of all non-current assets including property, plant and equipment.

The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on one CGU. An impairment review was performed on the network airline operations CGU, including passenger and cargo operations out of all operated airports, as well as all related ancillary operations.

An impairment review involves the comparison of the carrying value of the CGU to the recoverable amount. The recoverable amount of the CGU is measured based on the value-in-use, which at 30 September 2020, was based on a weighted average multi-scenario discounted cash flow model.

The value-in-use calculations for the CGU at 30 September 2020 reflected the updated projected cash flows for the decreased activity for the remaining three months of 2020 through to the end of 2024, an increase in the pre-tax discount rates to incorporate increased forecasting uncertainty and the decrease in long-term growth rates. Cash flow projections are based on the business plan approved by the Board covering a period through to 31 December 2022. Cash flow projections were then prepared for a further two year period for the purposes of the impairment review. The long-term growth rate is calculated for the CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics).

Key assumptions

	30 September 2020	31 December 2019
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	10.3%	8.0%
Long-term growth rate	1.6%	2.2%

Pre-tax discount rates represent the current market assessment of the risks specific to the CGU, 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, the Group and the CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by investors and the cost of debt is broadly based on the Group's interest-bearing borrowings. CGU 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.

At 30 September 2020, management reviewed the recoverable amount of the CGU and concluded the recoverable amount exceeded the carrying value. Reasonable possible changes in key assumptions have been considered, which include reducing operating margin by 2 per cent, ASKs by 5 per cent, long-term growth rates to zero, increasing pre-tax discount rates by 2.5 percentage points, and increasing the fuel price by 40 per cent. These reasonable possible changes in the assumptions described, when applied to the CGU, did not result in an impairment.

For impairment charges recognised in relation to fleet assets stood down permanently at 30 September 2020, refer to note 3.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

12 Investment in associates

£ million	Group	
	2020	2019
Balance at 1 January	1,838	1,701
Share of attributable results	(137)	135
Share of movements in other comprehensive income of associates	(26)	13
Exchange differences	8	(4)
As at 30 September	1,683	1,845

13 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 30 September 2020 and 31 December 2019 by nature and classification for measurement purposes is as follows:

At 30 September 2020

£ million	Financial assets			Non-financial assets	Total carrying amount
	Amortised cost	Fair value through OCI	Fair value through income statement		
Non-current financial assets					
Equity investments	-	2	-	-	2
Derivative financial instruments ¹	-	-	116	-	116
Other non-current assets	97	-	-	49	146
Current financial assets					
Trade receivables	522	-	-	-	522
Other current assets	73	-	-	379	452
Derivative financial instruments ¹	-	-	106	-	106
Other current interest-bearing deposits	230	-	-	-	230
Cash and cash equivalents	963	-	-	-	963

£ million	Financial liabilities			Non-financial liabilities	Total carrying amount
	Amortised cost	Fair value through OCI	Fair value through income statement		
Non-current financial liabilities					
Lease liabilities	4,662	-	-	-	4,662
Interest-bearing long-term borrowings	1,295	-	-	-	1,295
Derivative financial instruments ¹	-	-	169	-	169
Other long-term liabilities	12	-	-	48	60
Current financial liabilities					
Lease liabilities	854	-	-	-	854
Current portion of long-term borrowings	99	-	-	-	99
Current portion of short-term borrowings	878	-	-	-	878
Trade and other payables	1,376	-	-	78	1,454
Derivative financial instruments ¹	-	-	812	-	812

¹ For further information regarding derivative financial instruments, refer to note 20 'Financial risk management'.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

13 Financial instruments (continued)

a Financial assets and liabilities by category (continued)

At 31 December 2019	Financial assets			Non-financial assets	Total carrying amount
	Amortised cost	Fair value through OCI	Fair value through income statement		
£ million					
Non-current financial assets					
Equity investments	-	49	-	-	49
Derivative financial instruments	-	-	59	-	59
Other non-current assets	95	-	-	96	191
Current financial assets					
Trade receivables	1,202	-	-	-	1,202
Other current assets	201	-	-	482	683
Derivative financial instruments	-	-	91	-	91
Other current interest-bearing deposits	1,330	-	-	-	1,330
Cash and cash equivalents	1,258	-	-	-	1,258

