

British Airways Plc

**Annual Report and Accounts
Year ended 31 December 2015**

Company registration number: 1777777

This page has been intentionally left blank

Contents

Officers and professional advisers	1
Strategic and directors' reports	
Strategic report	
Management review	2
Financial review	5
Principal risks and uncertainties	8
Directors' report	11
Directors' responsibilities statement in relation to the financial statements	13
Independent auditor's report	15
Group financial statements	
Group consolidated income statement	16
Group statement of other comprehensive income	17
Balance sheets	18
Cash flow statements	19
Statements of changes in equity	20
Notes to the financial statements	21
Operating and financial statistics	71
Fleet table	72
Principal investments	73
Glossary	74
Subsidiary undertakings	75

British Airways Plc

Officers and professional advisers

Directors

Keith Williams	(Executive Chairman)
Alison Reed	(Deputy Chairman)
Nick Swift	(Chief Financial Officer)
Ken Smart	
Gavin Patterson	
Garrett Copeland	
Julia Simpson	
Lynne Embleton	

Secretary

Andrew Fleming

Registered office

Waterside
PO Box 365
Harmondsworth
UB7 0GB

Parent company

International Consolidated Airlines Group S.A. ("IAG")
El Caserío, Iberia Zona Industrial nº 2 (La Muñoza)
Camino de La Muñoza, s/n,
28042 Madrid
Spain

Independent auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Strategic report

The Directors present their Strategic report for the year ended 31 December 2015.

British Airways Plc ('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. Operating one of the most extensive international scheduled airline networks, together with its joint business agreements, codeshare and franchise partners, BA flies to more than 400 destinations worldwide. BA's vision is to be the most admired airline.

The Strategic report is presented in the following three sections:

- Management review;
- Financial review; and
- Principal risks and uncertainties.

Management review

BA has made a pre-exceptional operating profit of £1,264 million in 2015 (2014: £975 million), which is a significant achievement, building upon the solid foundations set in the previous year.

During 2015 BA welcomed 15 new and technologically advanced aircraft to the BA fleet, including five Boeing 787-9s.

We have focused on investing in our product where it matters most to our customers and, as well as introducing new aircraft, we also began to refresh the first of 18 Boeing 747s, with new interiors and state of the art in-flight entertainment systems. We opened a new lounge in Singapore's Changi Airport offering the Concorde Bar for our First customers.

In 2015 we began operating new routes from Heathrow to Kuala Lumpur in Malaysia, Reykjavik in Iceland, Krakow in Poland, Bilbao in Spain, Corfu and Kos in Greece, Olbia in Sardinia, Salzburg in Austria and Split in Croatia. From Gatwick to Seville and Valencia in Spain, Heraklion in Crete, Bodrum and Dalaman in Turkey, Rhodes in Greece, Cagliari in Sardinia and Funchal in Madeira. From London City Airport to the Greek islands of Mykonos and Santorini, and from Glasgow to Salzburg in Austria.

We announced that in 2016 we would begin to fly from Heathrow to Inverness, San Jose in California, Biarritz in France, Billund in Denmark, Chania and Kalamata in Greece, Mahon in Menorca and Palermo in Italy. From Gatwick we will operate new routes to JFK (New York), San Jose in Costa Rica, Lima in Peru, and Porto in Portugal plus we will fly from London City Airport to Bergerac in France.

On 28 January 2015, BA entered into a business transfer agreement with Avios Group (AGL) Limited ("AGL") which transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in AGL. Following the restructure, BA's shareholding reduced from 100% of the previous AGL business to 86% of the new larger combined customer loyalty business.

To be the most admired airline

In 2016 we won both the Business and Consumer Superbrands awards for the second year running – the first company ever to do so. The result also saw BA become the first company to secure the Consumer Superbrands title three years in a row, after first securing the top spot in 2014. BA beat the likes of Apple, Virgin Atlantic, Microsoft and Visa to the top business brand slot and Rolex, Dyson, Gillette and Mercedes-Benz to the best consumer brand accolade.

BA also picked up a number of other awards in 2015. The Sunday Times and National Geographic named us best short-haul and long-haul airline. The Independent awarded us the title of best European airline, while Business Traveller magazine named us best short-haul carrier with the best frequent flyer programme and best airport lounges. The US version of the magazine named BA the best airline in Western Europe.

