


British Airways Plc

**Annual Report and Accounts
Year ended 31 December 2012**

Company registration number 1777777

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British Airways Plc

Officers and professional advisers

Directors

Sir Martin Broughton	(Chairman)
Alison Reed	(Deputy Chairman)
Keith Williams	(Chief Executive Officer)
Nick Swift	(Chief Financial Officer)
Andrew Crawley	
Frank van der Post	
Enrique Dupuy de Lôme	
Ken Smart	
Gavin Patterson	
Garrett Copeland	
Julia Simpson	

Secretary

Kulbinder Dosanjh

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Independent auditors

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British Airways Plc

Business review and Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012

Business review

British Airways ('BA' or 'the Group') is the UK's largest international scheduled airline and one of the world's leading global premium airlines. The Group's principal place of business is London with significant presence at Heathrow, Gatwick and London City airports. BA also operates a worldwide air cargo business, largely in conjunction with its scheduled passenger services. Operating one of the most extensive international scheduled airline route networks, together with its joint business agreements, code share and franchise partners, BA flies to more than 400 destinations worldwide. BA's vision is to be the most admired airline across the world's key cities.

The business review is presented in the following three sections

- Management review,
- Financial review, and
- Internal control and risk management.

Management review

2012 was a good year for British Airways

The acquisition and integration of bmi was a significant achievement, introducing 1,400 new colleagues to BA, strengthening our presence at Heathrow and outperforming against our financial expectations. The Olympics proved to be a great opportunity to showcase the UK to the world and we were pleased to be so closely associated with its success, resulting in record improvements in our brand engagement. Customer satisfaction reached all-time highs and our levels of colleague engagement showed marked improvement.

The Group continues to operate in a challenging environment of elusive economic growth and high oil prices, but we have seen the benefits of our customer focus translate into a solid operating and financial performance for the year.

bmi

BA acquired British Midland Limited ('bmi') from Deutsche Lufthansa AG ('Lufthansa') in April 2012 and completed the full integration of the mainline operation into BA by the end of 2012 with minimal customer disruption thanks to the dedication of both bmi and BA colleagues. The acquisition has already enabled BA to operate 20 new routes from Heathrow for the winter 2012 season. The coming years will see the airline further optimise its network by converting some of the former bmi slots from short-haul to long-haul operations to forge links with emerging economies.

Outstanding service and customer insight

Customer satisfaction and brand bonding improved in 2012. This reflects the airline's renewed vigour in putting customers at the heart of the operation.

Running a robust operation is crucial for meeting our customers' expectations and delivering a cost-effective business. We monitor our operational performance through a broad range of measures at many levels. Departure punctuality is our primary measure, as high performance here requires other operational processes to run smoothly, and also because it is a key driver of customer satisfaction. Our headline measure of punctuality is 'Ready to Go', which focuses on the aspects of the departure process within our control. In 2012 55 per cent of flights were 'Ready to Go', being prepared for departure at three minutes before the scheduled departure time, and 79 per cent of flights departed within 15 minutes of schedule.

The use of technology to improve the customer service experience is paying dividends in goodwill. For example, iPads have now been issued to more than 2,000 senior cabin crew, which enables them to provide insight into our customers' preferences across a whole range of areas, from special meal requests to onward travel plans. Cabin crew can deliver a truly bespoke service with this information at their fingertips. Furthermore, if any customer service issues arise in the air, cabin crew can inform ground-based colleagues in a timely fashion and action can be taken quickly to resolve any problems.

Towards the end of 2012 BA also conducted a series of real-time customer survey trials. The trials were part of the airline's commitment to customer service.

Investing selectively in the product

BA is investing £5 billion over five years in new aircraft, smarter cabins, elegant lounges and new technologies to make life more comfortable in the air and on the ground.

Our refurbishment programme of the long-haul fleet is underway, which includes new cabins and technology being fitted onboard 18 of the Airbus A380 aircraft, a refresh of 14 Boeing 767s, and the installation of business class lie-flat beds in the seven Airbus A321s acquired

British Airways Plc

Management review continued

Attention has been paid to onboard catering. World Traveller Plus customers can now enjoy a choice of meals from the Club World cabin, further enhancing the service customers receive in premium economy. There is also an improved wine choice in Club World and Laurent-Perrier Grand Siècle is now served in First. Short-haul customers are enjoying new catering with a focus on quality, choice and generosity.

Customers flying to New York through Newark Airport have access to the new lounge which opened in 2012, modeled on the highly popular Galleries Lounge complexes in Terminal 5 at Heathrow.

Passion and belief in the BA brand

The BA brand has had a very successful year in 2012. The airline's sponsorship of the London 2012 Olympic and Paralympic Games provided the backdrop for a number of successful advertising and brand awareness campaigns. The airline flew more than 2,250 athletes from 28 countries to London and supported more than 2,400 British athletes, and their coaching teams, with flights to travel around the world to train, compete and qualify.

The London Games TV campaign had a very positive effect with 92 per cent of colleagues stating they felt proud to work for BA having seen the advertisement. Engagement with customers via social media also proved a success with more than six million people interacting with the advert by taking an aircraft down their own street. The highest awareness of the BA brand for five years was achieved as a result of the Games sponsorship and the campaign delivered a 30 per cent increase in people who were 'inclined to fly with BA' and a 20 per cent increase in positive sentiment towards the brand.

Growing revenue through airline partnerships and commercial innovation

A common theme in the airline industry this year has been the development of strategic partnerships and consolidation activity. BA has been no exception.

A Joint Business agreement with Japan Airlines Co Ltd ('JAL') commenced in October 2012. The two airlines share revenue on applicable flights between Japan and Europe and there has been an expansion in codeshare arrangements. Frequent flyers are reaping the benefits of the reciprocal loyalty schemes and better aligned schedules.

New codeshare arrangements with the Canadian carrier Westjet began in September 2012, allowing BA's customers to buy connecting services from key cities to Victoria, Edmonton and Ottawa.

The North Atlantic Joint Business agreement with Iberia Lineas Aéreas de España SA ('Iberia') and American Airlines celebrated its second anniversary in October 2012 and continues to deliver customer benefits and revenue to the business.

Where appropriate, BA will continue to seek to deepen other partnerships through the extension of codeshare relationships and the development of joint businesses. The airline continues to be committed to the future development of the oneworld alliance and in October 2012 sponsored the introduction of Qatar Airways to the alliance.

Aircraft, technology and infrastructure

The acquisition of bmi has seen a further 25 short and mid-haul aircraft enter operations for BA, enabling the airline to grow its presence at Heathrow.

Planning is well underway to introduce 12 Airbus A380s and 24 Boeing 787 Dreamliners to the fleet. Delivery will commence from summer 2013, providing exciting opportunities for improved customer experience and route development.

BA is engaged with the Davies Commission, which will make recommendations to the Government on options for maintaining the UK's status as a global aviation hub. It is the airline's position that the Commission should undertake a thorough, objective assessment of all the options for extra hub capacity, including full analyses of the financial and economic costs. The case for extra hub airport capacity for the UK is overwhelming and its creation is long overdue.

Competitive cost base

Given the difficult economic times and the sustained high price of fuel, it is essential that BA focuses on managing controllable costs. The airline has prioritised short-haul improvements in its drive to secure a competitive cost base. Good progress has been made with the transformation plan at Gatwick where the cost base is now competitive with low-cost carriers. During 2013 there will be additional focus on driving more revenue per flight through ancillary services, exploiting underutilised assets such as Avios, and maximising the value from major supplier contracts.

International Consolidated Airlines Group SA ('IAG', BA's parent company) has also committed to deliver €560 million in synergies across the combined business within five years and significant progress has been made on this during 2012.

British Airways Plc

Management review continued

Setting the standard for responsible aviation

BA has led the industry in adopting a responsible approach to the environmental impact of aviation. This is not only imperative for the environment, but is the right financial approach when faced with high fuel costs, and it is an increasingly important consideration for customers. The Group's approach is threefold: reducing net carbon emissions by 50 per cent by 2050, campaigning for a global approach to reducing carbon emissions which is both effective and cost efficient, and minimising local community effects from air quality and noise.

BA is working to establish Europe's first sustainable bio-jet plant with US energy company Solena Fuels Corporation, which is expected to power some of BA's planes from 2015. The airline has committed to purchasing sustainable fuel from the plant at market competitive rates.

Culture and capabilities for success

BA recognises that its most valuable asset is its people. Genuine and effective engagement with colleagues is key and enables them to provide a service which puts the customer first and helps make BA a great place to work.

In 2012 the employee opinion survey, "Speak Up", was simplified in response to feedback from colleagues, featuring fewer, more relevant, questions. The improved survey, conducted by independent research organisation ORC International, provided a confidential means for every colleague to voice their views on what they feel about working at BA. The 2012 survey achieved the highest ever response rate. Management was pleased with the high scores for colleague engagement and pride in the airline, and is committed to taking action as a result of the detailed feedback.

This year BA forged a partnership with the University of Glamorgan. Aircraft Maintenance Engineering students at the University will have the opportunity to undertake industry-standard training at the airline's maintenance facility in Cardiff, which will form part of their BSc degree. Engineering staff at BA will in turn have the opportunity to study academic modules from the University at undergraduate and postgraduate level.

In 2012, 50 new graduates were introduced to BA. Graduates are extremely important to the long-term strength of BA and alumni from the graduate scheme can be found throughout the business. The current scheme has been running for over five years and BA has a long history of recruiting and developing graduates going back many decades, many of whom are in senior management positions in the Company today.

Two new apprenticeship schemes were offered in 2012: Heathrow Operations and IT Operations. This built upon the successful engineering schemes that have been developed over the last two years. Across the business, and across the UK, BA recruited more than 200 people into apprenticeship programmes this year. This adds to the 340 students already undertaking apprenticeships or completing college courses in preparation for beginning apprenticeships.

Outlook

In summary, BA has made great progress during 2012 with both the brand and the customer. Looking forward, we need to continue to invest in the work we are doing to enhance the customer proposition and in improving our knowledge of our customer base.

The acquisition of bmi has given BA a significant opportunity for long-term growth and network optimisation. In the forthcoming years, this opportunity will be coupled with the benefits of fuel savings generated from the new fleet.

BA remains strongly focused on being disciplined with its cost base and ensuring that any future savings generated are not reversed by cost inflation, whilst at the same time ensuring that it continues to invest in projects that improve the customer experience.

British Airways Plc

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2012

Summary financial performance

£ million	2012	2011	Better/(worse)
CONTINUING OPERATIONS			
Total revenue	10,827	9,987	8.4 %
Total expenditure on operations	10,553	9,469	(11.4)%
Operating profit before exceptional items	274	518	(47.1)%
Exceptional items*	(41)		nm
Operating profit	233	518	(55.0)%
Non-operating income and expenditure	(372)	161	nm
(Loss)/profit before tax	(139)	679	nm
Tax	69	(7)	nm
(Loss)/profit after tax	(70)	672	nm
DISCONTINUED OPERATIONS			
Loss after tax	(30)		nm

*Exceptional items in 2012 relate to the impact of business combination transactions that do not contribute to the on-going results of the Group and the settlement of a fine with the Office of Fair Trading in the UK relating to investigations into passenger fuel surcharges
nm = not meaningful

	2012	2011	Better/(worse)
CONTINUING OPERATIONS			
Available seat kilometres (ASK) (m)	158,247	150,152	5.4 %
Revenue passenger kilometres (RPK) (m)	126,436	117,348	7.7 %
Passenger load factor (%)	79.9	78.2	1.7pts
Passenger revenue per ASK (p)	600	581	3.3 %
Passenger revenue per RPK (p)	751	743	1.1 %
Non-fuel costs per ASK** (p)	432	414	(4.3)%

**Stated before exceptional items

Revenue

	2012	2011	Better/(worse)
Passenger revenue	9,499	8,721	8.9 %
Cargo revenue	737	739	(0.3)%
Total traffic revenue	10,236	9,460	8.2 %
Other revenue	591	527	12.1 %
Total revenue	10,827	9,987	8.4 %

Revenue for the year was £10,827 million, up 8.4 per cent over the previous year. This included an increase in passenger revenue of £778 million or 8.9 per cent, of which bmi mainline contributed £262 million, with the remainder being an increase in capacity and traffic. Capacity (ASKs) increased by 5.4 per cent for the full year and traffic (RPKs) increased by 7.7 per cent, with the like-for-like change being 2.5 per cent and 5.2 per cent after stripping out the impact of bmi.

Passenger revenue per ASK ended the year 3.3 per cent higher than last year, driven by strong non-premium performance in the North Atlantic segment. The short-haul premium market performed weakly throughout the year, the underlying European economic conditions being the main contributing factor. Despite the weakening economic outlook in the UK and the Eurozone throughout the year, market conditions at the Heathrow hub remained firm.

The Group's cargo revenue declined by 0.3 per cent as a result of a weak cargo market. Load factors continued to trend downwards, as supply in the air freighter market continued to outstrip demand.

On a like-for-like basis after adjusting for the acquisition of bmi, other revenue grew by 7.4 per cent compared to 2011. This increase in other revenue is largely driven by revenue growth in BA Holidays and Avios given enhancements to the proposition and increased marketing activity.

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Financial review continued

Operating costs

£ million	2012	2011	Better/(worse)
Employee costs	2,345	2,153	(8.9)%
Restructuring	36	12	nm
Depreciation, amortisation and impairment	720	683	(5.4)%
Aircraft operating lease costs	98	73	(34.2)%
Fuel, oil and emission costs	3,712	3,246	(14.4)%
Engineering and other aircraft costs	625	543	(15.1)%
Landing fees and en route charges	726	691	(5.1)%
Handling charges, catering and other operating costs	1,213	1,052	(15.3)%
Selling costs	466	436	(6.9)%
Currency differences	(1)	13	nm
Accommodation, ground equipment and IT costs	613	567	(8.1)%
Total Group expenditure on operations*	10,553	9,469	(11.4)%
Total Group expenditure excluding fuel*	6,841	6,223	(9.9)%

*Stated before exceptional items

nm = not meaningful

Fuel costs increased by 14.4 per cent year-on-year to £3,712 million as a result of increased fuel prices, increased flying schedule and costs associated with the EU Emissions Trading Scheme which is new for 2012

Underlying non-fuel costs were broadly flat. However, total non-fuel costs per ASK increased by 4.3 per cent due to the acquisition of bmi, increased restructuring costs that are expected to have a favourable impact in future periods, increased costs resulting from certain changes in the Avios customer proposition although these have been partially offset by increased revenue benefits, and additional provisions to reflect management's best estimate of the likely outcome of certain claims and active litigations

Non-operating income and expenditure

In total, non-operating costs are an expense of £372 million in the current year (2011 £161 million income). Key changes to the prior year relate to a £58 million gain on bargain purchase arising from the acquisition of bmi (see 'acquisition of bmi' on page 7), an adverse movement of £375 million in pension charges and an adverse movement in the valuation of the Group's convertible bond of £179 million. In addition, the share of losses in associates, stated after tax, is £66 million (2011 £6 million) and primarily represents BA's 13.55 per cent share of Iberia's losses

Pensions net financing expense was £215 million for the year, compared to a net financing income of £160 million in the prior year. Net financing costs relating to the schemes assets and liabilities were an expense of £35 million (2011 £63 million income) as a result of a lower discount rate increasing the unwind of the obligation to the present value and lower expected returns on scheme assets given adverse movements in bond yields. The accounting standard restricts the surplus the Group is allowed to recognise on APS to the post-tax recoverable amount available to BA, in 2012 this gave rise to a non-cash charge of £144 million (2011 £123 million credit)

Following the merger between BA and Iberia, bondholders of the Group's £350 million fixed rate 5.8 per cent convertible bond will be eligible to convert their bonds into shares of IAG rather than BA. As such, the equity portion of the convertible bond was reclassified during 2011 to be a derivative financial liability. This derivative liability is revalued at each balance sheet date, which resulted in a charge of £10 million compared to a credit of £169 million in the prior year

Taxation

The tax credit on continuing operations for the year ended 31 December 2012 was £69 million. This consists of a current tax charge of less than £1 million and a deferred tax credit of £69 million. The tax credit included a £73 million credit through the income statement due to legislation enacted during the year reducing the main rate of corporation tax from 25 per cent to 23 per cent. The net deferred tax liability at 31 December 2012 was £721 million (2011 £778 million). The year-on-year movement was primarily related to the corporation tax rate reductions

Discontinued operations

As part of the bmi acquisition, two business units (bmi Regional and bmi baby) were acquired exclusively with a view to disposing of these non-core operations. bmi Regional was sold to Sector Aviation Holdings Ltd in June 2012 for sale proceeds of £5 million, no gain or loss was recognised on this disposal as the acquisition fair value (£4 million) reflected this valuation less associated disposal provisions. The Group attempted to find a purchaser for bmi baby but was unable to agree a viable transaction, instead ceasing bmi baby's trade in September 2012, with all 14 operating leased aircraft being stood down in advance of handback to lessors. The loss after tax arising from these discontinued operations was £30 million which was reflected in the bmi purchase price

British Airways Plc

Financial review continued

Acquisition of bmi

In April 2012, BA acquired bmi from Lufthansa for cash consideration of £83 million. The acquisition was funded from the Group's cash resources, with £15 million being deposited with Lufthansa in December 2011 and the balance being paid in 2012. bmi consisted of three distinct business units: bmi mainline, bmi Regional and bmi baby. The acquisition of bmi mainline allows BA to manage its wider Heathrow slot portfolio more effectively, launch new routes and increase frequencies to existing key destinations. The results of bmi mainline are reported within the Group's continuing operations. bmi Regional and bmi baby were not part of BA's longer term plans, with bmi Regional being sold in June 2012 and bmi baby ceasing to operate in September 2012. Both of these operations are included as discontinued operations.

The fair value of the assets acquired and liabilities assumed was ascertained, with net assets of £141 million being identified, resulting in an excess of the net assets acquired over the purchase consideration of £58 million – this is credited to the consolidated income statement immediately and disclosed as a 'gain on bargain purchase', recorded below operating profit. This gain primarily arose due to funding the trading losses incurred immediately post-acquisition and also the fair value of tax trading losses being higher than anticipated during due diligence.

Capital expenditure

Total capital expenditure in the year, excluding the acquisition of bmi, amounted to £781 million. This comprised £633 million fleet related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments), £110 million on property, equipment and software, £7 million on landing rights, and £31 million on allowances purchased for the Group's shortfall in EU Emission Allowances for the new EU Emissions Trading Scheme. During the year the Group took delivery of one Airbus A320, one Boeing 777-300 and one Embraer E190 aircraft.

Liquidity

The Group's liquidity position remains strong with £16 billion of cash, cash equivalents and other interest-bearing deposits. In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £12 billion and further committed general facilities of £0.5 billion. Note 24 to the financial statements provides detailed analysis and explanation of the cash flow position. Capital expenditure commitments are outlined in note 15 to the financial statements.

Pensions

BA operates two principal funded defined benefit pension schemes in the UK, the Airways Pension Scheme ('APS') and the New Airways Pension Scheme ('NAPS'). APS closed to new members in March 1984 and NAPS closed to new members in March 2003. The Group currently utilises 'corridor' accounting as allowed by accounting standards, which removes the impact of short-term volatility in financial markets from the accounting pension valuation. At 31 December 2012, the cumulative net actuarial losses not recognised on the Group's balance sheet was £2.2 billion, offset by £0.1 billion unrecognised actuarial gains in APS. From 1 January 2013 an amendment to IAS 19 will be adopted that will immediately bring the net actuarial losses on to the balance sheet, offset by the related deferred tax assets.

This change impacts the financial statements but does not have any impact on scheme funding. Scheme funding is based on the latest actuarial valuation and is independent to the accounting for pensions. The last actuarial valuation was agreed in June 2010, setting out a deficit contribution plan until 2023 for APS and 2026 for NAPS which, taken together with future service costs, will see annual cash contributions maintained at approximately £330 million in real terms. The outcome of the next actuarial valuation will be known before 30 June 2013. Despite record low gilt yields, the deficit recovery plan broadly remains on track with the plan agreed as part of the last triennial valuation.