	Financial liabilities			Non-financial liabilities	Total carrying amount
	Amortised cost	Fair value through OCI	Fair value through income statement		
£ million					
Non-current financial liabilities					
Lease liabilities	4,778	-	-	-	4,778
Interest-bearing long-term borrowings	600	-	-	-	600
Derivative financial instruments	-	-	156	-	156
Other long-term liabilities	5	-	-	24	29
Current financial liabilities					
Lease liabilities	869	-	-	-	869
Current portion of long-term borrowings	63	-	-	-	63
Trade and other payables	2,057	-	-	47	2,104

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 methods and assumptions as follows:

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

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

13 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 30 September 2020 are set out below:

£ million				Fair value	Group
	Level 1	Level 2	Level 3	Total	Carrying value
Financial assets:					Total
Equity investments	-	-	2	2	2
Amounts owed by associated group undertakings	-	113	-	113	107
Derivative financial assets ¹	-	222	-	222	222
Financial liabilities:					
Interest-bearing loans and borrowings	-	2,296	-	2,296	2,272
Derivative financial liabilities ²	-	981	-	981	981

¹ Current portion of derivative financial assets is £106 million.

² Current portion of derivative financial liabilities is £812 million.

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2019 are set out below:

£ million				Fair value	Group
	Level 1	Level 2	Level 3	Total	Carrying value
Financial assets:					Total
Equity investments	9	-	40	49	49
Amounts owed by associated group undertakings	-	112	-	112	104
Derivative financial assets ¹	-	150	-	150	150
Financial liabilities:					
Interest-bearing loans and borrowings	-	691	-	691	663
Derivative financial liabilities ²	-	261	-	261	261

¹ Current portion of derivative financial assets is £91 million.

² Current portion of derivative financial liabilities is £105 million.

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.

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	Group	
	Nine months ended 30 September 2020	Year ended 31 December 2019
Balance at 1 January	40	40
Fair value adjustment ¹	(38)	-
As at period end	2	40

¹ During the period, evidence of a decline in 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, as such a valuation based on the future cash flows has resulted in a fair value reduction of this asset of £38 million recognised as a loss in the Consolidated statement of other comprehensive income.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

14 Share capital

The number of shares in issue at 30 September 2020 was 996,000 ordinary A shares (31 December 2019: 996,000) with a par value of £289.70 each and 1,148,000 ordinary B and C shares with a par value of £1 each (31 December 2019: 1,148,000).

15 Borrowings

£ million	Group	
	30 September 2020	31 December 2019
Current		
Bank and other loans ¹	935	46
Asset financed liabilities	42	17
Lease liabilities	854	869
	1,831	932
Non-current		
Bank and other loans ¹	502	239
Asset financed liabilities	793	361
Lease liabilities	4,662	4,778
	5,957	5,378

¹Bank and other loans are repayable up to 2027. Bank and other loans of the Group amounting to £792 million (31 December 2019: £225 million) are secured on fleet assets with a net book value of £1,157 million (31 December 2019: £275 million). Asset financed liabilities are all secured on aircraft.

On 30 March 2020, the secured US dollar Revolving Credit Facility was extended for one year from 23 June 2020 to 23 June 2021. The amount available under the extended facility was £309 million (\$400 million) as at 30 September 2020.

In April 2020 British Airways issued commercial paper to the government of the United Kingdom under the Coronavirus Corporate Finance Facility (CCFF) of which £300 million is repayable in April 2021.

On 19 May 2020, British Airways entered into a syndicated mortgage loan of £606 million (\$750 million), secured on specific aircraft. The loan is repayable twelve months from the date of signing.

On 28 September 2020, British Airways entered into a floating rate sterling loan agreement with Avios Group (AGL) Limited, a fellow group undertaking, for £250 million. The loan is repayable in September 2023.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

16 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. NAPS was closed to future accrual from 31 March 2018, resulting in a reduction of the defined benefit obligation. Following closure 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 following the 2021 valuation 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. 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.