Invest in our product where it matters most

In 2015 our fleet was bolstered by 15 new aircraft, including Boeing 787-9s, Airbus A380s and A320s. In 2016 we will welcome 11 more Boeing 787-9 aircraft and two more Airbus A380s. We will take delivery of the first of our 18 Airbus A350s in 2018, and will be the proud owner of 42 Boeing 787s by 2021. Our A380s now fly to Los Angeles, Hong Kong, Johannesburg, Singapore, Washington, San Francisco and Miami. From 1 May 2016 BA will start operating a daily A380 service to Vancouver.

Our 787-8s fly to Toronto, Austin, Calgary, Hyderabad, Montreal, Chengdu, Philadelphia, Seoul and Chennai, and 787-9s fly to Delhi, Abu Dhabi/Muscat and Kuala Lumpur. These new aircraft offer our customers a more pleasant flying experience, with larger windows, more moisture in the air and a cabin pressurised to a lower altitude, which helps to reduce jetlag.

The 787-9s feature First suites specifically designed for the aircraft to put comfort at the heart of the experience and make the very best use of the more intimate space. Great attention to detail has also been paid to how the customer uses their suite, with each function being controlled by simple, intuitive touch.

Strategic report continued

In response to feedback we gave customers the chance to pre-pay for gourmet meals in the World Traveller cabin. Customers can now choose from 'Taste of the Far East', 'Gourmet Dining', 'Taste of Britain', 'Great British Breakfast', 'Healthy Choice' and 'Vegetarian Kitchen', all of which can be pre-booked from 30 days prior to travel, right up until 24 hours before departure, at a cost of between £15 and £18. We also gave customers in First, Club World and World Traveller Plus the option to pre-order their main meal on all long-haul flights, and then extended it to an additional five routes, from Heathrow to Beirut, Cairo, Baku, Tel Aviv and Amman. In 2015 we began serving customers English wine from the Bolney Estate winery in West Sussex.

Deliver for our customers

In 2015 we announced plans to fly to more than a dozen new routes in 2016, including Biarritz in France, Mahon in Menorca and Palermo in Sicily. We also announced additional services from Heathrow and Gatwick to Krakow in Poland, Stockholm in Sweden, Split in Croatia, Berlin in Germany, Olbia in Sardinia and Gibraltar.

We announced our busiest summer schedule ever at London City Airport for 2016, bolstered by an additional Embraer E190 aircraft to increase the number of seats on flights to Dusseldorf by 50 per cent in 2016. Customers flying from London City will also be able to take advantage of three additional flights a week to Nice, two to Faro, Florence, Ibiza and Angers and one extra flight a week to Quimper, Venice and Palma (Majorca), increasing the number of seats offered to Europe by 30 per cent. Additional flights are also being added to the Isle of Man for next summer.

We listened to customer feedback and provided significantly more opportunities for our customers to book reward flights. In 2015 we guaranteed we would offer nine million redemption seats across our entire network every year, with at least two Club World or Club Europe and four World or Euro Traveller seats available on every BA flight. Also, we announced that for two thirds of the year, customers will be able to book using fewer Avios than previously, as those flights are now considered off-peak.

We introduced a revised On Business scheme to help small and medium enterprises. In 2014 alone the On Business scheme saved firms £34 million on travelling to do business face-to-face. The re-vamped programme enables travellers to choose between an immediate discount of at least five per cent off selected flights, or On Business points that can be used towards future trips and upgrades. On Business points can be redeemed on upgrades and reward flights for any staff member flying across the BA, American Airlines and Iberia networks.

We added films from the renowned British Film Institute, the Tate Gallery and the Victoria and Albert Museum to our in-flight entertainment system, featuring some of the earliest known film footage from life in the UK and short films offering intimate portraits of the world's leading artists and cultural figures.

We also introduced a new luxury in-flight magazine for customers travelling in First.

Growing revenue with our airline partners

In 2015, following their addition to IAG, we announced that we are extending our codeshare agreement with Aer Lingus to cover all routes, including those across the Atlantic. The extension of our partnership with Aer Lingus is great news for our customers, who now have an even greater choice of routes, destinations and fares and more flexibility between the UK and Ireland.

Grow our lead in London

2015 saw BA operate its most extensive and ambitious summer schedule, which included five new routes from Gatwick to Mediterranean hotspots Heraklion in Crete, Bodrum and Dalaman in Turkey, Cagliari in Sardinia and Rhodes in Greece. Greece proved so popular in 2015, that we have announced new flights to Chania and Kalamata for 2016.