British Airways Plc

Internal control and risk management

Corporate Governance

As the shares of the Company are not listed, it is not required to comply with the Combined Code. However, as the Company continues to be an issuer of listed debt it remains subject to certain provisions of the Companies Act 2006, Listing Rules and Disclosure and Transparency Rules. In order to comply with these provisions, certain information about the Company's corporate governance is detailed in this report.

Internal control over financial reporting

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and process for the preparation of consolidated financial statements. During the year, no changes in risk management and internal control systems over financial reporting have occurred that have materially affected, or are reasonably likely to have materially affected, the Group's financial reporting.

Internal control framework

Effective Corporate Governance remains key to the business. The Group continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. During the reporting period, the effectiveness of the framework was regularly reviewed by the Leadership Team.

Business controls are reviewed on an ongoing basis by the internal audit function which operates internationally, and to a programme based on risk assessment. Professionally qualified personnel manage the department with experience gained from both inside and outside the industry. A risk-based audit plan, which provides assurance over key business processes and commercial and financial risks facing the Group, is approved by the IAG Audit Committee half yearly.

The BA Board considered significant control matters raised by management and both the internal and external auditors and they reported their findings to the IAG Audit Committee. Where weaknesses were identified, the BA Board ensured that management took appropriate action. No significant failings or weaknesses were identified during 2012.

Risk management

The Group has a structure and process to help identify, assess and manage risks. This process has been in place throughout the reporting period to which these statements apply and up to the date of their approval.

During the year, the Risk Group consisted of the Leadership Team, the Head of Corporate Risk and Compliance and key senior executives. Meeting quarterly, it reviews the Group's key risks contained in the corporate risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Group also provides policy and guidance to those responsible for managing the individual risks and to the departmental risk leaders.

The management of each major area of corporate risk is subject to review by an appropriate 'assurance body'. This includes a review of the controls in place to mitigate the risks and the further actions being taken by management. The Risk Group reported quarterly to the BA Board to assist in the management of risk in accordance with the UK Corporate Governance Code (2010).

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

Financial risk management objectives, policies and procedures

The Group is exposed to a variety of financial risks, including market risk, credit risk, capital risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

The BA Board approves prudent treasury policies and delegates certain responsibilities to senior management who directly control day-to-day treasury operations on a centralised basis and operate within clearly defined parameters.

The financial risks faced by the Group are covered in more detail in note 30 to the financial statements.

British Airways Plc

Internal control and risk management continued

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, leaves the Group exposed to a number of significant risks. The focus remains on mitigating these risks at all levels in the business, although many remain outside our control such as government regulation, taxes, terrorism, adverse weather, pandemics and availability of funding from the financial markets.

The Directors of the Group believe that the risks and uncertainties described below are the ones that may have the most significant impact on the long-term value of BA. The list presented is not intended to be exhaustive. The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible.

Strategic

The markets in which the Group operates are highly competitive. Direct competition is faced from other airlines on routes, as well as from indirect flights, charter services and from other modes of transport. Competitor capacity growth in excess of demand growth could materially impact our margins. Some competitors have cost structures that are lower than BA or have other competitive advantages such as being supported by government intervention or benefiting from insolvency protection. Fare discounting by some competitors has historically had a negative effect on the Group's results because a response is generally required to competitors' fares to maintain passenger traffic. The Group's strong global market positioning, leadership in strategic markets, alliances and diverse customer base continues to address this risk.

Consolidation and deregulation

As noted above the airline market is fiercely competitive and will need to continue to rationalise given the current market conditions. This may involve further airline failures and consolidation leading to opportunities to capture market share and expand the Group. Mergers and acquisitions amongst competitors have the potential to adversely affect market position and revenue. The Group maintains rigorous cost control and targeted product investment to remain competitive.

Joint business arrangements such as the transatlantic agreement with American Airlines and the new agreement between BA and JAL include delivery risks such as realising planned revenue and cost synergies. Any failure of joint business partners could adversely impact the business. American Airlines have remained committed to the Joint Business throughout their Chapter 11 restructuring process. The delivery of merger synergies is inherently subject to industrial relations, revenue leakage and programme management risks. The Leadership Team have robust merger integration and Joint Business programmes which address these risks, the effectiveness of which were demonstrated by the successful integration of bmi into BA in 2012.

The airline industry is increasingly dependent on alliances and BA is no exception to this. Maintaining a leading presence in oneworld and ensuring the alliance itself performs as expected by the members is key in safeguarding the network.

Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for the Group, may have a negative impact on margins.

Government intervention

Regulation of the airline industry is increasing and covers many of the Group's activities including safety, security, route flying rights, airport slot access, and environmental controls. The ability to both comply with and influence any changes in these regulations is key to maintaining operational and financial performance.

Continued plans by the UK Government to increase Air Passenger Duty, at the same time as the commencement of the European Union Emissions Trading Scheme, coupled with the potential for other environmental taxes imposed in other jurisdictions, may have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit BA's competitors by reducing the relative cost of doing business from their respective hubs.

Infrastructure constraints

Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, the Group is vulnerable to short-term operational disruption and there is little that can be done to mitigate this. BA continues to promote the expansion of the airport to create extra capacity and reduce delays, enabling Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt.

Business and operational

Brand reputation

BA's brand has significant commercial value. Erosion of the brand, through either a single event or series of events, may adversely impact the Company's leadership position with customers and could ultimately affect future revenue and profitability. The Leadership Team regularly monitors customer satisfaction through the global monthly Think Customer Survey, alongside ongoing research and development of the BA product, in order to mitigate this risk. BA allocates substantial resources to safety, operational integrity, on-board product and new aircraft to maintain its leadership position.

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Internal control and risk management continued

Economic conditions

The Group's revenue is highly sensitive to economic conditions in the markets operated in. Deterioration in either the domestic and/or global economy may have a material impact on the reported financial position. BA is exposed to any contraction in the economy resulting from management of the fiscal deficit issues in Europe and the USA.

The BA Management Committee and Board regularly consider Eurozone breakup risk and the initiatives underway to manage, as far as practicable, the impact on the Group. During the year, these initiatives included the Eurozone Crisis Management Group that meets every month to review progress on projects, scenario planning based on previous shocks to the business, and ensuring financial counterparty risk and hedging policies continue to be fit for purpose.

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

Employee relations

BA has a large unionised workforce. Collective bargaining takes place on a regular basis and a breakdown in the bargaining process may disrupt operations and adversely affect business performance.

Failure of a critical IT system

The Group is dependent on IT systems for most of the principal business processes. The failure of a key system may cause significant disruption to operations and/or result in lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

Pandemic

If there is a significant outbreak of swine flu or other infectious disease, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. The Group has comprehensive pandemic business continuity plans that were last used during the 2009 swine flu outbreak.

Landing fees and security charges

Airport, transit and landing fees and security charges represent a significant operating cost to BA and have an impact on operations. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not.

There can be no assurance that such costs will not increase or that the Group will not incur new costs in the UK or elsewhere. Charges at BA's London hubs from April 2014 onwards will be determined by the Civil Aviation Authority's ongoing Quinquennial 6 review. There is a risk that charges and development plans agreed will significantly increase the cost of operating at these hubs, or commit to future infrastructure investment in a way that benefits other airport users ahead of the Group's interests. BA is constructively engaged in the review process.

Safety/security incidents

The safety and security of customers and employees are fundamental values for BA. Failure to prevent or respond effectively to a major safety or security incident may adversely impact operations and financial performance. The Safety Committee satisfies itself that BA has appropriate safety resources and procedures. The Operations Control Incident Centre responds in a structured way in the event of an incident.

Event causing significant network disruption

Several possible events may cause a significant network disruption. Example scenarios include a major failure of the public transport system, the complete or partial loss of the use of terminals at Heathrow, adverse weather conditions (such as snow, fog or volcanic ash), widespread or coordinated air traffic control industrial action, war, civil unrest or terrorism. Such a disruption may result in lost revenue and additional cost. Management has robust business continuity plans to mitigate these risks to the extent feasible.

Key supplier risk

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

Financial

Debt funding

The Group carries substantial debt that needs to be repaid or refinanced. The ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing. The Group carries substantial cash reserves and committed financing facilities to mitigate the risk of short-term interruptions to the aircraft financing market.

British Airways Plc

Internal control and risk management continued

Fuel price, currency and interest rate fluctuation

The Group used approximately 5.6 million tonnes of jet fuel in 2012. Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results. This price risk is partially hedged through the purchase of oil derivatives in forward markets, which can generate a profit or a loss.

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and selling the surplus or buying the shortfall of its currency obligations.

The Group is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of counterparties may result in financial losses. The approach to financial risk management is set out in note 30 of the financial statements.

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

Middle East Tensions

Current tensions in the Middle East increase risks relating to the cost of oil and to passenger demand in the region. Management have contingency plans in place to manage these risks.

Pensions

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

Compliance and regulatory

Governance

The governance structure of IAG put in place at the time of the merger between BA and Iberia has a number of complex features, including nationality structures to protect BA and Iberia's route and operating licenses and assurances to preserve the specific interests of those companies. Although complex, the structure worked well during 2011 and 2012 with synergy targets being exceeded.

Compliance with Competition, Bribery and Corruption Law

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

British Airways Plc

Directors' report

Principal Activities

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

A review of the Group's business and future developments is detailed further on pages 2 to 4 of the business review

Results and Dividends

The operating profit for the year ended 31 December 2012 amounted to £233 million (2011: £518 million). The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2012 (2011: £nil).

Directors

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

Sir Martin Broughton	
Alison Reed	
Keith Williams	
Nick Swift	
Andrew Crawley	
Frank van der Post	
Enrique Dupuy de Lôme	
Rafael Sánchez-Lozano Turmo	resigned 14 November 2012
Ken Smart	
Gavin Patterson	
Garrett Copeland	appointed 14 November 2012
Julia Simpson	appointed 14 November 2012

Company secretary

Alan Buchanan resigned on 31 December 2012 and Kulbinder Dosanjh was appointed as Company Secretary with effect from 1 January 2013

Employment policies

The employment policies in place aim to balance rights of employees and the responsibilities of the Company in order to drive the Group's business forward. The policies are regularly reviewed and updated with input from colleagues. The overall aim is to have policies that are fair, legally compliant, cost effective and that empower line managers.

The Group continues to drive genuine and effective engagement with colleagues to put the customer at the forefront of everything it does and to maintain a high performing organisation. The Group's objective is to have involved colleagues, with deep knowledge of their customers, who are empowered to serve their needs proactively.

There is a framework in place for consultation with colleagues, through direct engagement as well as collective bargaining, enabling everyone to have an open and honest dialogue with the Company. Regular briefings (including updates on financial and economic factors affecting the performance of the Company) are run across the airline and other communication channels include live on-line forums, a personalised intranet, mobile SMS messaging, video messages and a range of Group wide and local newsletters.

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

As a responsible Company, disability is taken very seriously and applications are welcomed from individuals with disabilities. The Group aims to employ the most talented people and thus has procedures in place to ensure that individuals with disabilities are supported in reaching their full potential by making reasonable adjustments for them in the workplace. If such adjustments cannot be made for any reason, an alternative suitable role and re-training will be considered through our Careerlink redeployment service. Training for employees is increasingly provided on-line and accessibility to e-learning is constantly reviewed.

The Paralympic Games 2012 provided a unique opportunity for our colleagues to re-consider our approach towards colleagues and customers with disabilities. All front line employees were trained in disability awareness to increase their knowledge. They also had the opportunity to learn sign language and to meet some Paralympic athletes to hear their stories first hand. This learning, as well as supporting those travelling during the Olympic period, is also part of the enduring legacy of the Games.

Inclusion and diversity is integrally linked to the Group's values and ensuring that the customer is at the heart of everything that BA does. A strategic review was completed in 2012 to find effective ways to add value to our business by further integrating inclusion and diversity into our processes, policies and values. We aim to harness different perspectives, views and beliefs to create an inspirational and innovative place to work for all of our colleagues. Mandatory training on inclusion and diversity principles, and how to avoid discrimination, continues for all colleagues and managers to ensure that they can understand how to apply inclusion and diversity in practice and treat colleagues with fairness and respect.

British Airways Plc

Directors' report continued

Suppliers

The Group continues to maintain supplier and creditor payment performance around the target of 90 per cent paid in accordance with mutually agreed terms. The number of days' purchases in creditors at 31 December 2012 is calculated in accordance with the provisions of the Companies Act 2006 and was 37 days (2011 38 days)

Political Donations

The Group does not make political donations or incur political expenditure and has no intention of doing so. The amount of political donations made during the year to 31 December 2012 was £nil (2011 £nil)

Community Investment

Charitable donations by the Group amounted to £5.2 million (2011 £5.1 million). The main beneficiaries of direct charitable donations were Hurricane Sandy (£100,000), Performance Running who host a Summer Sports Camp for children across the Heathrow community (£22,500) and the Haller Foundation for the development of an IT suite in Kenya (£20,000)

During 2012, the Group worked with 40 community and conservation organisations (2011 56). There is also an extensive education programme for children and young people at the Community Learning Centre at Heathrow, with the number of visitors to the centre reaching 77,591 since it opened in 1999 (2011 69,343). The Flying Start partnership with Comic Relief raised £1,961,500 during the year (2011 £1,946,596)

The Group continues to be a member of both the London Benchmarking Group ('LBG') and Business in the Community. The LBG's model is used to assess our total contribution to the community. Some 3,080 current and retired colleagues donated to charity through the payroll giving scheme in the year ended 31 December 2012 (2011 3,138), raising over £608,314 for the Group's chosen charities (2011 £591,819)

Internal control and risk management

Details of the Group's internal control and risk management policies can be found on page 8 in the internal control and risk management section of the business review

Principal risks and uncertainties

The Group's principal risks and uncertainties are set out on pages 9 to 11 in the internal control and risk management section of the business review

Overseas branches

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

Going Concern

The business activities, performance, strategy and risks of the Group are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in the financial review on pages 5 to 7, and further information is provided in note 2 of the financial statements

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

Directors' and Officers' liability insurance and indemnities

IAG purchased insurance against Directors' and Officers' liability covering the IAG Group, as permitted by the Companies Act 2006, for the benefit of the Directors and Officers

The Company has granted rolling indemnities to the Chairman, the Executive, the external Non-executive Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as officers of companies within the Group. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs. The indemnities were in force during the whole of the financial year or from the date of appointment in respect of Directors who joined the Board during 2012 and remain in force

The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the Directors of two companies, British Airways Pension Trustees Limited and British Airways Pension Trustees (No 2) Limited, that act as trustees of the Company's UK pension schemes. These indemnities were in force throughout the last financial year or from the date of appointment in respect of Directors who joined the Board during 2012 and remain in force

Auditors

In accordance with Section 489 of the Companies Act 2006, resolutions concerning the re-appointment of the auditor, Ernst & Young LLP and authorising the Directors to set their remuneration will be proposed at the next Annual General Meeting.

British Airways Plc

Directors' report continued

Directors' statement as to disclosure of information to the auditor

The Directors who are members of the Board at the time of approving the Directors' report and business review are listed above. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that

- To the best of each director's knowledge and belief there is no information relevant to the preparation of the auditor's report of which the Group's auditor is unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to make him or herself aware of relevant audit information and to establish that the Group's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006

Directors' responsibilities statement in relation to the financial statements

The Directors as listed are responsible for preparing the annual report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards ('IFRSs') as adopted by the EU

The Directors are required to prepare financial statements for each financial period, which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

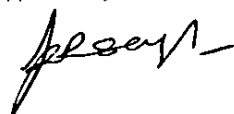
The Directors as listed are responsible for keeping adequate accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4

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

- The Group and Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit/loss of the Group as a whole and of the Company, and
- The management report contained in this report includes a fair review of the development and performance of the business and the position of the Group as a whole and of the Company, together with a description of the principal risks and uncertainties that they face

Approved by the Board and signed on its behalf by



Kulbinder Dosanjh
Company Secretary
28 February 2013
Company registration number - 1777777

British Airways Plc Independent auditors' report

We have audited the financial statements of British Airways Plc for the year ended 31 December 2012 which comprise the Group consolidated income statement, the Group statement of other comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended,
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- The information given in the Corporate Governance Statement set out on pages 8 to 11 in the Annual Report & Accounts with respect to internal control and risk management system in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Ernst + Young LLP

Kathryn Barrow (Senior statutory auditor)
For and on behalf of Ernst & Young LLP,
Statutory auditor
London
1 March 2013

Group consolidated income statement

For the year ended 31 December

For the year ended 31 December		Group	
£ million	Note	2012	2011
CONTINUING OPERATIONS			
Traffic revenue			
Passenger		9,499	8,721
Cargo		737	739
		10,236	9,460
Other revenue		591	527
Revenue	5	10,827	9,987
Employee costs	8	2,345	2,153
Restructuring		36	12
Depreciation, amortisation and impairment	6	720	683
Aircraft operating lease costs		98	73
Fuel, oil and emission costs		3,712	3,246
Engineering and other aircraft costs		625	543
Landing fees and en route charges		726	691
Handling charges, catering and other operating costs		1,213	1,052
Selling costs		466	436
Currency differences		(1)	13
Accommodation, ground equipment and IT costs		613	567
Total expenditure on operations before exceptional items		10,553	9,469
Operating profit before exceptional items		274	518
Business combination costs	6	(71)	
Settlement of competition investigation	6	30	
Operating profit	5,6	233	518
Gain on bargain purchase	3	58	
Gains/(losses) on fuel derivatives not qualifying for hedge accounting		8	(11)
Finance costs	9	(173)	(161)
Finance income	9	25	32
Net financing (expense)/income relating to pensions	9	(215)	160
Retranslation credits on currency borrowings	9	5	2
Loss on sale of property, plant and equipment and investments	10	(3)	(3)
Share of post-tax (losses)/profits in associates accounted for using the equity method	19	(66)	(6)
Revaluation of convertible bond derivative liability		(10)	169
Net charge relating to available-for-sale financial assets	11	(1)	(21)
(Loss)/profit before tax from continuing operations		(139)	679
Tax	12	69	(7)
(Loss)/profit after tax from continuing operations		(70)	672
DISCONTINUED OPERATIONS			
Loss after tax from discontinued operations	4	(30)	
(Loss)/profit after tax		(100)	672
Attributable to			
Equity holders of the parent		(116)	654
Non-controlling interest		16	18
		(100)	672

Group statement of other comprehensive income

For the year ended 31 December

£ million	Note	Group	
		2012	2011
Net (loss)/profit for the year		(100)	672
Other comprehensive income			
Exchange losses	34	(4)	(4)
Net gains/(losses) on cash flow hedges	34	73	(39)
Impact of changes in substantively enacted tax rates	34	(3)	(4)
Share of other movements in reserves of associates	19,34	12	(2)
Net movement on available-for-sale financial assets	34	4	(13)
Total comprehensive income for the year (net of tax)		(18)	610
Attributable to			
Equity holders of the parent		(34)	592
Non-controlling interest		16	18
		(18)	610