Deficit payment plans 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. The actuarial valuations performed as at 31 March 2018 for APS and NAPS are different to the valuation performed as at 31 December 2019 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 Group 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

£ million	As at 30 September 2020			
	APS	NAPS	Other	Total
Scheme assets at fair value	7,725	19,480	370	27,575
Present value of scheme liabilities	(7,307)	(19,840)	(623)	(27,770)
Net pension asset/(liability)	418	(360)	(253)	(195)
Effect of the asset ceiling ¹	(125)	(276)	-	(401)
Other employee benefit obligations	-	-	(9)	(9)
	293	(636)	(262)	(605)
Represented by:				
Employee benefit assets				304
Employee benefit obligations				(909)
				(605)

¹ APS has an IAS 19 accounting surplus and NAPS has future minimum funding requirements, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

£ million	As at 31 December 2019 ²			
	APS	NAPS	Other	Total
Scheme assets at fair value	7,475	18,982	361	26,818
Present value of scheme liabilities	(7,112)	(18,327)	(617)	(26,056)
Net pension asset / (liability)	363	655	(256)	762
Effect of the asset ceiling ¹	(108)	(717)	-	(825)
Other employee benefit obligations	-	-	(9)	(9)
	255	(62)	(265)	(72)
Represented by				
Employee benefit assets				266
Employee benefit obligations				(338)
				(72)

¹ Both APS and NAPS were in an IAS 19 accounting surplus, in addition NAPS has future minimum funding requirements, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

² Refer to note 1 for information relating to the re-presentation of the Employee benefit obligations at 31 December 2019.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

16 Employee benefits (continued)

At 30 September 2020, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect market conditions at that date. Principal assumptions were as follows:

Per cent per annum	At 30 September 2020		At 31 December 2019	
	APS	NAPS	APS	NAPS
Discount rate	1.40%	1.60%	1.85%	2.05%
Rate of increase in pensionable pay	2.90%	n/a	2.90%	n/a
Rate of increase of pensions in payment	2.90%	2.20%	2.90%	2.15%
RPI rate of inflation	2.90%	n/a	2.90%	n/a
CPI rate of inflation	n/a	2.20%	n/a	2.15%

Further information on the basis of the assumptions is included in note 30 of the Annual Report and Accounts for the year to 31 December 2019.

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

17 Provisions for liabilities and charges

£ million	Group				Total
	Restoration and handback	Restructuring	Legal claims	Other	
Current	43	62	32	36	173
Non-current	402	-	5	16	423
Balance at 1 January 2020	445	62	37	52	596
Provisions recorded during the period	80	235	20	10	345
Utilised during the period	(3)	(194)	(4)	(12)	(213)
Release of unused amounts	(95)	(11)	-	(3)	(109)
Exchange differences	7	-	-	-	7
Unwinding of discount	1	-	-	-	1
As at 30 September 2020	435	92	53	47	627
Analysis:					
Current	103	92	48	29	272
Non-current	332	-	5	18	355
	435	92	53	47	627

Included within Restoration and handback provisions are amounts that the Group provides for on leased aircraft for the cost of returning fleet assets to pre-defined contractual conditions. During the nine months to 30 September 2020, as part of certain lease modifications, these pre-conditions have been removed and the associated provision released. Restructuring provisions represent the estimated costs of settling employee obligations under the Group's restructuring plans.

The charge for restructuring primarily relates to the Group wide restructuring programme announced in March 2020. The provision is expected to be settled within 12 months. Refer to Note 3 for further information.

18 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 for these proceedings has been recognised.

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at 30 September 2020 amounted to £15 million (31 December 2019: £11 million).

The Group has guarantees and indemnities entered into as part of the normal course of business, which at 30 September 2020 are not expected to result in material losses for the Group.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

19 Government grants and assistance

In response to the economic and financial effects of the COVID-19 pandemic, the HM Treasury and Bank of England have put in place the Covid Corporate Financing Facility. The facility is designed to support liquidity among firms, helping bridge coronavirus disruption to cash flows through the purchase of short-term debt in the form of commercial paper. Please refer to note 15.

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 until the end of October 2020. Employers receive a grant from HMRC to cover the lower of a percentage of an employee's regular wage, or £2,500 per month. British Airways received £194 million from the JRS in the period to 30 September 2020. This amount is recorded in Employee costs in the Consolidated income statement.

20 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 strategy is to hedge a proportion of fuel consumption up to three years within the approved hedging profile.

During the nine months to 30 September 2020, following a substantial fall in the global price of crude oil, the fair value of such fuel derivative instruments was a £848 million net liability at 30 September 2020, representing an adverse movement from 1 January 2020 of £795 million. In addition, with the substantial decline in demand for air travel and the grounding of the majority of the fleet from the second quarter of 2020, a significant proportion of the associated hedge relationships were no longer expected to occur and subsequently fuel hedge relationships were de-designated. As a result of this de-designation, £884 million of the losses were reclassified to the Consolidated income statement and recognised within Fuel, oil costs and emission costs. The loss arising from the de-designation of fuel hedge relationships has been recorded as an exceptional item. Refer to note 3 for further details.