Increasing connectivity with Scotland, BA also announced a boost to services from London to Inverness, Gateway to the Highlands and Islands. A new year-round service will start in May 2016, connecting Inverness directly with Heathrow's T5 and BA's global network, serving more than 130 destinations around the world. BA operates up to 58 return services a day between Scotland and Heathrow, London City and Gatwick airports, more than any other airline, and the most to any other country on the airline's global network.

In 2015, BA announced it is to restart its long-haul route from Gatwick to New York, with a daily service to JFK. The service starts on 1 May 2016, and will make BA the only airline to offer flights to New York from all three of London's main airports; Gatwick, Heathrow and London City.

Set the standard for safe, responsible aviation

Safety and security is at the heart of everything we do and we continue to run our business with the highest safety standards in mind.

In 2015 we began to develop our new state-of-the-art global training academy, offering training to BA employees and those from other airlines. World-class safety facilities include full-scale cabin mock-ups, door simulators, a fire-ground and full height evacuation slides, with trainers using examples of past events from across the industry to create realistic evacuation scenarios. The academy also houses an aircraft simulation hall where our pilots train on 18 different aircraft types. This helps us to continue to set the highest standards in flight safety and training that our customers expect from BA.

Strategic report continued

BA's Flying with Confidence course has now helped more than 50,000 customers beat their fear of flying. The popular course for nervous flyers, which has been running for nearly 30 years, is run by experienced BA pilots and cabin crew.

The airline employed 175 apprentices in 2015 on its 14 apprenticeship schemes across the business, in professions ranging from engineering and operations, to IT, finance and customer service. Since 2010, more than 600 students have begun apprenticeships, with many graduating to permanent roles with the airline. More than 50 graduates joined the business in 2015, on the following schemes: Leaders for Business (general management); Analysts; Engineering; Cargo; and Operational Research.

BA's Community Learning Centre has welcomed around 100,000 people since opening in 1999 with students attending aviation themed educational activities that are interactive and link with the school curriculum. Programmes are offered to students in the boroughs surrounding Heathrow.

In 2015 we became part of the Kidzania educational entertainment experience in London. Our involvement gives children aged four to 14 the opportunity to don BA style uniforms and learn about being a pilot by trying their hand in one of five realistic flight simulators. They can also experience what it's like to be a member of cabin crew, learning the safety demonstration and serving food and drinks to the discerning customers (their parents) in an exact replica of a BA cabin. Our staff and customers continued to successfully raise money for Flying Start, our charity partnership with Comic Relief, with the total amount raised now standing at more than £12 million.

Be outstanding – perform at our best

We know that punctuality is important to our customers, and 2015 saw 78 per cent of departures within 15 minutes of their scheduled departure time (2014: 78 per cent of flights departed within 15 minutes of scheduled departure time). We also achieved the best yearly network Ready To Go since 2011 at 56 per cent (2014: 55 per cent) and the best Q4 performance in 15 years at 61 per cent (Q4 2014: 54 per cent). To help us achieve these results, we introduced a number of initiatives to help us maintain punctuality, including the way we board our flights and the size of the bags we allow customers to take into the cabin.

We also simplified the service we offer to customers at Heathrow by operating from two terminals rather than three. Flights to 20 destinations changed terminals, and now all of the airline's Heathrow services depart from either our flagship home of Terminal 5 or the main oneworld alliance base in Terminal 3. We successfully renovated and extended our check-in area as well as working with Heathrow Airport Limited to enhance its baggage systems. Terminal 3 now handles a similar number of BA customers each day as the operation at Gatwick Airport.

Use technology to enhance customer engagement

We know that the way customers connect and travel with us is changing, and in 2015 we launched our app for the Apple watch. A simple swipe opens the BA app, which was re-designed to fit the Apple Watch screen. It then displays a summary of the customer's next flight, the flight number, route, departure time, flight status, a countdown to the departure time and the weather at the destination. Having seen the use of the app quadruple in just four months, we introduced 136 new scanners to make them easier and faster to use at check in desks across Heathrow Terminals 3 and 5. We also introduced Apple Pay to make it easier for customers to purchase flights, holidays and experiences with us, and celebrated five years of mobile boarding passes. More than 28,000 of our customers now use a digital boarding pass every day.

Outlook

BA has set a solid foundation for the future, generating a £1,264 million pre-exceptional operating profit in 2015 (2014: £975 million). Going forward, BA will target a return on capital of at least 15 per cent with an operating margin in the range of 12-15 per-cent.