Balance sheets

As at 31 December

£ million	Note	Group		Company	
		2012	2011	2012	2011
Non-current assets					
Property, plant and equipment					
Fleet	14	5,909	5,765	5,597	5,488
Property	14	831	856	789	811
Equipment	14	202	207	185	193
		6,942	6,828	6,571	6,492
Intangibles					
Goodwill	17	40	40		
Landing rights	17	655	242	630	215
Emissions allowances	17	39	12	39	12
Software	17	85	53	84	52
		819	347	753	279
Investments in subsidiaries	19			2,372	2,304
Investments in associates	19	174	232		
Available-for-sale financial assets	20	39	39	28	24
Employee benefit assets	35	1,194	1,100	1,194	1,100
Derivative financial instruments	31	8	6	8	6
Other non-current assets		25	28	162	167
Total non-current assets		9,201	8,580	11,088	10,372
Non-current assets held for sale	16	2	15		15
Current assets and receivables					
Inventories	21	117	139	117	137
Trade receivables	22	488	460	481	448
Other current assets	23	393	273	739	409
Derivative financial instruments	31	37	73	37	74
Other current interest-bearing deposits	24	1,118	1,259	1,116	1,242
Cash and cash equivalents	24	481	570	419	530
		1,599	1,829	1,535	1,772
Total current assets and receivables		2,634	2,774	2,909	2,840
Total assets		11,837	11,369	13,997	13,227
Shareholders' equity					
Issued share capital	32	290	290	290	290
Share premium		937	937	937	937
Other reserves	34	1,331	1,355	1,314	931
Total shareholders' equity		2,558	2,582	2,541	2,158
Non-controlling interests	34	200	200		
Total equity		2,758	2,782	2,541	2,158
Non-current liabilities					
Interest-bearing long-term borrowings	27	3,226	3,358	3,440	3,596
Employee benefit obligations	35	238	232	233	226
Provisions for deferred tax	12	721	778	602	733
Other provisions	29	244	179	101	170
Derivative financial instruments	31	67	62	67	62
Other long-term liabilities	26	185	295	147	258
Total non-current liabilities		4,681	4,904	4,590	5,045
Current liabilities					
Current portion of long-term borrowings	27	466	385	458	384
Trade and other payables	25	3,600	3,117	6,162	5,473
Derivative financial instruments	31	31	21	32	22
Current tax payable		9	12	6	6
Short-term provisions	29	292	148	208	139
Total current liabilities		4,398	3,683	6,866	6,024
Total equity and liabilities		11,837	11,369	13,997	13,227

Nick Swift
28 February 2013

Kerth Williams
28 February 2013

Cash flow statements

For the year ended 31 December

For the year ended 31 December		Group		Company	
£ million	Note	2012	2011	2012	2011
CONTINUING OPERATIONS					
Cash flow from operating activities					
Operating profit		233	518	251	490
Depreciation, amortisation and impairment		720	683	680	652
Operating cash flow before working capital changes		953	1,201	931	1,142
Movement in inventories, trade and other receivables		89	(113)	(191)	(154)
Movement in trade and other payables and provisions		203	397	392	431
Cash payments to pension schemes (net of service costs)		(303)	(351)	(303)	(351)
Payments in respect of restructuring		(35)	(11)	(35)	(11)
Payments in settlement of competition investigation		(60)	(147)	(60)	(147)
Other non-cash movement		10	11	10	11
Cash generated from operations		857	987	744	921
Interest paid		(139)	(147)	(118)	(124)
Taxation		(3)	(4)		
Net cash generated from operating activities		715	836	626	797
Cash flow from investing activities					
Acquisition of subsidiary, net of cash acquired	3	(7)		(68)	
Purchase of property, plant and equipment	14	(702)	(702)	(668)	(661)
Purchase of intangible assets	17	(79)	(67)	(79)	(67)
Purchase of shares in available-for-sale financial assets			(16)		(16)
Investment in subsidiary	19			(10)	(32)
Loans made to related parties		(92)	(21)	(92)	(21)
Repayment of loans from related parties		6	10	6	10
Proceeds from sale of non-current assets held for sale, property, plant and equipment		20	24	16	24
Proceeds from sale of business acquired exclusively with a view to resale	16	5			
Proceeds received from loan notes		2	4	2	4
Interest received		23	28	23	28
Decrease/(increase) in other current interest-bearing deposits		141	(86)	126	(89)
Net cash used in investing activities		(683)	(826)	(744)	(820)
Cash flow from financing activities					
Proceeds from long-term borrowings		430	236	430	236
Repayments of borrowings		(258)	(188)	(240)	(173)
Payment of finance lease liabilities		(224)	(296)	(237)	(310)
Issue of share capital			1		1
Distributions made to holders of perpetual securities		(16)	(18)		
Net cash flow from financing activities		(68)	(265)	(47)	(246)
Net decrease in cash and cash equivalents from continuing operations		(36)	(255)	(165)	(269)
DISCONTINUED OPERATIONS					
Net cash flow used in discontinued operations	4	(107)			
Net decrease in cash and cash equivalents		(143)	(255)	(165)	(269)
Net foreign exchange differences		54	46	54	46
Cash and cash equivalents at 1 January		570	779	530	753
Cash and cash equivalents at 31 December	24	481	570	419	530

Statements of changes in equity

For the year ended 31 December 2012

For the year ended 31 December 2012							Group
£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	Total shareholders' equity	Non-controlling interest	Total equity
Balance at 1 January 2012	290	937		1,355	2,582	200	2,782
Loss for the year				(116)	(116)	16	(100)
Other comprehensive income for the year				82	82		82
Total comprehensive income for the year				(34)	(34)	16	(18)
Cost of share-based payment net of recharges				10	10		10
Distributions made to holders of perpetual securities						(16)	(16)
At 31 December 2012	290	937		1,331	2,558	200	2,758

For the year ended 31 December 2011

For the year ended 31 December 2011							Group
£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	Total shareholders' equity	Non-controlling interest	Total equity
Balance at 1 January 2011	288	937	(3)	978	2,200	200	2,400
Profit for the year				654	654	18	672
Other comprehensive income for the year				(62)	(62)		(62)
Total comprehensive income for the year				592	592	18	610
Cost of share-based payment net of recharges				11	11		11
Exercise of share options			1	(5)	(4)		(4)
Transfer of investment in own shares to available-for-sale financial asset			2		2		2
Issue and cancellation of share capital	2				2		2
Revaluation and reclassification of equity portion of convertible bond				(221)	(221)		(221)
Distributions made to holders of perpetual securities						(18)	(18)
At 31 December 2011	290	937		1,355	2,582	200	2,782

For the year ended 31 December 2012

					Company
£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	Total equity
Balance at 1 January 2012	290	937		931	2,158
Profit for the year				299	299
Other comprehensive income for the year				74	74
Total comprehensive income for the year				373	373
Cost of share based payment net of recharges				10	10
At 31 December 2012	290	937		1,314	2,541

For the year ended 31 December 2011

					Company
£ million	Issued capital	Share premium	Investment in own shares	Other reserves (note 34)	Total equity
Balance at 1 January 2011	288	937	(3)	590	1,812
Profit for the year				598	598
Other comprehensive income for the year				(42)	(42)
Total comprehensive income for the year				556	556
Cost of share-based payment net of recharges				11	11
Exercise of share options			1	(5)	(4)
Transfer of investment in own shares to available-for-sale financial assets			2		2
Issue and cancellation of share capital	2				2
Revaluation and reclassification of equity portion of convertible bond				(221)	(221)
At 31 December 2011	290	937		931	2,158

Notes to the accounts

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 28 February 2013 and the balance sheets were signed on the Board's behalf by Keith Williams and Nick Swift. British Airways Plc is a public limited company incorporated and domiciled in England and Wales.

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRSs')* as adopted by the EU. IFRSs as adopted by the EU differ in certain respects from IFRSs as issued by the International Accounting Standards Board ('IASB'). References to 'IFRS' hereafter should be construed as references to IFRSs as adopted by the EU. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

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

2 Summary of significant accounting policies

Basis of preparation

The basis of preparation and accounting policies set out in this Report and Accounts have been prepared in accordance with the recognition and measurement criteria of IFRS, which also include IASs, as issued by the IASB and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB.

These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value.

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

Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, each made up to 31 December, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform with the Group's accounting policies.

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

All intra-group account balances, including intra-group profits, have been eliminated in preparing the consolidated financial statements. Minority interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the Group's balance sheet.

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

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

Revenue recognition – customer loyalty programmes

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

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

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

2 Summary of significant accounting policies continued

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the Leadership Team. The Leadership Team is headed by the Chief Executive and structured by function. The Leadership Team is responsible for the day-to-day running of the Group, discharging managerial responsibility. The nature of the operating segments is set out in note 5.

Intangible assets

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

a Goodwill

Where the cost of a business combination exceeds the fair value attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable. Any goodwill arising on the acquisition of equity accounted entities is included within the cost of those entities. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the income statement.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

b Landing rights

Landing rights acquired from other airlines are capitalised at cost or at fair value, less any accumulated impairment losses. Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations within the EU consider them to have an indefinite economic life.

c Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding five years on a straight-line basis.

d Emissions allowances

Purchased emissions allowances are initially recognised at cost and are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction is capitalised and added to the cost of the asset concerned.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance lease or hire purchase arrangements, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

2 Summary of significant accounting policies continued

Property, plant and equipment continued

c Property and equipment

Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives, or in the case of leasehold properties over the duration of the leases if shorter, on a straight-line basis

d Leased and hire purchase assets

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in borrowings.

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period (normally 10 years), without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms, such leases are described as extendable operating leases.

Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be enacted within 12 months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method.

Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in investment in associates in the Group's balance sheet and its interest in their results is included in the consolidated income statement, below operating profit. In the case of Iberia, the latest available results are included. In some cases, results are disclosed using unaudited management accounts. The attributable results of those companies acquired or disposed of during the year are included for the period of ownership. Refer to note 19 for details of investments in associates.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method. Such financial assets are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Gains and losses are recognised in income when the deposits are derecognised or impaired, as well as through the amortisation process.

Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short dated nature of these assets. A provision for impairment of receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

2 Summary of significant accounting policies continued

Employee benefits

a Pension obligations

Employee benefits, including pensions and other post-retirement benefits (principally post-retirement healthcare benefits) are presented in these financial statements in accordance with IAS 19 'Employee Benefits'. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a net asset to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling. Fair value is based on market price information and, in the case of quoted securities, is the published bid price.

Current service costs are recognised within operating expenses in the period in which they arise. Past service costs are recognised when the benefit has been given. The financing cost and expected return on plan assets are recognised within financing costs in the periods in which they arise. The accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains and losses) that are less than 10 per cent of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10 per cent the excess amount is recognised on a straight-line basis in the income statement over the estimated average remaining service period. This method will change in 2013, see page 28.

The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

b Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

Share-based payments

The Group has a number of equity-settled share-based employee incentive plans in which the Group's employees participate. Prior to the merger the awards were made under schemes operated by the Company and represented rights over its ordinary shares. These awards rolled over into awards in respect of shares in IAG at the merger. Subsequent to the merger, awards are made under schemes operated by IAG and represent rights over its ordinary shares. The cost of these awards is recharged from IAG to the Group and recognised in equity as a capital contribution from IAG.

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

2 Summary of significant accounting policies continued

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Income tax is charged or credited directly to equity if it relates to items that are taken to equity. Otherwise income tax is recognised in the income statement

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost

Foreign currency translation

Transactions in foreign currencies are initially recorded in the Group's functional currency, sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All other profits or losses arising on translation are dealt with through the income statement except where hedge accounting is applied

The net assets of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into sterling at average rates of exchange during the period. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the income statement

Financial instruments

In accordance with IAS 39 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each period end except for those financial instruments measured at fair value through the income statement

a Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is insignificant. This category of financial assets includes trade and other receivables

b Available-for-sale financial assets

Other investments (other than interests in associates) are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold, when the cumulative amount recognised in equity is recognised in the income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in equity is included in the income statement

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost

2 Summary of significant accounting policies continued

Financial instruments continued

c Derivatives

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives, fuel hedging derivatives (including options, swaps and futures) and the obligation to settle the convertible bond in shares of IAG, are measured at fair value on the Group balance sheet. The treatment of gains and losses arising from revaluation is described below in the accounting policy for cash flow hedges, except for the obligation to settle the bond in shares of IAG. The gain or loss related to this derivative is recognised in the income statement.

d Financial liabilities measured at amortised cost

Long-term borrowings are recorded at amortised cost. Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

Cash flow hedges

Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument, unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period are taken to equity in accordance with the requirements of IAS 39. Gains and losses taken to equity are reflected in the income statement when either the hedged cash flow impacts income or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euro and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Investment in own shares

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

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

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence. The exceptional item line in the income statement includes the impact of business combination transactions that do not contribute to the on-going results of the Group. Business combination transactions include cash items such as the cost incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the income statement. Exceptional items are disclosed in note 6.

In 2011 the consolidated financial statements included a note for restructuring costs and certain impairments. Neither of these items were of such size that they were deducted on 'adjusted' measures of profit. As such, these are not included as exceptional items in the 2012 consolidated financial statements.

2 Summary of significant accounting policies continued

Key accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

a Business combinations

Accounting for business combinations using the acquisition method requires the determination of the fair value of the consideration transferred, together with the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. Judgement is required in determining whether a transaction meets the criteria to be treated as a business combination or not. Judgements and estimates are also required in order to determine the fair values of the assets acquired and the liabilities assumed, and the Group uses all available information, including external valuations and appraisals where appropriate, to determine these fair values. If necessary, the Group has up to one year from the acquisition date to finalise the determinations of fair value. Details of the business combinations undertaken by the Group in 2012 are provided in note 3.

b Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 18.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

c Pensions and other post-retirement benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty and are disclosed in note 35.

d Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair value in shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the income statement. Impairment losses recognised in the income statement are disclosed in note 11.

e Passenger revenue recognition

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used for transportation ('unused tickets') are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

f Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

g Residual values and useful lives of assets

The Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives. Further details are provided in note 14.

Impact of new International Financial Reporting Standards

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

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

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

2 Summary of significant accounting policies continued

New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the date of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments from 1 January 2013.

a IAS 19 'Employee Benefits'

IAS 19 'Employee Benefits', effective for periods beginning on or after 1 January 2013. This amended standard will be adopted on 1 January 2013, with the comparative information for the year ended 31 December 2012 being restated in the 2013 consolidated financial statements. This standard has been endorsed by the EU.

The revised standard has eliminated the use of the corridor approach. This will result in recognition of all re-measurements of the defined benefit liability/asset including gains and losses in other comprehensive income. At 31 December 2012 the net pension liability was £1,722 million and the net pension asset was £735 million (restricted to £493 million by the APS asset ceiling). Had previously unrecognised cumulative gains and losses been recognised at 31 December 2012, total equity would have decreased by £1,690 million to recognise £2,195 million, partially offset by an increase in the related deferred tax asset of £505 million. Unrecognised cumulative gains in relation to APS will not be recognised as these will be fully restricted by the APS asset ceiling.

The amended standard will also require the Group to determine the net interest expense/income for the year on the net defined benefit liability/asset by applying the discount rate used at the beginning of the period to measure the defined benefit obligation to the net defined benefit liability/asset at the beginning of the year. It takes into account any changes in the net defined benefit liability/asset during the year as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return. Before adopting the amendment, the Group had a finance charge/income in relation to amortisation of actuarial losses in excess of the corridor and the effect of the APS asset ceiling, following the adoption of the amended standard, all actuarial losses/gains will be recognised immediately in other comprehensive income, as will changes in the APS asset ceiling.

Had the amended standard been adopted early, the net pensions finance charge would have decreased by £194 million, £144 million for the elimination of the effect of the APS asset ceiling, £36 million for the elimination of financing charges for the amortisation of actuarial losses in excess of the corridor and £14 million due to a reduction in the 'financing income and expense relating to pensions'.

This amendment to IAS 19 will not result in any change to the actuarial valuation used for the 'triennial valuation' nor will it impact the profile of deficit funding contributions that are agreed with the Scheme trustees.

b Other Changes

The IASB issued three new standards relating to interest in other entities and related disclosure. These standards are effective for periods beginning on or after 1 January 2014 and have been endorsed by the EU. The new standards are, IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interest in Other Entities'. IFRS 10 replaces the guidance on control and consolidation in IAS 27 and SIC-12-Consolidation-special purpose entities. IFRS 11 requires joint arrangements to be accounted for as joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. IFRS 12 requires enhanced disclosure of the nature, risk and the financial effects associated with the Group's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation. It is anticipated that the application of these standards will have no significant impact on the Group's net profit or net assets.

IFRS 9 'Financial Instruments' is effective for periods beginning on or after 1 January 2015. This standard has not been endorsed by the EU. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. The Group has not yet decided the date of adoption and has not yet completed its evaluation of the effects of the adoption.

IFRS 13 'Fair value measurement' is effective for periods beginning on or after 1 January 2013. This standard has been endorsed by the EU. The standard explains how to measure fair value and aims to enhance fair value disclosures. The standard does not require fair value measurement in addition to those already required or permitted by other IFRSs, rather it prescribes how fair value should be measured if another IFRS requires it. The Group has not yet completed its evaluation of the effects of the adoption.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

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

3 Business combinations

On 19 April 2012 BA acquired 100 per cent of the issued share capital of British Midland Limited ('bmi') from LHBD Holdings Limited ('Lufthansa'). bmi consisted of three distinct business units – bmi mainline, bmi Regional and bmi baby. The acquisition of bmi mainline allows BA to manage its wider Heathrow slot portfolio more effectively, launch new routes and increase frequencies to existing key destinations.

bmi Regional and bmi baby were also acquired as part of the acquisition. These businesses were not part of BA's longer term plans and so are included as discontinued operations in the consolidated income statement. The trade, certain assets and certain liabilities of bmi Regional were sold to a third party shortly after acquisition, as such the assets and liabilities of this business were acquired exclusively with a view to resale. The Group was unable to locate a viable acquirer for bmi baby, with this operation ceasing to trade in September 2012.

The assets and liabilities arising from the acquisition are as follows:

£ million	Fair Value
Property, plant and equipment	109
Intangible assets – landing rights ⁽¹⁾	408
Non-current assets held for sale	9
Inventories	2
Trade receivables ⁽²⁾	45
Other current assets	102
Cash and cash equivalents	61
Assets of business acquired exclusively with a view to resale	8
Liabilities of business acquired exclusively with a view to resale	(4)
Interest-bearing borrowings	(27)
Provisions	(190)
Provisions for deferred tax – tax losses carried forward ⁽³⁾	82
Provisions for deferred tax – impact of fair value adjustments	(67)
Trade and other payables	(397)
Net identifiable assets acquired	141
Cash consideration ⁽⁴⁾	83
Gain on bargain purchase	(58)

(1) Landing rights have been assessed as having indefinite lives and will be tested annually for impairment.

(2) The gross contractual amount for trade receivables is £48 million, 94% which is expected to be collected.

(3) A deferred tax asset is recognised for £341 million of tax trading losses carried forward that are expected to be utilised against future trading profits.

(4) There is no deferred or contingent consideration.

The net cash flow effect of the acquisition is as follows:

£ million	
Cash consideration	83
Deposit paid in the year ended 31 December 2011 ⁽⁵⁾	(15)
Cash and cash equivalents acquired in the business	68
Cash outflow	(7)

(5) A deposit of £15 million was paid to Lufthansa in the year ended 31 December 2011 and is included in the prior year cash flow as a movement in other receivables.

The gain on bargain purchase arising from the acquisition of bmi is credited in the consolidated income statement. This gain primarily arose due to the requirement to fund the post-acquisition losses and the fair value of tax trading losses being higher than anticipated during due diligence. The gain on bargain purchase does not represent a taxable gain.

Transaction costs of £6 million were charged as exceptional 'business combination costs' for the year ended 31 December 2012 (2011: £3 million included within 'accommodation, ground equipment and IT costs').

The contribution of bmi to continuing operations was revenues of £297 million, operating losses before exceptional items of £79 million and operating losses after exceptional items of £150 million. Had bmi been consolidated from 1 January 2012, the Group's continuing operations would have reported total revenue of £10,959 million and operating profit of £176 million.

4 Discontinued operations

Under the terms of the bmi mainline purchase agreement, BA acquired bmibaby and bmi Regional as part of the acquisition on 19 April 2012. As bmibaby and bmi Regional were not part of the Group's long term plans they have not been integrated into BA and options to dispose of these businesses have been pursued. bmi Regional was subsequently sold to Sector Aviation Holdings Ltd on 1 June 2012. bmibaby ceased to trade in September 2012, with all aircraft being stood down in advance of handback to lessors.

From the date of acquisition, the loss after tax from discontinued operations is £30 million for the year ended 31 December 2012 and is attributable entirely to equity holders of the parent. The statement of other comprehensive income does not include any other income or expense in relation to the discontinued operations. The discontinued operations had a net cash outflow of £107 million as reported in the cash flow statement. There were no discontinued operations in the year ended 31 December 2011.

The results for the discontinued operations for the year are presented below.

£ million	2012
Revenue	71
Total expenditure on operations	101
Operating loss, also being loss after tax from discontinued operations	(30)

Finance income and finance expense were less than £1 million. There is no taxation relating to the discontinued operations, tax losses arose as a result of the discontinued trading losses but these are not recognised given uncertainty over their recoverability.