The determination of the number of hedge relationships to de-designate is a critical judgemental and is highly dependent on assumptions regarding the period over which the recovery of demand will occur.

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 denominated debt, within certain defined limits.

At 30 September 2020, the fair value of foreign currency derivatives instruments was a £128 million net asset, representing a favourable movement of £156 million, since 1 January 2020. As per the fuel price risk above, a significant proportion of the hedge relationships associated with foreign currency derivatives designated against fuel and revenue were no longer expected to occur and subsequently de-designated. As a result, £73 million of the gains associated with the fuel foreign currency derivatives and £49 million of the losses associated with the revenue foreign currency derivatives were reclassified to the Consolidated income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue, respectively.

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 operating company and by only entering into transactions with counterparties with a very low credit risk.

At each period end, the Group assesses the effect of counterparties' and the Group's own credit risk on the fair value of derivatives and any ineffectiveness arising is immediately recycled from Other comprehensive income to the Consolidated income statement with Other non-operating expenses.

21 Post balance sheet events

On 12 November 2020 the Group secured a three year Term Loan with its parent company, International Consolidated Airlines Group S.A. for an amount of £1.5 billion (€1.65 billion) which is available to draw upon through to 31 January 2021, but is subject to minimum and maximum liquidity levels between which amounts can be drawn. In addition, the Term Loan is repayable in full in the event that the Group sells, in part or in full, certain of the Group's investments.

Notes to the accounts (unaudited) (continued)

For the nine months ended 30 September 2020

22 Related party transactions

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

£ million	2020	2019 ³
Parent¹:		
Sales to/purchases on behalf of IAG	6	47
Purchases from IAG	26	34
Amounts owed by IAG	151	179
Amounts owed to IAG	26	34
Subsidiary undertakings of the parent:		
Sales to/purchases on behalf of subsidiary undertakings of the parent	125	186
Purchases from subsidiary undertakings of the parent	141	242
Amounts owed by subsidiary undertakings of the parent	95	151
Amounts owed to subsidiary undertakings of the parent	24	121
Associates²:		
Sales to associates	74	364
Purchases from associates	31	240
Amounts owed by associates	25	82
Amounts owed to associates	1,350	948

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. The Group has an outstanding unsecured loan of £250 million owed to Avios Group Limited with a term of three years and an interest rate of LIBOR plus a margin. Other outstanding balances are unsecured, interest free and cash settlement is expected within the standard settlement terms.

³ Comparatives in the above table are 30 September 2019 for Consolidated income statement items and 31 December 2019 for balance sheet items.

The Group has not benefitted from any guarantees for any related party receivables or payables. During the period ended 30 September 2020 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2019: £nil).

Directors' and Officers' loans and transactions

There were no loans or credit transactions with Directors or Officers of the Group at 30 September 2020 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

Number in service with Group companies at 30 September 2020

Number in service with Group companies at 30 September 2020

	Owned	Asset financed	Right of use	Off Balance sheet	Total 30 September 2020	Total 31 December 2019	Changes since 31 December 2019 (Note 2)	Future deliveries	Options
AIRLINE OPERATIONS (NOTE 1)									
Airbus A318	1				1	1			
Airbus A319	13		22		35	39	(4)		
Airbus A320	27	2	50		79	77	2	10	10
Airbus A321	13		15		28	27	1	3	
Airbus A330						1	(1)		
Airbus A350		6			6	3	3	12	36
Airbus A380	2		10		12	12			
Boeing 747-400						32	(32)		
Boeing 777-200	35		8		43	46	(3)		
Boeing 777-300	2		10		12	12		4	
Boeing 777-900								18	24
Boeing 787-8			12		12	12			
Boeing 787-9	1		17		18	18			
Boeing 787-10 (Note 3)	2				2	-	2	10	
SAAB 2000				1	1	1			
Embraer E170	2				2	6	(4)		
Embraer E190	9		10		19	18	1		
TOTAL OPERATIONS	107	8	154	1	270	305	(35)	57	70

Notes:

1. Includes aircraft operated by British Airways Plc and BA Cityflyer Limited.
2. The Group holds an additional 40 aircraft that are not in service including 33 impaired aircraft.
3. Two Boeing 787-10 were delivered and entered service at 30 September 2020.