Improving the customer experience will be a key feature of this business plan with plans to either replace or refurbish 99 per cent of wide-body aircraft by 2020. Our customer's will benefit from new inflight entertainment, in-seat power and the rollout of on-board WIFI across both the long and short-haul fleet. In 2016, eleven new generation Boeing 787-9s and two Airbus A380s will be delivered bringing the respective fleets to 24 and twelve by the end of the year. Customer service will be improved through additional cabin crew training and investment in digital to provide personalised, seamless service that sets BA apart from the competition.

The other key focus over the next five years will be the continued drive towards greater efficiency to ensure BA can withstand competition from 'next generation carriers' in what is a price sensitive market. The introduction of IAG Global Business Services ("IAG GBS") to provide group IT, finance and procurement services will enable BA to reduce its central costs. IAG GBS will also enable BA to achieve improved terms with suppliers by standardising certain product specifications across the group such as aircraft, seats and ground handling.

BA plans to grow capacity by 2-3 per-cent per annum on average, with a target of No.1 premium market share for the Atlantic Joint Business. Some of the key markets have been strengthened with the A380 deployed on routes to Washington, San Francisco, Miami and Vancouver and the strategy of growing to secondary cities will see San Jose (California) launched in 2016. Gatwick long-haul will see growth with the launch of routes to New York (JFK), Costa Rica and Peru in 2016. The China 2020 strategy remains on track with plans to develop airline partnerships, strengthen commercial presence and tailor the customer proposition. Two new crew bases will be set up in China in April 2016. Short-haul profitability continues to improve underpinned by plans to continue reducing unit costs and the evolution of the commercial model to provide better value for money.

Strategic report continued

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2015.

Summary financial performance

£ million	2015	2014	Better/(worse)
CONTINUING OPERATIONS			
Total revenue	11,333	11,719	(3.3)%
Total expenditure on operations before exceptional items	(10,069)	(10,744)	6.3%
Operating profit before exceptional items	1,264	975	29.6%
Exceptional items	(25)		nm
Operating profit	1,239	975	27.1%
Non-operating items	(144)	(116)	(24.1)%
Gain on deconsolidation of AGL	1,533		nm
Profit before tax	2,628	859	nm
Tax	(120)	(157)	23.6%
Profit after tax	2,508	702	nm

	2015	2014	Better/(worse)
CONTINUING OPERATIONS			
Available seat kilometres (ASK) (m)	174,274	170,917	2.0%
Revenue passenger kilometres (RPK) (m)	142,016	138,431	2.6%
Passenger load factor (%)	81.5	81.0	0.5pts
Passenger revenue per ASK (p)	5.83	6.12	(4.7)%
Passenger revenue per RPK (p)	7.16	7.55	(5.2)%
Non-fuel costs per ASK at constant currency* (p)	4.04	4.23	4.5%

*Stated before exceptional items

nm = not meaningful

Revenue

£ million	2015	2014	Better/(worse)
Passenger revenue	10,164	10,452	(2.8)%
Cargo revenue	547	598	(8.5)%
Total traffic revenue	10,711	11,050	(3.1)%
Other revenue	622	669	(7.0)%
Total revenue	11,333	11,719	(3.3)%

Revenue for the year was £11,333 million, down 3.3 per cent over the previous year. This included a decrease in passenger revenue of £288 million, or 2.8 per cent, driven by increased competition on key North Atlantic routes and a drop in corporate customers on key oil routes as a result of the continued fall in oil prices.

Available capacity (ASKs) increased by 2.0 per cent as a result of the addition of new aircraft which resulted in an increase in passengers carried to 43 million (2014: 42 million). A strong commercial performance has meant that this additional capacity has mostly been filled as RPKs have increased by 2.6 per cent along with a slight increase in load factor by 0.5 percentage points.

Passenger revenue per RPK ended the year 5.2 per cent lower than last year mainly as a result of falling yields on key routes due to increased competitor capacity, specifically on North Atlantic routes.

The Group's cargo revenue declined by 8.5 per cent partially as a result of the softening of key markets impacting both yields and volumes. Additionally, the Group exited the long-haul freighter programme in the prior year which impacted 2015 full year revenue. This has been offset to an extent by the product mix with continued emphasis being placed on premium products. Other revenue has decreased by 7.0 per cent. This has primarily been caused by the disposal of the BA Executive Club loyalty scheme in the year resulting in a significant reduction in loyalty redemption revenue. There has been further strong performance by BA Holidays during 2015 with another increase in revenue for this business.