The results of discontinued operations all relate to the airline business. £65 million of sales originated in the UK and £6 million originated in Continental Europe.

£ million	2012
Cashflows used in discontinued operations	
Net cash used in operating activities	(107)
Net cash outflow	(107)

There were no cash flows relating to investing or financing activities in the discontinued operations.

5 Segment information

a Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Leadership Team makes resource allocation decisions based on route profitability, which considers aircraft type and route economics, based primarily by reference to passenger economics with limited reference to cargo demand. The objective in making resource allocation decisions is to optimise consolidated financial results. While the operations of OpenSkies SASU ('OpenSkies') and BA Cityflyer Limited ('Cityflyer') are considered to be separate operating segments, their activities are considered to be sufficiently similar in nature to aggregate the two segments and report them together with the network passenger and cargo operations. Therefore, based on the way the Group treats the network passenger and cargo operations, and the manner in which resource allocation decisions are made, the Group has only one reportable operating segment for financial reporting purposes, reported as the 'airline business'.

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of Avios Group (AGL) Limited, British Airways Holidays Limited and Speedbird Insurance Company Limited.

For the year ended 31 December 2012

£ million	Airline business	All other segments	Unallocated	Total
CONTINUING OPERATIONS				
Revenue				
Sales to external customers	10,446	381		10,827
Inter-segment sales	162	29		191
Segment revenue	10,608	410		11,018
Segment result	200	33		233
Other non-operating income	65			65
Net finance costs	(190)		(168)	(358)
Loss on sale of assets	(3)			(3)
Share of associates' (losses)/profits	(66)			(66)
Revaluation of convertible bond derivative liability			(10)	(10)
Tax			69	69
Loss after tax	6	33	(109)	(70)
Assets and liabilities				
Segment assets	11,520	143		11,663
Investment in associates	174			174
Total assets	11,694	143		11,837
Segment liabilities	4,361	296		4,657
Unallocated liabilities*			4,422	4,422
Total liabilities	4,361	296	4,422	9,079
Other segment information				
Property, plant and equipment - additions (note 14d)	722	7		729
Intangible assets - additions (note 17c)	74			74
Depreciation, amortisation and impairment (note 6a)	717	3		720
Impairment of available-for-sale financial assets (note 11)	3			3

* Unallocated liabilities consist of current taxes of £9 million, deferred taxes of £721 million and borrowings of £3,692 million which are managed on a Group basis.

5 Segment information continued

a Business segments continued

For the year ended 31 December 2011

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

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

b Geographical analysis - by area of original sale

£ million	Group	
	2012	2011
Europe	6,582	6,090
UK	4,801	4,323
Continental Europe	1,781	1,767
The Americas	2,462	2,163
USA and Canada	2,158	1,921
The rest of the Americas	304	242
Africa, Middle East and Indian sub-continent	1,079	998
Far East and Australasia	704	736
Revenue	10,827	9,987

The total of non-current assets excluding available-for-sale financial assets, employee benefit assets, other non-current assets and derivative financial instruments located in the UK is £7,677 million (2011 £7,096 million) and the total of these non-current assets located in other countries is £260 million (2011 £326 million)

6 Operating profit

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

Depreciation, amortisation and impairment of non-current assets

£ million	Group	
	2012	2011
Owned assets	480	470
Finance leased aircraft	165	158
Hire purchased aircraft	6	6
Other leasehold interests	45	47
Impairment charge/(reversal) on property, plant, equipment and intangible assets	15	(8)
Amortisation of intangible assets	9	10
	720	683

Operating lease costs

£ million	Group	
	2012	2011
Minimum lease rentals - aircraft	98	73
- property and equipment	105	99
Aircraft sub-lease rentals received		(3)
Property and equipment sub-lease rentals received	(14)	(12)
Net onerous lease provision release	(2)	(2)
	187	155

Cost of inventories

£ million	Group	
	2012	2011
Cost of inventories recognised as an expense, mainly fuel	3,736	2,947

6 Operating profit continued

b Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence (see note 2 for the full definition). The following items are deemed to be exceptional

£ million	Group	
	2012	2011
Business combination costs	(71)	
Settlement of competition investigation	30	
Exceptional items	(41)	

Business combination costs

From the date of acquisition of bmi a number of costs have been incurred for the continuing operations in the year ended 31 December 2012 including a restructuring expense of £20 million, transaction costs of £6 million and integration expenses of £45 million. These expenses relate to the following consolidated income statement categories

£ million	2012		2011	
Employee costs		(9)		
Restructuring		(20)		
Selling costs		(6)		
Other operating costs		(13)		
Accommodation, ground equipment and IT costs		(23)		
Exceptional business combination costs		(71)		

Settlement of competition investigation

In April, BA settled a fine with the Office of Fair Trading in the UK relating to investigations into passenger fuel surcharging dating back to 2004 through to 2006. The fine agreed was £59 million resulting in a £30 million release of the provision held, recognised within exceptional items in the consolidated income statement in 2012. This release relates to 'accommodation, ground equipment and IT costs'.

7 Auditors' remuneration

£ '000	Group		Company	
	2012	2011	2012	2011
Fees payable to the Group's auditor for the audit of the Group's accounts	1,578	1,467	1,578	1,467
Fees payable to the Group's auditor and its associates for other services				
Audit of the Group's subsidiaries pursuant to legislation - UK	331	350		
Audit of the Group's subsidiaries pursuant to legislation - Worldwide	99	105		
Other services pursuant to legislation	68	36	68	36
Other services relating to taxation	165	273	165	273
Services relating to corporate finance transactions	127	301	127	301
Other assurance services	555	131	555	131
	2,923	2,663	2,493	2,208

Of the Group fees, £2,759,000 relates to the UK (2011: £2,300,000) and £164,000 relates to overseas (2011: £363,000).

Of the Company fees, £2,329,000 relates to the UK (2011: £1,951,000) and £164,000 relates to overseas (2011: £257,000).

The audit fees payable to Ernst & Young LLP are approved by the BA Board having been reviewed in the context of other companies for cost effectiveness.

The Board also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained.

8 Employee costs and numbers

a Staff costs

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

Number	Group		Company	
	2012	2011	2012	2011
UK	37,909	35,101	33,983	32,988
Overseas	5,304	5,151	4,369	4,293
	43,213	40,252	38,352	37,281

£ million	Group		Company	
	2012	2011	2012	2011
Wages and salaries	1,580	1,424	1,441	1,331
Social security costs	166	157	153	143
Costs related to pension scheme benefits	180	175	175	174
Other post-retirement benefit costs	4	5	4	5
Other employee costs	415	392	398	377
Total employee costs excluding restructuring	2,345	2,153	2,171	2,030
Restructuring	56	19	56	18
Total employee costs	2,401	2,172	2,227	2,048

Included in 'Wages and salaries' is a total expense for share-based payments of £15 million (2011 £13 million) that arises from transactions accounted for as equity-settled share-based payment transactions

Other employee costs include allowances and accommodation for crew

Included in 'Restructuring' in 2012 is £20 million incurred in relation to the integration of bmi mainline disclosed as exceptional (see note 6)

b Directors' emoluments

£'000	Group	
	2012	2011
Fees	181	213
Salary and benefits	1,345	1,120
Pension contributions	165	128
Performance-related bonuses	817	446
	2,508	1,907

During the year two Directors (2011 two) accrued benefits under a defined benefit pension scheme and two Directors (2011 three) accrued benefits under a defined contribution pension scheme

During the year, five Directors (2011 four) of the Company were employed and remunerated by IAG

The aggregate emoluments for the highest paid Director were borne by IAG. The aggregate emoluments for the year amounted to £873,300 (2011 £972,304) and contributions to the Company's defined benefit scheme amounted to £nil (2011 £3,928). The value of the accrued benefits in respect of his pension scheme at 31 December 2012 amounted to £2,296,688 (2011 £2,068,769).

None of the Directors held any direct interest in any shares of the Company. However four Directors (2011 three) participated in Long Term Incentive Schemes of the Company that were in existence prior to the merger; these consisted of the Long Term Incentive Plan ('LTIP') and the British Airways Performance Share Plan ('PSP'). In addition, eight Directors (2011 six) also participated in IAG's Long Term Incentive Scheme called the IAG Performance Share Plan ('IPSP').

During the year ended 31 December 2012, none of the Directors (2011 none) exercised their rights under the British Airways Share Option Plans. During the year, no Directors exercised their awards (2011 two) in the form of IAG shares under the Long Term Incentive Schemes of the Company.

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

9 Finance costs and income

£ million	Group	
	2012	2011
a Finance costs		
On bank loans	(21)	(23)
On finance leases	(70)	(69)
On other loans	(79)	(60)
Interest expense	(170)	(152)
Unwinding of discounting on provisions (note 29)	(7)	(11)
Capitalised interest*	3	1
Change in fair value of cross currency swaps	1	1
	(173)	(161)

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

£ million	Group	
	2012	2011
b Finance income		
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	25	32
	25	32
c Financing income and expense relating to pensions		
Net financing (expense)/income relating to pensions	(35)	63
Amortisation of actuarial losses in excess of the corridor	(36)	(26)
Effect of the APS asset ceiling	(144)	123
	(215)	160
d Retranslation credits on currency borrowings	5	2

10 Loss on sale of non-current assets

£ million	Group	
	2012	2011
Net loss on sale of non-current assets held for sale		6
Net loss/(profit) on sale of property, plant and equipment	3	(3)
Loss on sale of non-current assets	3	3

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

£ million	Group	
	2012	2011
Income from available-for-sale financial assets	2	2
Amounts written off investments	(3)	(23)
	(1)	(21)

12 Tax

a Tax on profit on ordinary activities

Tax (credit)/charge in the income statement

	Group	
£ million	2012	2011
Current income tax		
UK corporation tax	1	6
UK tax	1	6
Adjustments in respect of prior years - UK corporation tax	(2)	11
Adjustments in respect of prior years - overseas tax	1	(9)
Total current income tax charge		8
Deferred tax		
Property, plant and equipment related temporary differences	(46)	(52)
Pension related temporary differences	56	75
Tax losses (used)/carried forward	(20)	67
Exchange related temporary differences	(5)	(5)
Share option deductions written back	(1)	(2)
Other temporary differences	17	4
Adjustments in respect of prior years - deferred tax	3	(16)
Effect of corporation tax rate change on deferred tax balances	(73)	(72)
Total deferred tax credit	(69)	(1)
Total (credit)/charge in the income statement	(69)	7

Tax charge/(credit) directly to equity

	Group	
£ million	2012	2011
Deferred tax relating to items charged to statement of other comprehensive income		
Foreign exchange	36	9
Net losses on cash flow hedges	(12)	(23)
Impact of changes in substantively enacted tax rates	3	4
Deferred tax relating to items charged to statement of changes in equity		
Share options in issue		1
Total tax charge/(credit) relating to items included in the statement of other comprehensive income and statement of other changes in equity	27	(9)

12 Tax continued

b Reconciliation of the total tax (credit)/charge

The following table provides a reconciliation of the tax (credit)/charge at the UK corporation tax rate of 24.5 per cent (2011 26.5 per cent) to the Group's expected tax (credit)/charge on (loss)/profit before taxation

£ million	Group	
	2012	2011
(Loss)/profit before tax from continuing operations	(139)	679
Accounting (loss)/profit multiplied by standard rate of corporation tax in the UK of 24.5 per cent (2011 26.5 per cent)	(34)	180
Effects of		
Tax on associate and subsidiary companies		
Tax on associates' profits and dividends	16	2
Euro preferred securities		
Euro preferred securities accounted for as non-controlling interests	(4)	(5)
Deferred tax assets not recognised		
Current year losses not recognised	3	6
Other		
Non-deductible expenses	16	4
(Non-taxable)/deductible element on competition investigation provisions	(7)	4
Effect of pension fund accounting	23	(61)
Effect of convertible bond accounting	2	(45)
Share option deductions written back		2
Disposal and write down of investments	1	6
Non-taxable gain on bargain purchase	(14)	
Adjustments in respect of prior years	2	(14)
Impact of changes in substantively enacted tax rates	(73)	(72)
Tax (credit)/charge in the income statement	(69)	7

There is no taxation relating to the discontinued operations, tax losses arose as a result of the discontinued trading losses but these are not recognised given uncertainty over their recoverability

c Deferred tax

The deferred tax included in the balance sheet is as follows

£ million	Group		Company	
	2012	2011	2012	2011
Fixed asset related temporary differences	834	847	685	774
Pensions related temporary differences	135	90	137	91
Exchange differences on funding liabilities	1	(22)	5	(22)
Advance corporation tax	(94)	(94)	(94)	(94)
Tax losses carried forward	(123)	(27)	(123)	(27)
Fair value profits recognised on cash flow hedges	2	15	2	15
Share options related temporary differences	(6)	(6)	(6)	(6)
Deferred revenue in relation to loyalty reward programmes	(17)	(29)		
Other temporary differences	(11)	4	(4)	2
At 31 December	721	778	602	733

Movement in provision

£ million	Group		Company	
	2012	2011	2012	2011
Balance at 1 January	778	788	733	751
Deferred tax credit relating to income statement	(69)	(1)	(158)	(9)
Deferred tax charge/(credit) taken to statement of other comprehensive income	27	(10)	27	(10)
Deferred tax charge taken to statement of changes in equity		1		1
Acquisitions – tax losses carried forward (note 3)	(82)			
Acquisitions – deferred tax on fair value adjustments (note 3)	67			
At 31 December	721	778	602	733

12 Tax continued

d Other taxes

The Group also contributed tax revenues through payment of transaction and payroll related taxes. A breakdown of these other taxes paid during 2012 is as follows:

£ million	Group	
	2012	2011
UK Air Passenger Duty	572	471
Other ticket taxes	326	299
Payroll related taxes	166	157
Total	1,064	927

The UK Government has announced that the rates of Air Passenger Duty will increase at the rate of inflation from 1 April 2013.

e Factors that may affect future tax charges

Following the change in ownership of the Group on 21 January 2011, UK pre-entry capital losses carried forward of £170 million (2011: £147 million) are held. These losses are available for offset against future UK chargeable gains on assets held by the Company at the time it joined the Group. Only gains arising up until that time can be offset against the pre-entry capital losses. No deferred tax asset has been recognised in respect of these capital losses as no further utilisation is currently anticipated. The Group has deferred taxation arising on chargeable gains by roll-over and hold-over relief claims that have reduced the tax basis of fixed assets by £69 million (2011: £69 million). No deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they could be offset against the UK capital losses carried forward. The Group also has an unrecognised deferred tax asset of £51 million (2011: £70 million) arising from temporary differences in respect of future capital losses if properties are realised at their residual value.

The Group has overseas tax losses of £81 million (2011: £94 million) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated. The change from 2011 relates to adjustments to earlier years.

UK tax legislation largely exempts UK and overseas dividends received on or after 1 July 2009 from UK tax and as there are no withholding taxes arising on the payment of such dividends, the timing difference on unremitted earnings of overseas subsidiaries is £nil (2011: £nil).

Further reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 26 per cent to 24 per cent effective from 1 April 2012. The provision for deferred tax on temporary differences as at 31 December 2012 was calculated at 23 per cent, the corporation tax rate effective from 1 April 2013. The difference from the application of 23 per cent instead of 24 per cent for the three month period to 31 March 2013 is not expected to be material. The effect of further planned reductions to the main rate of corporation tax by two per cent to 21 per cent by 1 April 2014 is expected to provide an estimated benefit to the Group's net assets of £71 million and will be applied in the Group's financial statements as the legislation is substantively enacted.

13 Dividends

The Directors declare that no dividend be paid for the year ended 31 December 2012 (2011: £nil).

14 Property, plant and equipment

a Group

£ million				Group
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2011	12,244	1,526	744	14,514
Additions (note 14d)	590	26	34	650
Disposals	(107)	(93)	(13)	(213)
Reclassifications	(137)			(137)
Balance at 31 December 2011	12,590	1,459	765	14,814
Additions (note 14d)	656	33	40	729
Acquisitions (note 3)	108		1	109
Disposals	(139)	(7)	(23)	(169)
Reclassifications	(6)	(8)		(14)
At 31 December 2012	13,209	1,477	783	15,469
Depreciation and impairment				
Balance at 1 January 2011	6,486	641	523	7,650
Charge for the year	578	55	48	681
Impairment charge*	(8)			(8)
Disposals	(105)	(93)	(13)	(211)
Reclassifications	(126)			(126)
Balance at 31 December 2011	6,825	603	558	7,986
Charge for the year	601	50	45	696
Impairment charge*	15			15
Disposals	(134)	(7)	(22)	(163)
Reclassifications	(7)			(7)
At 31 December 2012	7,300	646	581	8,527
Net book amounts				
31 December 2012	5,909	831	202	6,942
31 December 2011	5,765	856	207	6,828
Analysis at 31 December 2012				
Owned	3,297	769	133	4,199
Finance leased	2,255		23	2,278
Hire purchase arrangements	73			73
Progress payments	265	62	46	373
Assets not in current use**	19			19
	5,909	831	202	6,942
Analysis at 31 December 2011				
Owned	3,454	823	171	4,448
Finance leased	2,088		15	2,103
Hire purchase arrangements	79			79
Progress payments	114	33	21	168
Assets not in current use**	30			30
	5,765	856	207	6,828
£ million				Group
				2012 2011
The net book amount of property comprises				
Freehold				239 243
Long leasehold improvements				267 261
Short leasehold improvements***				325 352
At 31 December				831 856

* The 2011 impairment charge relating to two Boeing 747-400 aircraft was due to the partial reversal of £8 million due to an improvement in the realisable value of the aircraft engines. During the year the impairment charge of £15 million relates to three additional Boeing 747-400 aircraft which were permanently written down to their realisable value during the year.

** As at 31 December 2011 three Boeing 747-400 aircraft were in temporary storage and three Boeing 757-200 aircraft were permanently stood down for disposal. During the year three B747-400 aircraft were permanently stood down for disposal and three B757-200 aircraft were disposed of.

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

As at 31 December 2012, bank and other loans of the Group are secured on fleet assets with a cost of £2,669 million (2011: £2,602 million) and guarantees issued by a third party of £230 million in favour of the Airways Pension Scheme are secured on certain aircraft (2011: £230 million).

Included in the cost of tangible fixed assets for the Group is £336 million (2011: £335 million) of capitalised interest.

Property, plant and equipment with a net book value of £6 million was disposed of by the Group during the year (2011: £2 million) resulting in a £3 million loss (2011: £3 million profit).

14 Property, plant and equipment continued

b Company

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2011	11,773	1,440	709	13,922
Additions	556	25	23	604
Disposals	(105)	(93)	(11)	(209)
Reclassifications	(137)			(137)
Balance at 31 December 2011	12,087	1,372	721	14,180
Additions	627	33	31	691
Disposals	(133)	(7)	(15)	(155)
Reclassifications	(6)	(8)		(14)
Transfers from subsidiary company*	73		1	74
At 31 December 2012	12,648	1,390	738	14,776
Depreciation and impairment				
Balance at 1 January 2011	6,282	602	495	7,379
Charge for the year	554	52	44	650
Disposals	(103)	(93)	(11)	(207)
Impairment charge**	(8)			(8)
Reclassifications	(126)			(126)
Balance at 31 December 2011	6,599	561	528	7,688
Charge for the year	570	47	40	657
Disposals	(130)	(7)	(15)	(152)
Impairment charge**	15			15
Reclassifications	(7)			(7)
Transfers from subsidiary company*	4			4
At 31 December 2012	7,051	601	553	8,205
Net book amounts				
31 December 2012	5,597	789	185	6,571
31 December 2011	5,488	811	193	6,492
Analysis at 31 December 2012				
Owned	2,994	727	116	3,837
Finance leased	2,246		23	2,269
Hire purchase arrangements	73			73
Progress payments	265	62	46	373
Assets not in current use***	19			19
	5,597	789	185	6,571
Analysis at 31 December 2011				
Owned	3,177	778	157	4,112
Finance leased	2,088		15	2,103
Hire purchase arrangements	79			79
Progress payments	114	33	21	168
Assets not in current use***	30			30
	5,488	811	193	6,492
				Company
£ million			2012	2011
The net book amount of property comprises				
Freehold			197	198
Long leasehold improvements			267	261
Short leasehold improvements****			325	352
At 31 December			789	811

* On 30 November 2012 the Company hived up the trade, certain assets and certain liabilities from British Midland Airways Limited, its wholly owned subsidiary. This was a common control transaction with transfers being recorded at BA book values, consideration for the transaction was equal to these book values and recorded on intercompany accounts. Included in the transfer were fleet and equipment with net book values of £69 million and £1 million respectively.

** The 2011 impairment charge relating to two Boeing 747-400 aircraft was due to the partial reversal of £8 million due to an improvement in the realisable value of the aircraft engines. During the year the impairment charge of £15 million relates to three additional Boeing 747-400 aircraft which were permanently written down to their realisable value during the year.

*** As at 31 December 2011 three Boeing 747-400 aircraft were in temporary storage and three Boeing 757-200 aircraft were permanently stood down for disposal. During the year three B747-400 aircraft were permanently stood down for disposal and three B757-200 aircraft were disposed of.

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

14 Property, plant and equipment continued

b Company continued

As at 31 December 2012, bank and other loans of the Company are secured on fleet assets with a cost of £2,360 million (2011 £2,342 million) and guarantees issued by a third party of £230 million in favour of the Airways Pension Scheme are secured on certain aircraft (2011 £230 million)

Included in the cost of tangible fixed assets for the Company is £336 million (2011 £335 million) of capitalised interest

Property, plant and equipment with a net book value of £3 million was disposed of by the Company during the year (2011 £2 million) resulting in a £2 million loss (2011 £3 million profit)

c Depreciation

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

Per cent	Group	
	2012	2011
Boeing 747-400, 777-200 and 777-300	3.7	3.7
Boeing 767-300	4.2	4.2
Boeing 757-200	4.4	4.4
Boeing 737-400	4.2	4.2
Airbus A318, A319, A320 and A321	4.9	4.9
Embraer E170 and E190	6.4	6.4

For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to residual value over the average remaining life of the related fleet. Major overhaul expenditure is depreciated over periods ranging from 26-78 months, according to engine type.

Property, with the exception of freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from four to 20 years, according to the type of equipment.

d Analysis of Group property, plant and equipment additions

£ million	Fleet	Property	Equipment	Group	
				2012	2011
Cash paid	633	29	40	702	702
Capitalised interest	3			3	1
Reclassification of operating leases to finance	30			30	
Accrual movements	(10)	4		(6)	(53)
Total additions	656	33	40	729	650

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £3,940 million for the Group commitments (2011 £4,218 million) and £3,924 million for Company commitments (2011 £4,217 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

The outstanding commitments include £3,874 million for the acquisition of four Boeing 777s (from 2013 to 2014), 24 Boeing 787s (from 2013 to 2017), 10 Airbus A320s (from 2013 to 2014) and 12 Airbus A380s (from 2013 to 2016).

16 Non-current assets held for sale

Aircraft which are due to exit the business within 12 months are classified as non-current assets held for sale. There were no fleet non-current assets held for sale as at 31 December 2012 (2011: £15 million).

No fleet assets were transferred to non-current assets held for sale during the year ended 31 December 2012 (2011: £11 million).

Fleet non-current assets held for sale with a net book value of £15 million were disposed of by the Group and Company during the year ended 31 December 2012 (2011: £29 million) resulting in a net loss on disposal of £nil (2011: loss of £6 million).

As part of the acquisition of bmi, the Group acquired £7 million of landing rights held for sale for which there was a committed purchaser and for which £5 million of payments on account had been received. During the year ended 31 December 2012, the sale of these landing rights was completed with the residual £2 million of proceeds being received by the Group. BA made no gain or loss on this transaction. In addition, bmi have a property that is a non-current asset held for sale which had a value of £2 million at acquisition, which continues to be held for sale at the year-end and is expected to be sold within 12 months.

bmi Regional was acquired exclusively with a view to resale, with assets at acquisition of £8 million and liabilities of £4 million being disposed of shortly post-acquisition. Proceeds from the sale of £5 million were received during the year, offset by £1 million of provisions being recognised as a consequence of the disposal. As such there was no gain or loss from this disposal.

17 Intangible assets

a Group

£ million	Group				
	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 January 2011	40	268		181	489
Additions		34	12	26	72
Disposals				(6)	(6)
Exchange movements*		(1)			(1)
Balance at 31 December 2011	40	301	12	201	554
Additions		7	27	40	74
Acquisitions (note 3)		408			408
Exchange movements*		(1)			(1)
At 31 December 2012	40	715	39	241	1,035
Amortisation					
Balance at 1 January 2011		59		144	203
Charge for the year**				10	10
Disposals				(6)	(6)
Balance at 31 December 2011		59		148	207
Charge for the year		1		8	9
At 31 December 2012		60		156	216
Net book amounts					
31 December 2012	40	655	39	85	819
31 December 2011	40	242	12	53	347

* Landing rights with a carrying value of £25 million (2011: £27 million) are associated with the acquisition of L'Avion, an airline operating services between Paris (Orly) and New York (Newark) airports. These landing rights are denominated in euro.

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

17 Intangible assets continued

b Company

£ million	Company			
	Landing rights	Emissions allowances	Software	Total
Cost				
Balance at 1 January 2011	230		180	410
Additions	34	12	26	72
Disposals			(6)	(6)
Balance at 31 December 2011	264	12	200	476
Additions	7	27	40	74
Transfers from subsidiary companies*	408			408
At 31 December 2012	679	39	240	958
Amortisation				
Balance at 1 January 2011	49		144	193
Charge for the year			10	10
Disposals			(6)	(6)
Balance at 31 December 2011	49		148	197
Charge for the year			8	8
At 31 December 2012	49		156	205
Net book amounts				
31 December 2012	630	39	84	753
31 December 2011	215	12	52	279

* On 30 November 2012 the Company hived up the trade, certain assets and certain liabilities from British Midland Airways Limited, its wholly owned subsidiary. This was a common control transaction with transfers being recorded at BA book values, consideration for the transaction was equal to these book values and recorded on intercompany accounts. Included in the transfer were indefinite life landing rights with a total net book value of £408 million.

c Analysis of Group intangible asset additions

£ million	Landing Rights	Emissions allowances	Software	Group	
				2012	2011
Cash paid	7	31	41	79	67
Accrual movements		(4)	(1)	(5)	5
Total additions	7	27	40	74	72

18 Impairment of property, plant, equipment and intangible assets

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Goodwill and landing rights based within the EU are considered to have an indefinite economic life. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the Group's other cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on two CGU's. An impairment review was performed on the network airline operations CGU, including passenger and cargo operations out of all operated airports as well as all related ancillary operations as it contains both goodwill and landing rights within the EU. A separate impairment review has been conducted on the operations of OpenSkies CGU.

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

a Network airline operations

£ million	2012				Group 2011			
	Emissions allowances	Landing rights	Goodwill	Total	Emissions allowances	Landing rights	Goodwill	Total
Network airline operations	39	630	40	709	12	215	40	267

The recoverable amount of the network airline operations has been measured based on its value in use, using a discounted cash flow model, cash flow projections are based on the business plan approved by the Board covering a five-year period. Cash flows beyond the five-year period are projected to increase in line with the long-term growth rate of the main economies in which BA operates. The pre-tax discount rate applied to the cash flow projections is derived from the Group's post-tax weighted average cost of capital, adjusted for the risks specific to the assets.

No impairment charge has arisen as a result of the review performed on the network airline operations.

Key assumptions

	2012	Group 2011
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	10.00%	10.00%
Long-term growth rate	2.50%	2.50%
Operating margin range	4.6% - 8.5%	2.9% - 8.1%
Fuel price range per barrel	\$100 - \$110	\$114 - \$120

Recoverable amount

£ million	2012	Group 2011
Intangible assets	794	320
Tangible assets	6,940	6,827
Excess of recoverable amount over carrying amount	2,392	2,317

The recoverable amount of the assets within the network airline operations exceeds the carrying value by £2.4 billion (2011: £2.3 billion). If the discount rate were increased by 600 basis points (2011: 610 basis points) or the operating margin were to decrease by 39 per cent (2011: 44 per cent), the headroom would amount to £nil.

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

b OpenSkies

£ million	2012		Group 2011	
	Landing rights	Total	Landing rights	Total
Carrying value of intangible assets (before impairment charges)	35	35	37	37
Impairment of OpenSkies landing rights	(10)	(10)	(10)	(10)
Carrying value of intangible assets*	25	25	27	27

* Included within total intangible assets allocated to the OpenSkies CGU are £18 million (2011: £20 million) of indefinite life intangible assets

The recoverable amount of the OpenSkies CGU has been measured on its value in use, using a discounted cash flow model, cash flow projections are based on the forecast approved by the Board covering a five-year period. Cash flows beyond the five-year period are projected to increase in line with the EU long-term growth assumption. The pre-tax discount rate applied to the cash flow projections is derived from OpenSkies' post-tax weighted average cost of capital, adjusted for the risks specific to the assets.

The impairment review of OpenSkies resulted in no impairment during the year (2011: no impairment).

The recoverable amount of the assets within OpenSkies exceeds the carrying value by £9 million (2011: £20 million). If the discount rate were increased by 170 basis points (2011: 380 basis points) or the operating margin were to decrease by 22 per cent (2011: 31 per cent), the headroom would amount to £nil.

Key assumptions

	Group	
	2012	2011
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	10.00%	10.00%
Long-term growth rate	2.50%	2.50%
Operating margin range	(7.8)% - 4.6%	(10.4)% - 4.7%
Fuel price range per barrel	\$100 - \$110	\$114 - \$120

The operating margins of both CGUs are based on the estimated effects of planned business efficiency and business change programmes, approved and enacted at the balance sheet date. The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business.

c Impairment of Fleet

During the year ended 31 December 2012 three Boeing 747-400 aircraft were permanently stood down. As a result, the three aircraft were written down to their net realisable value and an impairment charge of £15 million was realised. These aircraft are included in assets not in current use at 31 December 2012.

19 Investments

a Group

Investment in associates

£ million	Group	
	2012	2011
Balance at 1 January	232	244
Exchange movements	(4)	(4)
Share of attributable results	(66)	(6)
Share of movements on other reserves	12	(2)
At 31 December	174	232

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

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

* Held by a subsidiary company

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

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

£ million	Group	
	2012	2011
Non-current assets	369	346
Current assets	202	292
Current liabilities	(228)	(225)
Non-current liabilities	(177)	(190)
Share of net assets	166	223
Goodwill attributable to investments in associates	8	9
Revenues	529	588
Net loss after tax	(66)	(6)

19 Investments continued

b Company

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

£ million			Company	
	Cost	Provisions	Total 2012	Total 2011
Balance at 1 January	3,405	(1,101)	2,304	2,333
Exchange movements	(4)		(4)	(3)
Additions	93		93	32
Provision		(21)	(21)	(58)
At 31 December	3,494	(1,122)	2,372	2,304

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

The Group's and Company's principal investments in subsidiaries, associates and other investments are listed on page 81

During the year the Company invested £10 million (2011 £32 million) in its subsidiary BA European Limited, which holds the Group's investment in OpenSkies. In addition, the Company acquired British Midland Limited and its subsidiaries on 19 April 2012 for cash consideration of £83 million (note 3)

The charge during the year of £21 million (2011 £58 million) relates to the £21 million impairment (2011 £33 million) of the Company's investment in BA European Limited. In 2011 there was also a £25 million impairment of the Group's investment in The Plimsoll Line, which holds the investment in Flybe Plc

20 Available-for-sale financial assets

£ million	Group		Company	
	2012	2011	2012	2011
Available-for-sale financial assets	39	39	28	24

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

Available-for-sale investments include investments in listed ordinary shares, which by their nature have no fixed maturity date or coupon rate. The valuation of certain of these investments at 31 December 2012 showed a decline in fair value and accordingly the Group recognised a net impairment charge of £3 million (2011 £23 million) in the income statement (note 11). The valuation of certain other listed investments increased by £2 million and is included in the statement of other comprehensive income as a 'net movement on available-for-sale financial assets' in addition to £2 million recognised in respect of other unlisted investments (note 31).

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

£ million	Group		Company	
	2012	2011	2012	2011
Listed	23	24	12	9
Unlisted	16	15	16	15
At 31 December	39	39	28	24

For a summary of the movement in unlisted available-for-sale financial assets, refer to note 31

21 Inventories

£ million	Group		Company	
	2012	2011	2012	2011
Expendables and consumables	117	139	117	137

22 Trade receivables

£ million	Group		Company	
	2012	2011	2012	2011
Trade receivables	502	470	495	458
Provision for doubtful receivables	(14)	(10)	(14)	(10)
Net trade receivables	488	460	481	448

Movements in the provision for doubtful receivables were as follows

£ million	Group	Company
Balance at 1 January 2011	9	9
Provision for doubtful receivables	4	4
Receivables written off during the year	(2)	(2)
Unused amounts reversed	(1)	(1)
At 31 December 2011	10	10
Provision for doubtful receivables	6	5
Acquisition	3	
Transfers from subsidiary companies*		4
Receivables written off during the year	(3)	(3)
Unused amounts reversed	(2)	(2)
At 31 December 2012	14	14

* On 30 November 2012 the Company hived up the trade, certain assets and certain liabilities from British Midland Airways Limited, its wholly owned subsidiary, including trade receivables and related provisions for doubtful receivables

The ageing analysis of trade receivables is as follows

£ million	Total	Neither past due nor impaired	Past due but not impaired		
			< 30 days	30 - 60 days	> 60 days
Group					
31 December 2012	488	417	37	22	12
31 December 2011	460	379	58	10	13
Company					
31 December 2012	481	414	33	22	12
31 December 2011	448	371	54	10	13

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

23 Other current assets

£ million	Group		Company	
	2012	2011	2012	2011
Amounts owed by subsidiaries			430	190
Other debtors	175	101	165	100
Prepayments and accrued income	218	172	144	119
At 31 December	393	273	739	409

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

a Cash and cash equivalents

£ million	Group		Company	
	2012	2011	2012	2011
Cash at bank and in hand	469	569	407	530
Short-term deposits falling due within three months	12	1	12	
Cash and cash equivalents	481	570	419	530
Other current interest-bearing deposits maturing after three months	1,118	1,259	1,116	1,242

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates. The fair value of cash and cash equivalents is £481 million for the Group (2011: £570 million) and for the Company £419 million (2011: £530 million).

Cash and cash equivalents includes £nil of restricted cash at 31 December 2012 (2011: £66 million). At 31 December 2011 this represented cash deposited by the Company which was not available for general use by the Group. The cash deposited was used to satisfy the terms of a funding agreement with the APS and NAPS Pension Trustees and the balance was transferred to those pension funds during the year.

At 31 December 2012, the Group and Company had £nil outstanding bank overdrafts (2011: £nil).

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

b Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2012	2011
Decrease in cash and cash equivalents from continuing operations	(36)	(255)
Net cash flow used in discontinued operations	(107)	
Interest-bearing borrowings acquired through business combinations	(27)	
Net cash outflow from decrease in debt and lease financing	482	484
(Decrease)/increase in other current interest-bearing deposits	(141)	86
New loans and finance leases taken out and hire purchase arrangements made	(430)	(236)
(Increase)/decrease in net debt resulting from cash flow	(259)	79
Exchange movements and other non-cash movements	80	8
(Increase)/decrease in net debt during the year	(179)	87
Net debt at start of year	(1,914)	(2,001)
Net debt at 31 December	(2,093)	(1,914)

c Analysis of net debt

£ million	Group					
	Balance at 1 January	Net Cash flow	Acquired through business combinations	Other non-cash	Exchange	At 31 December
Cash and cash equivalents	570	(143)			54	481
Current interest-bearing deposits maturing after three months	1,259	(141)				1,118
Bank and other loans	(1,516)	134	(14)	(20)	44	(1,372)
Finance leases and hire purchase arrangements	(2,227)	(82)	(13)	(55)	57	(2,320)
2012	(1,914)	(232)	(27)	(75)	155	(2,093)
Cash and cash equivalents	779	(255)			46	570
Current interest-bearing deposits maturing after three months	1,173	86				1,259
Bank and other loans	(1,611)	128		(10)	(23)	(1,516)
Finance leases and hire purchase arrangements	(2,342)	120		(20)	15	(2,227)
2011	(2,001)	79		(30)	38	(1,914)

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

25 Trade and other payables

£ million	Group		Company	
	2012	2011	2012	2011
Trade creditors	979	857	937	814
Unredeemed frequent flyer liabilities	10	6	10	6
Amounts owed to subsidiary companies			2,911	2,709
Other creditors				
Other creditors	715	567	709	566
Other taxation and social security	32	27	29	26
	747	594	738	592
Accruals and deferred income				
Sales in advance of carriage	853	750	796	707
Accruals and deferred income	1,011	910	770	645
	1,864	1,660	1,566	1,352
At 31 December	3,600	3,117	6,162	5,473

26 Other long-term liabilities

£ million	Group		Company	
	2012	2011	2012	2011
Other creditors	8	7		
Accruals and deferred income	177	288	147	258
At 31 December	185	295	147	258

27 Long-term borrowings

£ million	Group		Company	
	2012	2011	2012	2011
a Current				
Bank and other loans*	185	192	151	165
Finance leases**	276	180	290	195
Hire purchase arrangements	5	13	5	13
Loans from subsidiaries			12	11
At 31 December	466	385	458	384
b Non-current				
Bank and other loans*	1,187	1,324	912	1,038
Finance leases**	2,039	2,029	2,156	2,172
Hire purchase arrangements		5		5
Loans from subsidiaries			372	381
At 31 December	3,226	3,358	3,440	3,596

* Bank and other loans are repayable up to the year 2024. Bank and other loans of the Group amounting to US\$358 million (2011 US\$276 million), €65 million (2011 €68 million), ¥32,268 million (2011 ¥47,268 million) and £258 million (2011 £297 million), and bank loans of the Company amounting to US\$110 million (2011 US\$111 million), €65 million (2011 €68 million), ¥32,268 million (2011 ¥47,268 million) and £102 million (2011 £125 million) are secured on aircraft. Euro-sterling notes, other loans and loans from subsidiary undertakings are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or other property, plant and equipment.

** Included in finance leases for the Company is £143 million (2011 £158 million) of finance leases with subsidiaries of the Group, of which £17 million (2011 £15 million) is classified as current.

27 Long-term borrowings continued

c Bank and other loans

Bank and other loans comprise the following:

£ million	Group		Company	
	2012	2011	2012	2011
£350 million fixed rate 5.8 per cent convertible bond 2014 (i)	312	293	312	293
£250 million fixed rate 8.75 per cent eurobonds 2016 (ii)	249	248	249	248
Floating rate sterling mortgage loans secured on aircraft (iii)	138	156	102	116
Floating rate US dollar mortgage loans secured on aircraft (iv)	80	36	68	36
Fixed rate sterling mortgage loans secured on aircraft (v)	120	141		9
Floating rate Japanese yen mortgage loans secured on aircraft (vi)	237	388	236	388
Floating rate US dollar mortgage loans secured on plant and equipment (vii)	22	29	22	29
Floating rate euro mortgage loan secured on aircraft (viii)	53	57	53	57
Fixed rate US dollar mortgage loan secured on aircraft (ix)	140	141		
European Investment Bank sterling loans secured on property (x)	21	27	21	27
	1,372	1,516	1,063	1,203
Less: current instalments due on bank and other loans	185	192	151	165
At 31 December	1,187	1,324	912	1,038

- (i) £350 million fixed rate 5.8 per cent convertible bond, raising cash of £341 million (net of issue costs), convertible into ordinary shares at the option of the holder, before or upon maturity in August 2014. The bond was originally convertible into ordinary shares of the Company. Following the merger, bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in the Company. Conversion into ordinary shares will occur at a premium of 38 per cent on the Group's share price on the date of issuance. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. During 2010 the equity portion of the convertible bond issue was included in other reserves. Following the merger it converted to a derivative financial instrument.
- (ii) £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment on 23 August 2016.
- (iii) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.53 per cent and 0.69 per cent above LIBOR. The loans are repayable between 2015 and 2019.
- (iv) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest between 0.98 and 2.40 per cent above LIBOR. The loans are repayable between 2015 and 2017.
- (v) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 6.3 per cent. The loans are repayable between 2016 and 2018.
- (vi) Floating rate Japanese yen mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.55 per cent above LIBOR. The loans are repayable between 2014 and 2016.
- (vii) Floating rate US dollar mortgage loans are secured on certain plant and equipment of the Group and bear interest of 0.75 per cent above LIBOR. The loans are repayable in 2014.
- (viii) The floating rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 0.5 per cent above LIBOR. The loan is repayable in 2024.
- (ix) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear an average interest of 4.56 per cent and are repayable between 2021 and 2024.
- (x) European Investment Bank sterling loans are secured on certain property assets of the Group and bear interest of between 0.2 per cent and 0.0 per cent below LIBOR. The loans are repayable between 2014 and 2017.

27 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

million	Group		Company	
	2012	2011	2012	2011
Loans				
Bank				
US dollar	\$393	\$322	\$145	\$102
euro	€65	€68	€65	€68
Japanese yen	¥32,268	¥47,268	¥32,268	¥47,268
Sterling	£279	£324	£123	£152
	£811	£975	£502	£662
Fixed rate bonds				
Sterling	£561	£541	£561	£541
Loans from subsidiary undertakings				
US dollar			\$228	\$220
euro			€300	€300
			£384	£392
Finance leases				
US dollar	\$2,081	\$1,929	\$2,061	\$1,929
euro	€127	€139	€127	€139
Japanese yen	¥9,332	¥3,327	¥9,332	¥3,327
Sterling	£862	£832	£1,005	£990
	£2,315	£2,209	£2,446	£2,367
Hire purchase arrangements				
US dollar	\$8	\$28	\$8	\$28
Japanese yen				
Sterling				
	£5	£18	£5	£18
At 31 December	£3,692	£3,743	£3,898	£3,980

e Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts principally to acquire aircraft. These leases have both renewal options and purchase options. These are at the option of the Group. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

£ million	Group		Company	
	2012	2011	2012	2011
Future minimum payments due				
Within one year	335	259	356	282
After more than one year but within five years	1,146	1,111	1,243	1,211
In five years or more	1,086	1,174	1,124	1,242
	2,567	2,544	2,723	2,735
Less: finance charges	247	317	272	350
Present value of minimum lease and hire purchase payments	2,320	2,227	2,451	2,385
The present value of minimum lease and hire purchase payments is analysed as follows				
Within one year	281	193	295	208
After more than one year but within five years	1,005	927	1,086	1,007
In five years or more	1,034	1,107	1,070	1,170
At 31 December	2,320	2,227	2,451	2,385

28 Operating lease commitments

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

a Fleet

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

£ million	Group		Company	
	2012	2011	2012	2011
Within one year	111	63	55	63
Between one and five years	205	144	101	137
Over five years	86	109	84	109
At 31 December	402	316	240	309

b Property and equipment

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

£ million	Group		Company	
	2012	2011	2012	2011
Within one year	87	84	78	81
Between one and five years	274	251	246	237
Over five years, ranging up to the year 2145	1,689	1,692	1,642	1,682
At 31 December	2,050	2,027	1,966	2,000

c Sub-leasing

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

£ million	Group		Company	
	2012	2011	2012	2011
Property and equipment				
Within one year	8	8	8	8
Between one and five years	11	18	11	18
At 31 December	19	26	19	26

29 Provisions for liabilities

							Group
£ million	Insurance provisions	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	Total
Balance at 1 January 2012							
Current	5		11	21	96	15	148
Non-current	8	3	98		58	12	179
	13	3	109	21	154	27	327
Arising through acquisition (note 3)		33	85		16	56	190
Arising during the year in							
Continuing operations			27	40	51	71	189
Exceptional items		1	9	20		6	36
Discontinued operations		14	6	6			26
Utilised		(10)	(4)	(41)	(68)	(33)	(156)
Release of unused amounts		(2)	(28)	(4)	(40)	(5)	(79)
Exchange			(3)			(1)	(4)
Unwinding of discount					5	2	7
At 31 December 2012	13	39	201	42	118	123	536
Analysis							
Current	5	8	42	42	113	82	292
Non-current	8	31	159		5	41	244
	13	39	201	42	118	123	536

							Company
£ million	Onerous lease contracts	Restoration and handback provisions	Restructuring	Litigation	Other	Total	
Balance at 1 January 2012							
Current		8	20	96	15	139	
Non-current	3	98		58	11	170	
	3	106	20	154	26	309	
Arising during the year		18	66	51	61	196	
Utilised		(1)	(35)	(61)	(24)	(121)	
Release of unused amounts	(2)	(25)	(10)	(37)	(2)	(76)	
Exchange		(3)				(3)	
Unwinding of discount				4		4	
At 31 December 2012	1	95	41	111	61	309	
Analysis							
Current		10	41	106	51	208	
Non-current	1	85		5	10	101	
	1	95	41	111	61	309	

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

The increase in the onerous lease provision relates to 12 Boeing B737-300 aircraft, two Boeing B737-500 aircraft (both bmi baby) and two Airbus A330 aircraft (bmi mainline) which were added to the fleet as part of the bmi acquisition. These are held on 'off balance sheet operating leases' and have been stood down in advance of handback.

Restoration and handback costs include provision for the costs to meet the contractual return conditions on aircraft held under operating leases. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are also capitalised. This provision will be utilised by March 2051.

29 Provisions for liabilities continued

The Group recognised a restructuring provision of £42 million at 31 December 2012 (2011: £21 million) including targeted voluntary severance schemes previously announced. This provision is expected to be utilised during the next financial year. An additional £6 million of restructuring provision arose in the discontinued operations and was fully utilised in the year.

During the year ended 31 December 2012, BA reached an early resolution with the UK Office of Fair Trading, pursuant to which it has paid a fine of £59 million, concluding its investigation into passenger fuel surcharges for the period prior to March 2006. The Company is also subject to investigations into cargo and/or passenger fuel surcharges and related litigation in various jurisdictions, during the year £1 million of the provision was utilised against these. The Company is also subject to multi-party claims from groups of employees on a number of matters relating to its operations including claims for additional holiday pay and for age discrimination. The final amount required to pay the remaining claims and fines is subject to uncertainty. A detailed breakdown of the provision is not presented as it may seriously prejudice the position of the Company in the regulatory investigations and in existing and potential litigation.

Other provisions include BA's best estimate of the compensation due to customers given that the European Court of Justice upheld a previous decision that concluded passengers whose flights were significantly delayed were entitled to receive compensation, unless the airline can prove that the delay was caused by circumstances beyond its control. Also included in 'other provisions' is a provision for the EU Emissions Trading Scheme that represents the excess of BA's CO₂ emitted on a flight within the EU in excess of the EU Emission Allowances granted, a number of additional provisions acquired with bmi, principally in relation to unfavourable contracts, and staff leaving indemnities relating to amounts due to staff under various overseas contractual arrangements.

30 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Group Treasury carries out financial risk management under governance approved by the Board. Group Treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy, as approved by the Board, is to hedge between 70 per cent and 100 per cent of fuel consumption for the next quarter; an average of 45 per cent between quarters two and five, and 10 per cent between quarters six and eight, with the flexibility to operate within +/- 10 per cent of the policy.

In implementing the strategy, the fuel risk management programme allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equity:

			Group and Company		
			2012	2011	
Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million
30 (30)	5 (14)	575 (543)	30 (30)	9 (3)	539 (505)

30 Financial risk management objectives and policies continued

b Foreign currency risk

The Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than sterling. The currencies in which these transactions are primarily denominated are US dollar, euro and Japanese yen ('yen'). The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as capital expenditure, debt repayments and fuel payments denominated in US dollars normally create a deficit.

The Group can experience adverse or beneficial effects arising from foreign exchange rate movements. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US dollars or pounds sterling.

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

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

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

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

31 December	Strengthening/ (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in euro rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in yen rate	Effect on profit before tax	Effect on equity
Group	per cent	£ million	£ million	per cent	£ million	£ million	per cent	£ million	£ million
2012	10	(9)	(2)	10	4	(71)	10	(2)	(28)
	(10)	9	5	(10)	(4)	74	(10)	2	28
2011	10	(12)	(10)	10	(1)	(67)	10		(42)
	(10)	12	7	(10)	1	64	(10)		42

31 December	Strengthening/ (weakening) in US dollar rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in euro rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in yen rate	Effect on profit before tax	Effect on equity
Company	per cent	£ million	£ million	per cent	£ million	£ million	per cent	£ million	£ million
2012	10	(8)	(2)	10	3	(71)	10	(2)	(28)
	(10)	8	5	(10)	(3)	74	(10)	2	28
2011	10	(14)	(10)	10	(2)	(67)	10		(42)
	(10)	14	7	(10)	2	64	(10)		42

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been a £1 million (2011: less than £1 million) impact on the Group and Company's shareholders' equity, and a £1 million (2011: £nil) impact to both the Group and Company's income statement. A 50 basis point decrease in interest rates would have resulted in a £1 million (2011: £nil) impact to shareholder equity or the income statement for both Group and Company.

30 Financial risk management objectives and policies continued

d Credit risk

The Group is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable. However, the Group has policies and procedures in place to ensure credit risk is limited by placing credit limits on each counterparty. The Group continuously monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities which include placing money market deposits, fuel hedging and foreign currency transactions could lead to a concentration of different credit risks on the same counterparty. This risk is managed by the allocation of an overall exposure limit for the counterparty that is then allocated down to specific treasury activities for that party. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings and credit default swap levels. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 31.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 36.

e Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Company's long-term corporate debt ratings at 31 December 2012 assigned by Moody's and Standard and Poor's respectively were B1 and BB. The Group has adequate cash reserves to meet operating requirements for the next 12 months.

The stability of the liquidity position is maintained through the Group having no financial covenants or material adverse change clauses in its drawn and undrawn debt facilities. In addition, fuel and currency hedging is carried out on an open credit basis with no collateralisation or margin call requirements.

At 31 December 2012 the Group and Company had unused overdraft facilities of £10 million (2011: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million at 31 December 2012 (2011: £25 million).

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

million	31 December 2012	
	Currency	£ equivalent
US dollar facility expiring June 2013	\$156	96
US dollar facility expiring December 2014	\$335	206
US dollar facility expiring October 2015	\$805	496
US dollar facility expiring December 2016	\$966	595
US dollar facility expiring May 2017	\$509	313

million	31 December 2011	
	Currency	£ equivalent
US dollar facility expiring June 2012	\$589	377
US dollar facility expiring June 2013	\$504	322
US dollar facility expiring December 2016	\$966	618
US dollar facility expiring October 2016	\$509	325

30 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

£ million						Group
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2012
Interest-bearing loans and borrowings						
Finance lease and hire purchase obligations	(189)	(146)	(220)	(926)	(1,086)	(2,567)
Fixed rate borrowings	(37)	(45)	(395)	(436)	(96)	(1,009)
Floating rate borrowings	(87)	(77)	(152)	(198)	(51)	(565)
Trade and other payables	(1,997)					(1,997)
Derivative financial instruments						
Cross currency swaps			(1)	(1)		(2)
Forward currency contracts	(10)	(8)	(4)			(22)
Fuel derivatives	14	12	10			36
Currency option contracts	(1)	(1)	(1)			(3)
Convertible bond derivative liability			(62)			(62)
At 31 December	(2,307)	(265)	(825)	(1,561)	(1,233)	(6,191)

£ million						Group
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2011
Interest-bearing loans and borrowings						
Finance lease and hire purchase obligations	(102)	(157)	(291)	(820)	(1,174)	(2,544)
Fixed rate borrowings	(41)	(49)	(81)	(771)	(123)	(1,065)
Floating rate borrowings	(87)	(79)	(167)	(321)	(65)	(719)
Trade and other payables	(1,739)					(1,739)
Derivative financial instruments						
Cross currency swaps				(1)	(1)	(2)
Forward currency contracts	21	12	2			35
Fuel derivatives	6	8	(4)			10
Currency option contracts	2	2	1			5
Convertible bond derivative liability				(52)		(52)
At 31 December	(1,940)	(263)	(540)	(1,965)	(1,363)	(6,071)

30 Financial risk management objectives and policies continued

e Liquidity risk continued

£ million						Company
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2012
Interest-bearing loans and borrowings.						
Finance lease and hire purchase obligations	(199)	(157)	(242)	(1,001)	(1,124)	(2,723)
Fixed rate borrowings	(39)	(39)	(389)	(398)	(679)	(1,544)
Floating rate borrowings	(80)	(74)	(143)	(175)	(42)	(514)
Trade and other payables	(1,710)					(1,710)
Derivative financial instruments.						
Cross currency swaps			(1)	(1)		(2)
Forward currency contracts	(12)	(8)	(3)			(23)
Fuel derivatives	14	13	9			36
Currency option contracts	(1)	(1)	(1)			(3)
Convertible bond derivative liability			(62)			(62)
At 31 December	(2,027)	(266)	(832)	(1,575)	(1,845)	(6,545)

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

f Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, net debt as a percentage of total capital. Net debt is defined as the total borrowings, finance leases and hire purchase liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts. See note 24 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interests and net debt.

The gearing ratios at each year end were as follows

£ million (except ratios)	Group	
	2012	2011
Shareholders' equity	2,558	2,582
Add non-controlling interests	200	200
Total equity	2,758	2,782
Net debt (a)	2,093	1,914
Total capital (b)	4,851	4,696
Gearing ratio (a)/(b)	43.1	40.8

31 Financial instruments

a Financial assets and liabilities by category

The carrying amount of the Group's financial assets and liabilities as at 31 December 2012 are set out below

At December 31, 2012

£ million	Financial Assets				Group	
	Loans and receivables	Financial assets at FV through P&L	Derivatives used for hedging	Available for sale	Non-financial assets	Total carrying amount
Non-current financial assets						
Available-for-sale financial assets				39		39
Derivative financial instruments			8			8
Other non-current assets*	12				13	25
Current financial assets						
Trade receivables	488					488
Derivative financial instruments			37			37
Other current assets*	172				221	393
Other current interest-bearing deposits	1,118					1,118
Cash and cash equivalents	481					481

* Within the Company, total other non-current assets are £162 million, all of which are classified as loans and receivables. Total other current assets in the Company are £739 million, of which £591 million are considered loans and receivables and £148 million are non-financial assets.

£ million	Financial Liabilities			Group	
	Loans and payables	Financial liabilities at FV through P&L	Derivatives used for hedging	Non-financial liabilities	Total carrying amount
Non-current financial liabilities					
Interest-bearing long-term borrowings	3,226				3,226
Derivative financial instruments		62	5		67
Other long-term liabilities*	12			173	185
Current financial liabilities					
Current portion of long-term borrowings	466				466
Trade and other payables*	1,986			1,614	3,600
Derivative financial instruments			31		31

* Within the Company, the total of other long-term liabilities were £147 million, all of which are classified as non-financial liabilities. Total trade and other payables in the Company were £6,162 million, of which £4,615 million are considered loans and payables and £1,547 million are non-financial liabilities.

31 Financial instruments continued

a Financial assets and liabilities by category continued

The carrying amount of the Group's financial assets and liabilities as at 31 December 2011 are set out below

At December 31, 2011

£ million	Financial Assets				Group	
	Loans and receivables	Financial assets at FV through P&L	Derivatives used for hedging	Available for sale	Non-financial assets	Total carrying amount
Non-current financial assets						
Available-for-sale financial assets				39		39
Derivative financial instruments			6			6
Other non-current assets*	12				16	28
Current financial assets						
Trade receivables	460					460
Derivative financial instruments			73			73
Other current assets*	117				156	273
Other current interest-bearing deposits	1,259					1,259
Cash and cash equivalents	570					570

* Within the Company, total other non-current assets are £167 million, all of which are classified as non-financial assets. Total other current assets in the Company were £409 million, of which £176 million were considered loans and receivables and £233 million were non-financial assets.

£ million	Financial Liabilities			Group	
	Loans and payables	Financial liabilities at FV through P&L	Derivatives used for hedging	Non-financial liabilities	Total carrying amount
Non-current financial liabilities					
Interest-bearing long-term borrowings	3,358				3,358
Derivative financial instruments		51	11		62
Other long-term liabilities*	7			288	295
Current financial liabilities					
Current portion of long-term borrowings	385				385
Trade and other payables*	1,738			1,379	3,117
Derivative financial instruments			21		21

* Within the Company, total other long-term liabilities were £258 million, all of which are classified as non-financial assets. Total trade and other payables in the Company were £5,473 million, of which £4,734 million were considered loans and payables and £739 million were non-financial liabilities.

31 Financial instruments

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 at 31 December 2012 are set out below

£ million	Fair value				Group
	Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
Available-for-sale financial assets	23		16	39	39
Forward currency contracts*		1		1	1
Fuel derivatives*		44		44	44
Financial liabilities					
Interest-bearing loans and borrowings					
Finance lease and hire purchase obligations		2,508		2,508	2,320
Fixed rate borrowings	646	294		940	821
Floating rate borrowings		551		551	551
Cross currency swaps**		2		2	2
Fuel derivatives**		8		8	8
Forward currency contracts		23		23	23
Currency option contracts		3		3	3
Convertible bond derivative liability**		62		62	62

* Current portion of derivative financial assets is £37 million

** Current portion of derivative financial liabilities is £31 million

The carrying amounts and fair values of the Group's financial assets and liabilities at 31 December 2011 are set out below

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

* Current portion of derivative financial assets is £73 million

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

31 Financial instruments continued
b Fair values of financial assets and financial liabilities continued

The fair values of the Company's financial assets and liabilities at 31 December 2012 are set out below:

£ million	Fair value				Company
	Level 1	Level 2	Level 3	Total	Carrying value
					Total
Financial assets					
Available-for-sale financial assets	12		16	28	28
Forward currency contracts*		1		1	1
Fuel derivatives*		44		44	44
Financial liabilities					
Interest-bearing loans and borrowings					
Finance lease and hire purchase obligations		2,660		2,660	2,451
Fixed rate borrowings	646	409		1,055	945
Floating rate borrowings		502		502	502
Cross currency swaps**		2		2	2
Forward currency contracts**		24		24	24
Currency option contracts**		3		3	3
Fuel derivatives**		8		8	8
Convertible bond derivative liability**		62		62	62

* Current portion of derivative financial assets is £37 million

** Current portion of derivative financial liabilities is £32 million

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

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

* Current portion of derivative financial assets is £74 million

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

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

Available-for-sale financial assets and loan notes

Listed fixed asset investments (level 1) are stated at market value as at 31 December 2012. For other investments (level 3) the fair value cannot be measured reliably, as such these assets are stated at historic cost less accumulated impairment losses.

Bank and other loans, finance leases, hire purchase arrangements and the non-japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

The repayments that the Group is committed to make have been discounted at the relevant market interest rates applicable at 31 December 2012 (level 2).

Euro-sterling notes and Euro-sterling bond 2016

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

Convertible bond 2014

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

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

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

31 Financial instruments continued
c Level 3 financial assets reconciliation

The following table summarises key movements in level 3 financial assets

£ million	Group		Company	
	2012	2011	2012	2011
Balance at 1 January	15	18	15	18
Repayment of loan notes (classified as available-for-sale financial assets)	(2)	(4)	(2)	(4)
Interest accrued on loan notes (classified as available-for-sale financial assets)	1	1	1	1
Fair value uplift on available-for-sale financial asset	2		2	
At 31 December	16	15	16	15

d Hedges

i Cash flow hedges

At 31 December 2012 the Group and Company held four principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk,
- A hedge of certain short-term revenue receipts by foreign exchange contracts hedging future foreign exchange risk,
- A hedge of certain short-term foreign currency operational payments by forward exchange contracts hedging future foreign exchange risk, and
- A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity and the periods in which the related cash flows are expected to occur are summarised below:

£ million	Group				
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Debt repayments to hedge future revenue	32	21	36	42	(17)
Forward contracts to hedge future payments	13	8	3		
Hedges of future fuel purchases	(17)	(9)	(7)		
	28	20	32	42	(17)
Related deferred tax charge					
Total amount included within equity					

Notional value of financial instruments used as cash flow hedging instruments

million		Group	Company
		Notional amount	Notional amount
To hedge future currency revenues against US dollars		\$939	\$939
To hedge future operating payments in US dollars		\$1,115	\$1,115
Hedges of future fuel purchases		\$3,659	\$3,659
Debt repayments to hedge future revenue	- US dollars	\$2,244	\$2,244
	- euro	€ 192	€ 192
	- yen	¥38,370	¥38,370

31 Financial instruments continued

d Hedges continued

i Cash flow hedges continued

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

Notional value of financial instruments used as cash flow hedging instruments

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

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a gain of £8 million (2011 £11 million loss). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases.

ii Fair value hedges

The Group has no hedges designated as fair value hedges.

iii Net investments in foreign operations

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

Company

The Company undertakes hedging activities on behalf of other companies within the Group and performs the treasury activities of the Group centrally. As a result, the disclosures above apply to the Company as for the Group.

32 Share capital

	Group and Company			
	2012		2011	
	Number of shares 000s	£ million	Number of shares 000s	£ million
Allotted, called up and fully paid				
A1 Ordinary shares of £289.7 each	897	260	897	260
A2 Ordinary shares of £289.7 each	99	29	99	29
B Ordinary shares of £1 each	1,000	1	1,000	1
At 31 December	1,996	290	1,996	290

The A1 and A2 class ordinary shareholders have full voting and economic rights in accordance with the percentage of shares held. The B class ordinary shareholders have full voting rights in accordance with the percentage of shares held, however they have minimal economic rights attached to them.

33 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees – these schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets

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

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

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

a Share Option Plan

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

b Long Term Incentive Plan

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

c Performance Share Plan

The British Airways Performance Share Plan 2005 ('PSP') was granted to key senior executives of British Airways and in 2009 was extended to selected members of the British Airways' wider management team. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by British Airways. The award made will vest based 100 per cent on meeting Total Shareholder Return ('TSR') performance conditions over the following three financial years. No payment is due upon vesting of the shares. Key senior executives awarded shares under the PSP will be expected to retain no fewer than 50 per cent of the shares (net of tax), which vest from the PSP until they have built up a shareholding equivalent to 100 per cent of base salary.

d Deferred Share Plan

The British Airways Deferred Share Plan 2005 ('DSP') was granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population received a percentage of their incentive award in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

e IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan ('IPSP'), granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long-term. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made will vest based 70 per cent on meeting TSR performance conditions over the following three financial years, and 30 per cent on achievement of IAG synergy targets. No payment is required from individuals when the shares are awarded.

f IAG Bonus Deferral Plan

In 2011 the IAG Group introduced the IAG Bonus Deferral Plan ('IBDP'), granted to qualifying employees based on performance and service tests. It will be awarded when a bonus is triggered subject to the employee remaining in employment with the IAG Group for three years after the grant date. The relevant population will receive 50 per cent of their bonus in cash and the remaining 50 per cent in shares through the IBDP.

33 Share options continued

g Share options summary

	Deferred Share Plan				Performance Share Plan				Long Term Incentive Plan			
	Number of shares ('000s)		Weighted average fair value (£)		Number of shares ('000s)		Weighted average fair value (£)		Number of shares ('000s)		Weighted average fair value (£)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding at beginning of year	4,881	5,516			12,855	15,899			350	577		
Exercised during the year **/***	(170)	(482)				(689)				(212)		
Expired/cancelled	(73)	(153)			(6,717)	(2,355)				(15)		
At 31 December	4,638	4,881			6,138	12,855			350	350		
Of which exercisable	121	114							350	350		

	Share Option Plan				IAG Performance Share Plan				IAG Bonus Deferral Plan			
	Number of shares ('000s)		Weighted average exercise price (£)		Number of shares ('000s)		Weighted average fair value (£)		Number of shares ('000s)		Weighted average fair value (£)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding at beginning of year*	5,625	7,085	2.49	2.56	6,136				692			
Granted in the year					413	6,170	119	116	6,666	697	161	2.31
Exercised during the year **/***	(21)	(86)	1.57	2.09								
Expired/cancelled	(498)	(1,374)	1.95	2.89	(21)	(34)			(362)	(5)		
At 31 December	5,106	5,625	2.54	2.49	6,528	6,136			6,996	692		
Of which exercisable	5,106	5,625	2.54	2.49					142			

* Included within this balance are options over nil (2011: 416,538) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The average share price at the date of exercise for the SOP exercised is £1.60 (2011: £2.63).

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

For all outstanding share-based payment plans as at 31 December 2012, the weighted average remaining contractual life is three years (2011: two years).

Range of exercise prices 2012 for Share Option Plan

Range of exercise prices	Options outstanding and exercisable		
	Number of shares ('000s)	Weighted average remaining life (years)	Weighted average exercise price (£)
£1.57 - £2.61	694	0.48	1.57
£2.62 - £2.76	4,412	2.02	2.70
At 31 December 2012	5,106	1.81	2.54

Range of exercise prices 2011 for Share Option Plan

Range of exercise prices	Options outstanding and exercisable		
	Number of shares ('000s)	Weighted average remaining life (years)	Weighted average exercise price (£)
£1.57 - £2.61	1,132	1.12	1.66
£2.62 - £3.20	4,493	3.02	2.70
At 31 December 2011	5,625	2.64	2.49

33 Share options continued

g Share option summary continued

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

	2012	2011
Expected share price volatility (per cent)	45	50
Historical volatility (per cent)	45	50
Expected comparator group volatility (per cent)	28	27 - 96
Expected comparator correlation (per cent)	65	40
Expected life of options (years)	3	3
Weighted average share price (£)	1.61	1.67

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

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

£ million	2012	2011
BA granted schemes	10	11
IPSP and IDBP schemes recharged from IAG	5	2
Total share-based payments charge recorded in employee costs	15	13

34 Other reserves and non-controlling interests

a Group

£ million						Group
	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Total	Non-controlling interests*
Balance at 1 January 2011	945	(91)	40	84	978	200
Profit for the year attributable to shareholders	654				654	18
Exchange differences and other movements			(4)		(4)	
Cost of share-based payment net of recharges	11				11	
Exercise of share options	(5)				(5)	
Fair value of cash flow hedges transferred to passenger revenue		33			33	
Fair value of cash flow hedges transferred to fuel and oil costs		8			8	
Fair value of cash flow hedges transferred to currency differences		6			6	
Net change in fair value of cash flow hedges		(86)			(86)	
Impact of changes in substantively enacted tax rates		(4)			(4)	
Share of other movements in reserves of associates	(2)				(2)	
Revaluation and reclassification of equity portion of convertible bond				(221)	(221)	
Net movement on available-for-sale financial assets		(13)			(13)	
Distributions made to holders of perpetual securities						(18)
Total income and expense for the year	658	(56)	(4)	(221)	377	
Balance at 1 January 2012	1,603	(147)	36	(137)	1,355	200
Loss for the year attributable to shareholders	(116)				(116)	16
Exchange differences and other movements			(4)		(4)	
Cost of share-based payment net of recharges	10				10	
Fair value of cash flow hedges transferred to passenger revenue		39			39	
Fair value of cash flow hedges transferred to fuel and oil costs		(6)			(6)	
Fair value of cash flow hedges transferred to currency differences		(20)			(20)	
Net change in fair value of cash flow hedges		60			60	
Impact of changes in substantively enacted tax rates		(3)			(3)	
Share of other movements in reserves of associates	12				12	
Net movement on available-for-sale financial assets		4			4	
Distributions made to holders of perpetual securities						(16)
Total income and expense for the year	(94)	74	(4)		(24)	
At 31 December 2012	1,509	(73)	32	(137)	1,331	200

* Non-controlling interests comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) LP in which the general partner is British Airways Holdings Limited, a wholly-owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

Net gains and losses on cash flow hedges included within the Group's other comprehensive income, and presented above in reserves movement, are included net of a deferred tax charge of £24 million (2011: £13 million).

Retained Earnings

The retained earnings reserve represents the accumulated retained profits and losses of the Group.

Unrealised gains and losses

The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Currency translation reserve

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

Equity portion of convertible bond

The equity portion of convertible bond reserve represents the equity portion of the £350 million fixed rate 5.8 per cent convertible bond (note 27) after deduction of transaction costs of £2 million. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in BA. In order to facilitate the issuing of IAG equity, a guarantee was issued from IAG to BA whereby IAG have guaranteed the payment of the principal and interest to the bondholders. In addition, BA will pay for shares in IAG on behalf of the bondholders in the event of a conversion, at a predetermined price of £189 to allow BA to meet the conversion obligation. As a result, the equity portion of the convertible bond was revalued and £221 million reclassified during 2011 to a derivative financial liability as it represents BA's obligation to deliver a fixed number of shares in IAG to the bondholders. The derivative financial liability is revalued at the end of each reporting period. During the year ended 31 December 2012 the derivative financial liability has been revalued upwards by £10 million (2011: revalued downwards by £169 million).

34 Other reserves and non-controlling interests continued

b Company

£ million	Company			
	Retained earnings	Unrealised gains and losses	Equity portion of convertible bond	Total
Balance at 1 January 2011	613	(107)	84	590
Profit for the year attributable to shareholders	598			598
Exchange differences and other movements	1			1
Cost of share-based payment net of recharges	11			11
Exercise of share options	(5)			(5)
Fair value of cash flow hedges transferred to passenger revenue		33		33
Fair value of cash flow hedges transferred to fuel and oil costs		8		8
Fair value of cash flow hedges transferred to currency differences		6		6
Net change in fair value of cash flow hedges		(86)		(86)
Impact of changes in substantively enacted tax rates		(4)		(4)
Revaluation and reclassification of equity component of convertible bond			(221)	(221)
Total income and expense for the year	605	(43)	(221)	341
Balance at 1 January 2012	1,218	(150)	(137)	931
Profit for the year attributable to shareholders	299			299
Cost of share-based payment net of recharges	10			10
Fair value of cash flow hedges transferred to passenger revenue		39		39
Fair value of cash flow hedges transferred to fuel and oil costs		(6)		(6)
Fair value of cash flow hedges transferred to currency differences		(20)		(20)
Net change in fair value of cash flow hedges		60		60
Impact of changes in substantively enacted tax rates		(3)		(3)
Movement in investments		4		4
Total income and expense for the year	309	74		383
At 31 December 2012	1,527	(76)	(137)	1,314

Net gains and losses on cash flow hedges included within the Company's other comprehensive income, and presented above in reserves movement, are included net of a deferred tax charge of £24 million (2011 £13 million)

Retained Earnings

The retained earnings reserve represents the accumulated retained profits and losses of the Company

Unrealised gains and losses

The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge

Equity portion of convertible bond

The equity portion of convertible bond reserve represents the equity portion of the £350 million fixed rate 5.8 per cent convertible bond (note 27) after deduction of transaction costs of £2 million. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG instead of shares in BA. In order to facilitate the issuing of IAG equity, a guarantee was issued from IAG to BA whereby IAG have guaranteed the payment of the principal and interest to the bondholders. In addition, BA will pay for shares in IAG on behalf of the bondholders in the event of a conversion, at a predetermined price of £189 to allow BA to meet the conversion obligation. As a result, the equity portion of the convertible bond was revalued and £221 million reclassified during 2011 to a derivative financial liability as it represents BA's obligation to deliver a fixed number of shares in IAG to the bondholders. The derivative financial liability is revalued at the end of each reporting period. During the year ended 31 December 2012 the derivative financial liability has been revalued upwards by £10 million (2011 revalued downwards by £169 million).

35 Pension costs

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

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders ('ARO') issued by the Government, which were historically based on the Retail Price Index ('RPI'). In 2010, the Government decided to use the Consumer Price Index ('CPI') to set each ARO. Benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year. In NAPS, annual pensionable pay increases for active members are capped at RPI.

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

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

The deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (the 'triennial valuation') rather than the IAS 19 accounting valuation. The triennial valuation exercise is currently being undertaken as at 31 March 2012 and will be concluded on or before 30 June 2013.

During 2010 the trustees of APS purchased an insurance contract with Rothesay Life, which covers 20 per cent of the pensioner liabilities as at 18 June 2010 for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. For the purpose of IAS 19 the insurance contract asset is valued at £1,190 million as at 31 December 2012 (2011: £1,122 million). The insurance contract can only be used to pay or fund employee benefits under the pension scheme.

During 2011 the trustees of APS secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent of the pensioner liabilities for the same members covered by the contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the premiums payable by the Scheme under the contract. For the purpose of IAS 19 the contract obligation is valued at £26 million as at 31 December 2012 (2011: £44 million). In addition, the Trustees have granted security over £65 million of the pension assets in favour of Rothesay Life.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US. The Company participates in a multi-employer defined benefit plan operated in the US by the International Association of Machinists ('IAM') and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were £2 million (2011: £2 million). The Company also operates a closed US defined benefit plan and total contributions of £7 million are forecast to be made in 2013.

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

Total employer contributions to defined contribution pension plans both in the UK and overseas for the year ended 31 December 2012 were £37 million (2011: £30 million).

35 Pension costs continued

a Employee benefit schemes recognised on the balance sheet

£ million	Employee benefit obligations		Employee benefit assets	
	2012	2011	2012	2011
Arising under defined benefit pension plans and post-retirement benefits	61	63	1,194	1,100
Arising under post-retirement medical benefit plans	167	159		
Total arising under post-retirement benefits	228	222	1,194	1,100
Other employee benefit obligations	10	10		
At 31 December	238	232	1,194	1,100

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

Employee benefit assets refer to the Group and Company in all instances. Employee benefit obligations include £5 million (2011: £6 million) relating to British Airways Holidays Limited, with the remainder relating to the Company.

b Scheme assets and liabilities

£ million	2012			2012		
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	5,322	182	5,504	769	18	787
Bonds	2,854	64	2,918	4,443	12	4,455
Others*	1,913	14	1,927	1,962	4	1,966
Fair value of scheme assets	10,089	260	10,349	7,174	34	7,208
Present value of scheme liabilities	11,420	651	12,071	6,439	34	6,473
Net pension (liability)/asset	(1,331)	(391)	(1,722)	735		735
Net pension (liability)/asset represented by						
Net pension asset/(liability) recognised	694	(228)	466	493	7	500
Restriction on APS surplus due to the asset ceiling				144		144
Cumulative actuarial (losses)/gains not recognised**	(2,025)	(163)	(2,188)	98	(7)	91
	(1,331)	(391)	(1,722)	735		735

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

** On 1 January 2013 the Group will adopt an amendment to IAS 19 'Employee Benefits' that will lead to the immediate recognition of previously unrecognised actuarial gains and losses, the impact of this change is set out in note 2.

£ million	2011			2011		
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	4,530	162	4,692	689	16	705
Bonds	3,023	74	3,097	4,502	14	4,516
Others***	1,548	9	1,557	1,729	4	1,733
Fair value of scheme assets	9,101	245	9,346	6,920	34	6,954
Present value of scheme liabilities	10,000	587	10,587	6,041	33	6,074
Net pension (liability)/asset	(899)	(342)	(1,241)	879	1	880
Net pension (liability)/asset represented by						
Net pension asset/(liability) recognised	508	(222)	286	584	8	592
Cumulative actuarial (losses)/gains not recognised	(1,407)	(120)	(1,527)	295	(7)	288
	(899)	(342)	(1,241)	879	1	880

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

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

35 Pension costs continued

c Amounts recognised in the income statement

£ million	2012					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	129	8	137	9	1	10
Recognised in arriving at operating profit	129	8	137	9	1	10
Expected return on scheme assets*	(492)	(18)	(510)	(250)	(2)	(252)
Interest costs on scheme liabilities	494	27	521	275	1	276
Amortisation of actuarial losses in excess of the corridor	29	6	35		1	1
Effect of the APS asset ceiling				144		144
Other finance cost/(income)	31	15	46	169		169

* The costs of administering NAPS are treated as part of the expected return on scheme assets. The costs of administering other schemes are included in the benefit obligation

£ million	2011					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	132	8	140	9	1	10
Recognised in arriving at operating profit	132	8	140	9	1	10
Expected return on scheme assets	(594)	(20)	(614)	(312)	(2)	(314)
Interest costs on scheme liabilities	522	29	551	312	2	314
Amortisation of actuarial losses in excess of the corridor	17	9	26			
Effect of the APS asset ceiling				(123)		(123)
Other finance (income)/cost	(55)	18	(37)	(123)		(123)

d Unrecognised cumulative actuarial gains and losses

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Amount of unrecognised actuarial (losses)/gains at 1 January 2011	(1,205)	(152)	(1,357)	46	(5)	41
Actual return on scheme assets	303	(9)	294	801	(1)	800
Less Expected return on scheme assets*	(605)	(20)	(625)	(312)	(2)	(314)
Actuarial (losses)/gains on plan assets	(302)	(29)	(331)	489	(3)	486
Actuarial gains/(losses) on plan liabilities	83	52	135	(240)	1	(239)
Amortisation of actuarial losses in excess of the corridor	17	9	26			
Cumulative unrecognised actuarial losses at 31 December 2011	(1,407)	(120)	(1,527)	295	(7)	288
Actual return on scheme assets	865	21	886	546	1	547
Less Expected return on scheme assets	(492)	(18)	(510)	(250)	(2)	(252)
Actuarial gains/(losses) on plan assets	373	3	376	296	(1)	295
Actuarial losses on plan liabilities	(1,020)	(52)	(1,072)	(493)		(493)
Amortisation of actuarial losses in excess of the corridor	29	6	35		1	1
Cumulative unrecognised actuarial (losses)/gains at 31 December 2012	(2,025)	(163)	(2,188)	98	(7)	91

* The expected return on scheme assets is stated before deducting NAPS administrative expenses of £11 million

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

35 Pension costs continued

e Actuarial assumptions

Per cent per annum	2012			2011		
	NAPS	APS*	Other schemes	NAPS	APS*	Other schemes
Inflation (CPI)	2.15	2.10	n/a	2.25	2.15	n/a
Inflation (RPI)	2.90	2.85	0.3-6.7	3.0	2.9	1.8-4.6
Rate of increase in pensionable pay*	2.90	2.85	2-9.5	3.0	2.9	2.0-8.5
Rate of increase of pensions in payment	2.15	2.15	1.5-6.7	2.15	2.15	1.5-4.6
Discount rate	4.50	4.10	0.5-8.3	5.0	4.7	1.2-8.3
Expected rate of return on scheme assets**	n/a	n/a	n/a	5.5	3.7	4.4-8.5

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

** On 1 January 2013 an amendment to IAS 19 'Employee Benefits' will be adopted by the Group, at which point the finance income on assets will be calculated with reference to the discount rate and not the expected rate of return on scheme assets, the impact of this change is set out in note 2.

Rate of increase in healthcare costs is based on medical trend rates of 7.5 per cent grading down to 5.0 per cent over 5 years (2011: 8.0 per cent to 5.0 per cent over six years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the PPA13 mortality tables. If the post-retirement mortality tables used for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by around £210 million in APS and £240 million in NAPS.

If the discount rate were to be decreased by 10 basis points without changing any other assumptions, the defined benefit obligation would increase by approximately £80 million in APS and £220 million in NAPS.

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

£ million	Increase	Decrease
(Increase)/decrease in aggregate service cost and interest cost	(3)	2
(Increase)/decrease in defined benefit obligation	(44)	35

f Present value of scheme liabilities

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at 1 January 2011	9,633	623	10,256	5,853	33	5,886
Current service cost	132	8	140	9	1	10
Interest cost	522	29	551	312	2	314
Benefits paid	(254)	(22)	(276)	(375)	(2)	(377)
Employee contributions	50	1	51	2		2
Actuarial (gains)/losses	(83)	(52)	(135)	240	(1)	239
As at 31 December 2011	10,000	587	10,587	6,041	33	6,074
Current service cost	129	8	137	9	1	10
Interest cost	494	27	521	275	1	276
Benefits paid	(300)	(24)	(324)	(385)	(1)	(386)
Employee contributions	77	1	78	6		6
Actuarial losses	1,020	52	1,072	493		493
At 31 December 2012	11,420	651	12,071	6,439	34	6,473

The defined benefit obligation comprises £233 million (2011: £204 million) arising from unfunded plans and £11,838 million (2011: £10,383 million) from plans that are wholly or partly funded.

35 Pension costs continued

g Fair value of scheme assets

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
<i>As at 1 January 2011</i>	<i>8,632</i>	<i>263</i>	<i>8,895</i>	<i>6,385</i>	<i>36</i>	<i>6,421</i>
Expected return on plan assets	594	20	614	312	2	314
Employer contributions	381	12	393	107	1	108
Employee contributions	50	1	51	2		2
Benefits paid	(254)	(22)	(276)	(375)	(2)	(377)
Actuarial (losses)/gains	(302)	(29)	(331)	489	(3)	486
<i>As at 31 December 2011</i>	<i>9,101</i>	<i>245</i>	<i>9,346</i>	<i>6,920</i>	<i>34</i>	<i>6,954</i>
Expected return on plan assets	492	18	510	250	2	252
Employer contributions	346	17	363	87		87
Employee contributions	77	1	78	6		6
Benefits paid	(300)	(24)	(324)	(385)	(1)	(386)
Actuarial gains/(losses)	373	3	376	296	(1)	295
At 31 December 2012	10,089	260	10,349	7,174	34	7,208

h History of experience gains and losses

£ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at 31 December 2012						
Fair value of scheme assets	10,089	260	10,349	7,174	34	7,208
Present value of defined benefit obligation	(11,420)	(651)	(12,071)	(6,439)	(34)	(6,473)
(Deficit)/surplus in the scheme	(1,331)	(391)	(1,722)	735		735
Experience (gains)/losses arising on plan liabilities	1,020	52	1,072	493		493
Experience gains/(losses) arising on plan assets	373	3	376	296	(1)	295
<i>As at 31 December 2011</i>	<i>9,101</i>	<i>245</i>	<i>9,346</i>	<i>6,920</i>	<i>34</i>	<i>6,954</i>
Fair value of scheme assets	9,101	245	9,346	6,920	34	6,954
Present value of defined benefit obligation	(10,000)	(587)	(10,587)	(6,041)	(33)	(6,074)
(Deficit)/surplus in the scheme	(899)	(342)	(1,241)	879	1	880
Experience (gains)/losses arising on plan liabilities	(83)	(52)	(135)	240	(1)	239
Experience gains/(losses) arising on plan assets	(302)	(29)	(331)	489	(3)	486
<i>As at 31 December 2010</i>	<i>8,632</i>	<i>263</i>	<i>8,895</i>	<i>6,385</i>	<i>36</i>	<i>6,421</i>
Fair value of scheme assets	8,632	263	8,895	6,385	36	6,421
Present value of defined benefit obligation	(9,633)	(623)	(10,256)	(5,853)	(33)	(5,886)
(Deficit)/surplus in the scheme	(1,001)	(360)	(1,361)	532	3	535
Experience (gains)/losses arising on plan liabilities	(679)	32	(647)	(373)	3	(370)
Experience gains/(losses) arising on plan assets	162	3	165	(72)	1	(71)
<i>As at 31 March 2010</i>	<i>8,024</i>	<i>253</i>	<i>8,277</i>	<i>6,443</i>	<i>36</i>	<i>6,479</i>
Fair value of scheme assets	8,024	253	8,277	6,443	36	6,479
Present value of defined benefit obligation	(9,969)	(579)	(10,548)	(6,247)	(31)	(6,278)
(Deficit)/surplus in the scheme	(1,945)	(326)	(2,271)	196	5	201
Experience (gains)/losses arising on plan liabilities	2,493	67	2,560	1,253	3	1,256
Experience gains/(losses) arising on plan assets	1,552	47	1,599	661	10	671
<i>As at 31 March 2009</i>	<i>6,049</i>	<i>203</i>	<i>6,252</i>	<i>5,925</i>	<i>28</i>	<i>5,953</i>
Fair value of scheme assets	6,049	203	6,252	5,925	28	5,953
Present value of defined benefit obligation	(7,216)	(497)	(7,713)	(5,065)	(28)	(5,093)
(Deficit)/surplus in the scheme	(1,167)	(294)	(1,461)	860		860
Experience (gains)/losses arising on plan liabilities	(980)	98	(882)	(372)	(1)	(373)
Experience gains/(losses) arising on plan assets	(1,964)	(25)	(1,989)	(723)	(9)	(732)

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

36 Contingent liabilities

The Group and the Company have contingent liabilities which at 31 December 2012 amounted to £77 million (2011 £93 million) and £76 million (2011 £92 million) respectively. These contingent liabilities include certain guarantees, indemnities, claims and litigation related to its operations. In the opinion of management, liabilities, if any, arising from these claims and litigation will not have a material adverse effect on the Group's consolidated financial position or results of operations. The Group is also involved in regulatory proceedings that are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations. The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

The Group and the Company have provided collaterals on certain payments to the Company's pension scheme, Airways Pensions Scheme (APS), triggered in the event of BA's insolvency, which at 31 December 2012 amounted to £250 million (2011 £250 million). In addition, a guarantee amounting to £230 million (2011 £230 million) secured on certain aircraft was issued by a third party in favour of APS that is triggered in the event of insolvency. See note 14 and note 35 for details around the collaterals provided. The Company also issued guarantees in respect of the fixed perpetual preferred securities issued by a subsidiary undertaking which amounted to £244 million (2011 £250 million). See note 34 for details around the guarantee provided.

37 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year to 31 December 2012 under review with related parties.

£ million	Group		Company	
	2012	2011	2012	2011
Parent				
Sales to/purchases on behalf of parent	10	9	10	9
Purchases from parent	22	24	22	24
Amounts owed by parent	6	12	6	12
Amounts owed to parent	2		2	
Subsidiary undertakings of the parent				
Sales to subsidiaries	2		2	
Purchases on behalf of subsidiaries	2		2	
Amounts owed by subsidiary undertakings of the parent	94		94	
Amounts owed to subsidiary undertakings of the parent	2		2	
Associates				
Sales to associates	45	80	45	80
Purchases from associates	131	124	131	124
Amounts owed by associates	1	4	1	4
Amounts owed to associates	30	28	30	28
Subsidiaries				
Sales to subsidiaries			216	122
Purchases from subsidiaries			210	129
Amounts owed by subsidiaries			732	341
Amounts owed to subsidiaries			3,588	3,258

In addition, the Company meets certain costs of administering the Group's retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to £6 million in relation to the costs of the Pension Protection Fund levy (2011 £8 million).

Parent company – International Consolidated Airlines Group S A ('IAG')

The transactions between the Group and IAG comprise mainly of a management fee in respect of services provided by IAG and recharges between the entities in respect of invoices settled on behalf of the other party.

Additionally, during 2011 a loan was provided by the Group to IAG, of which £6 million was outstanding at 31 December 2012 (2011 £12 million). Interest of less than £1 million was charged on the loan during the year ended 31 December 2012 (2011 less than £1 million).

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

The Company held an £11 million investment in IAG as at 31 December 2012 (2011 £9 million), which is classified as an available-for-sale financial asset.

37 Related party transactions continued

Amounts owed by subsidiary undertakings of the parent

During 2012 a loan was provided to a wholly owned subsidiary of IAG, of which £93 million was outstanding at 31 December 2012. Interest of less than £1 million was charged on the loan during the year ended 31 December 2012.

The transactions between the Group and IAG Cargo comprise mainly of a management fee in respect of services provided by IAG Cargo and recharges between the entities in respect of invoices settled on behalf of the other party. There was a remaining net trading balance of £1 million owed to IAG Cargo at 31 December 2012 (2011: £nil).

Associates

Iberia Opco Holding, S.L. ('Iberia')

The Group has a 13.55 per cent investment in Iberia. Sales and purchases between related parties are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms specified by the IATA Clearing House.

The Group has a joint business arrangement with American Airlines and Iberia covering flights between Europe and North America. The commencement of the arrangement followed clearance from the EU and the grant of anti-trust immunity by the US Department of Transportation, and allows pooling and sharing of certain revenues and costs, expanded codeshare arrangements, reciprocal earn and burn arrangements for frequent flyer programs and co-operation in other areas. Transactions and balances with Iberia arising from this arrangement are included in the disclosures above.

As at 31 December 2012 the net trading balance owed to Iberia by the Group amounted to £29 million (2011: £24 million).

Other associates

There was a remaining net trading balance of less than £1 million as at 31 December 2012 due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited (2011: less than £1 million).

Subsidiaries

Transactions with subsidiaries are carried out on an arm's length basis. Outstanding balances that relate to trading balances are placed on inter-company accounts with no specified credit period. Long-term loans owed to and from the Company by subsidiary undertakings bear market rates of interest in accordance with the inter-company loan agreements.

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with Directors or officers of the Company at 31 December 2012 or arose during the year that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006.

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

Neither the Group nor Company have provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2012 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2011: £nil).

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

£ million	Group		Company	
	2012	2011	2012	2011
Short-term employee benefits	5	5	5	5
Share-based payments	3	3	3	3
At 31 December	8	8	8	8

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

38 Foreign currency translation rates

£1 equals	At 31 December		Average for the year ended 31 December	
	2012	2011	2012	2011
US dollar	1.62	1.56	1.58	1.60
euro	1.23	1.20	1.23	1.15
Japanese yen	137	122	126	128

Operating and financial statistics

		12 months to 31 December		Nine months to 31 December	12 months to 31 March	
Total Group continuing operations		2012	2011	2010	2010	2009
Traffic and capacity						
Revenue passenger km (RPK)	m	126,436	117,348	81,971	110,851	114,346
Available seat km (ASK)	m	158,247	150,152	104,415	141,178	148,504
Passenger load factor	%	79.9	78.2	78.5	78.5	77.0
Cargo tonne km (CTK)	m	4,891	4,793	3,478	4,537	4,638
Total revenue tonne km (RTK)	m	17,597	16,597	11,736	15,588	16,054
Total available tonne km (ATK)	m	24,152	22,849	15,973	21,278	22,293
Overall load factor	%	72.9	72.6	73.5	73.3	72.0
Passengers carried	'000	37,580	34,250	24,088	31,825	33,117
Tonnes of cargo carried	000	788	785	570	760	777
Operations						
Average manpower equivalent (MPE)		38,761	36,164	35,778	37,595	41,473
ASKs per MPE		4,083	4,152	2,918	3,755	3,581
Aircraft in service at year end		273	245	240	238	245
Aircraft utilisation (average hours per aircraft per day)		10.89	11.13	10.48	10.43	10.68
Punctuality - within 15 minutes	%	79	83	76	81	77
Regularity	%	98.9	99.3	92.9	98.0	98.6
Financial						
Passenger revenue per RPK	p	7.51	7.43	7.11	6.30	6.85
Passenger revenue per ASK	p	6.00	5.81	5.58	4.94	5.28
Cargo revenue per CTK	p	15.07	15.42	15.27	12.12	14.51
Average fuel price (US cents/US gallon)		317.85	312.71	222.64	189.24	284.06
Interest cover	times	0.1	6.3	2.5	(2.9)	(3.6)
Dividend cover	times	n/a	n/a	n/a	n/a	(5.9)
Operating margin	%	2.2	5.2	5.1	(2.9)	(2.4)
Operating margin before exceptional items*	%	2.5	5.2	5.6	(2.9)	(2.5)
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	1,051	1,274	1,024	642	645
Net debt/total capital ratio	%	43.1	40.8	45.5	52.0	56.3
Total traffic revenue per ATK	p	42.4	41.4	39.8	35.4	38.2
Total traffic revenue per ASK	p	6.5	6.3	6.1	5.3	5.7
Total expenditure before exceptional items on operations per ASK*	p	6.7	6.3	6.0	5.8	6.2
Total expenditure before exceptional items on operations excluding fuel per ASK*	p	4.32	4.14	4.25	4.15	4.20
Total expenditure before exceptional items on operations per ATK*	p	43.69	41.44	39.50	38.65	41.32

* Exceptional items in prior periods have been reassessed by the Group as set out in note 2 of the consolidated financial statements. Of those items previously noted as a memorandum to the accounts, but not adjusted for in the financial statistics, only the costs associated with the Iberia merger incurred in the nine months to 31 December 2010, are considered to be exceptional.

Operating statistics do not include those of associate undertakings and franchisees.

Fleet table

Number in service with Group companies at 31 December 2012

	On Balance Sheet fixed assets	Off Balance Sheet operating leases	Total December 2012	Total December 2011	Changes since December 2011		Future deliveries (note 8)	Options (note 9)
					bmi fleet	BA fleet		
CONTINUING AIRLINE OPERATIONS (note 1)								
Airbus A318	2		2	2				
Airbus A319	31	13	44	33	11			
Airbus A320 (note 2)	34	14	48	40	7	1	10	31
Airbus A321	13	5	18	11	7			
Airbus A330 (note 3)								
Airbus A380							12	7
Boeing 737-400	19		19	19				
Boeing 747-400 (note 4)	52		52	52				
Boeing 757-200 (note 5)	1	2	3	3				
Boeing 767-300	21		21	21				
Boeing 777-200	41	5	46	46				
Boeing 777-300 (note 6)	5	1	6	5		1	6	
Boeing 787							24	28
Embraer E170	6		6	6				
Embraer E190 (note 7)	8		8	7		1		15
TOTAL CONTINUING OPERATIONS	233	40	273	245	25	3	52	81

Note

- 1 Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU
- 2 Includes one Airbus A320 aircraft delivered during the year. Certain future Airbus deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft
- 3 Excludes two bmi Airbus A330 aircraft stood down out of service
- 4 Excludes three Boeing B747-400 aircraft, permanently stood down out of service
- 5 Three Boeing B757-200 aircraft previously stood down, were sold during the year
- 6 Includes one Boeing B777-300 aircraft delivered in the year
- 7 Includes one Embraer E190 aircraft delivered in the year
- 8 Future deliveries have increased by two. One Airbus A320 aircraft, one Boeing B777-300 aircraft and one Embraer E190 were delivered during the year. Two leased Boeing B777-300 aircraft have been added for delivery in 2014. Three options were converted to firm orders for two Boeing B777-300's and one Embraer E190
- 9 Options have decreased by three, two Boeing B777-300's and one Embraer E190 options were converted to firm orders during the year

DISCONTINUED AIRLINE OPERATIONS

As part of the bmi acquisition, 12 Boeing B737-300 aircraft and two Boeing B737-500 aircraft were added to the fleet. These are held on 'off balance sheet operating leases' and have been stood down in advance of handback.

Principal investments

At 31 December 2012

Investments in subsidiaries

The following table includes those principal investments which significantly impact the results or assets of the Group

These subsidiaries are wholly owned except where indicated

	Principal activities	Country of incorporation and registration and principal operations
Avios Group (AGL) Limited	Airline marketing	England
BA and AA Holdings Limited	Holding company	England
BA Cityflyer Limited	Airline operations	England
BritAir Holdings Limited	Holding company	England
British Airways 777 Leasing Limited	Aircraft financing	England
British Airways Avionic Engineering Limited	Aircraft maintenance	England
British Airways Ejets Leasing Limited*	Aircraft financing	Bermuda
British Airways Holdings Limited	Airline finance	Jersey
British Airways Holidays Limited	Package holidays	England
British Airways Interior Engineering Limited	Aircraft maintenance	England
British Airways Leasing Limited	Aircraft financing	England
British Airways Maintenance Cardiff Limited	Aircraft maintenance	England
British Midland Airways Limited*	Airline operations	England
OpenSkies SASU*	Airline operations	France
Speedbird Insurance Company Limited	Insurance	Bermuda
The Plimsoll Line Limited	Holding company	England

Investments in associates

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
IB Opco Holding S L*	13.55	Airline operations	Spain

Available-for-sale investments

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

* Not owned directly by British Airways Plc

Glossary

Airline operations	This includes British Airways Plc, BA Cityflyer Limited, Flyline Tele Sales & Services GmbH, OpenSkies SASU and British Midland Airways Limited
Available seat kilometres ('ASK')	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres ('ATK')	The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown
Cargo tonne kilometres ('CTK')	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown
Continuing operations	The segments of the business that are considered to be normal, and expects to operate in the foreseeable future
Discontinued operations	A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDAR	Earnings before interest, tax, depreciation, amortisation and aircraft rentals
Exceptional items	Those items that in management's view need to be separately disclosed by virtue of their size or incidence
Gain on bargain purchase	The excess of fair value of net assets over the consideration paid
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income
Load factor	The percentage relationship of revenue load carried to capacity available
Manpower equivalent ('MPE')	Number of employees adjusted for part-time workers, overtime and contractors
Merger	The combining of two or more entities through a purchase acquisition
Merger effective date	21 January 2011, the date British Airways and Iberia signed a merger agreement to create International Consolidated Airlines Group
Net debt	Loans, finance leases and hire purchase arrangements net of other current interest-bearing deposits and cash and cash equivalents less overdrafts
Net debt/total capital ratio	Net debt as a ratio of total capital
nm	Not meaningful
n/a	Not applicable
Operating margin	Operating profit/(loss) as a percentage of revenue
Overall load factor	RTK expressed as a percentage of ATK.
Passenger load factor	RPK expressed as a percentage of ASK.
Passenger revenue per ASK	Passenger revenue divided by ASK.
Passenger revenue per RPK	Passenger revenue divided by RPK.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Revenue passenger kilometres ('RPK')	The number of revenue passengers carried multiplied by the distance flown
Revenue tonne kilometres ('RTK')	The revenue load in tonnes multiplied by the distance flown
Total capital	Total equity plus net debt
Total group revenue per ASK	Total group revenue divided by ASK.
Total traffic revenue per ASK	Revenue from total traffic divided by ASK.
Total traffic revenue per ATK	Revenue from total traffic divided by ATK.

Subsidiary Undertakings of British Airways Plc at 31 December 2012

The holdings disclosed concern ordinary shares unless otherwise stated

Name of company	Country of incorporation
Avios Group (AGL) Limited (formerly The Mileage Company Limited)	England
Avios South Africa Proprietary Limited	South Africa
BA and AA Holdings Limited	England
BA Call Centre India Private Limited (callBA)	India
BA Cityflyer Limited	England
BA European Limited	England
BA Number One Limited	England
BA Number Two Limited	England
bmibaby Limited	England
BritAir Holdings Limited	England
British Airways (BA) Limited	England
British Airways (España) Limited	England
British Airways (European Operations at Gatwick) Limited	England
British Airways (No 1) Limited	England
British Airways 777 Leasing Limited	England
British Airways Associated Companies Limited	England
British Airways Avionic Engineering Limited	England
British Airways Capital Limited	Jersey
British Airways Ejets Leasing Limited	Bermuda
British Airways Employee Benefits Trustees (Jersey) Limited	Jersey
British Airways Finance (Jersey) Limited Partnership	Jersey
British Airways Holdings BV	Netherlands
British Airways Holdings Limited	Jersey
British Airways Holidays Limited	England
British Airways Interior Engineering Limited	England
British Airways Leasing Limited	England
British Airways Maintenance Cardiff Limited	England
British Airways Pension Trustees (No 2) Limited	England
British Airways Plc Employee Share Ownership Trust	Jersey
British Airways Regional Limited	England
British Caledonian Airways Limited	England
British Caledonian Group Limited	Scotland
British Mediterranean Airways Limited	England
British Midland Airways Limited	England
British Midland Limited	England
Caledonian Aviation Investments Limited	England
Deutsche BA Holding GmbH	Germany
Diamond Insurance Company Limited	Isle of Man
Flyline Tele Sales & Services GmbH	Germany
Illiad Inc	USA
OpenSkies Aviation Limited	England
OpenSkies SASU	France
Overseas Air Travel Limited	England
Remotereport Trading Limited	England
Speedbird Cash Management Limited*	Bermuda
Speedbird Insurance Company Limited	Bermuda
Speedwing International Limited	England
Teleflight Limited	England
The Plimsoll Line Limited	England

Associated holdings

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

* Has ordinary and non-redeemable preference shares