Strategic report continued

Operating costs

£ million	2015	2014	Better/(worse)
Employee costs	2,466	2,422	(1.8)%
Restructuring	27	39	30.8%
Depreciation, amortisation and impairment	761	831	8.4%
Aircraft operating lease costs	113	80	(41.3)%
Fuel, oil and emission costs	3,031	3,515	13.8%
Engineering and other aircraft costs	583	613	4.9%
Landing fees and en route charges	792	787	(0.6)%
Handling charges, catering and other operating costs	1,255	1,381	9.1%
Selling costs	401	449	10.7%
Currency differences	46	37	(24.3)%
Accommodation, ground equipment and IT costs	594	590	(0.7)%
Total Group expenditure on operations*	10,069	10,744	6.3%
Total Group expenditure excluding fuel*	7,038	7,229	2.6%

*Stated before exceptional items.

Fuel costs decreased year-on-year by £484 million, or 13.8 per cent, to £3,031 million compared to £3,515 million in the prior year. The decrease is mainly attributed to a reduction in the average fuel price, net of the impact of hedging, partially offset by the adverse impact of foreign exchange and by the increase in volume. BA also benefitted from the performance of our next generation fleet which are more fuel efficient.

Group expenditure excluding fuel has decreased by £191 million to £7,038 million, or a 2.6 per cent decrease. Given that ASKs increased by 2.0 per cent, this represents a 4.5 per cent decrease in non-fuel costs per ASK driven mainly by cost saving initiatives around the business and the disposal of the BA Executive Club.

Despite the increasing passenger volume, handling, catering and other operating costs have decreased by 9.1 per cent. This decrease is driven by the disposal of the BA Executive Club in early 2015 offset to an extent by increased BA Holidays costs in line with their volume growth. Depreciation, amortisation and impairment costs have decreased due to aircraft retirements in the year and the impact of reduced depreciation of £48 million per annum from the extended lives of certain fleet. Engineering and other aircraft costs have decreased by 4.9 per cent arising from the reduction in rates following the restructuring of certain maintenance agreements, which included a credit of £25 million, as well as a full year benefit of the cancellation of the cargo freighter contract.

Selling costs have reduced by 10.7 per cent in line with the reduction in revenue on top of the benefits seen from a cost saving initiative. Aircraft lease costs have increased by 41.3 per cent primarily due to additional Boeing 777 and Airbus A320 aircraft being financed under operating lease agreements.

Exceptional items

An exceptional item leading to a one-off loss of £25 million was recognised in the income statement in 2015 (2014: £nil).

The litigation provision represents the continuation of the civil claims brought against BA in 2006. This provision represents a settled case against BA in the cargo claim, for a total of £25 million. The final amount required to pay the remaining claims detailed in note 32 is subject to significant uncertainty.

Non-operating items

Non-operating items are an income of £1,389 million in the current year (2014: expense of £116 million).

On 28 January 2015, BA entered into a business transfer agreement with Avios Group (AGL) Limited ("AGL") which transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in AGL. Following the restructure, BA's shareholding reduced from 100 per cent of the AGL business to 86 per cent of the combined customer loyalty business. BA no longer has the power to affect the returns of AGL as it now falls within the governance structure of IAG. From 28 January 2015 AGL was derecognised as a subsidiary of BA and recognised as an associate at the fair value of the retained interest. On initial recognition the fair value of the retained investment in AGL was measured at £1.6 billion with a gain recognised on loss of control of a subsidiary (below operating profit) of £1.5 billion. As consideration was received in the form of shares this gain recognised is not distributable.

Offsetting the gain on disposal of the BA Executive Club are increased realised losses on fuel derivative contracts and adverse retranslation movements on currency borrowings. An increased share of associates profit has been recognised this year which is due to AGL being classed as an associate rather than a subsidiary.

Strategic report continued

Operating profit

During the year the Group achieved a pre-exceptional operating profit of £1,264 million (2014: £975 million) which is another new record for BA, exceeding the previous record that was set in 2014. The Group will continue to focus on profitability over the coming years to finance the Group's investment in new aircraft and ensure we are financially robust for the future.

Taxation

The tax charge on continuing operations for 2015 was £120 million (2014: £157 million). The Group profit before tax was £2,628 million but is stated after the £1.5 billion gain on disposal of AGL, which is not taxable, and £149 million post-tax share of associate's profits. After adjusting for these items and the impact of tax rate changes, the Group's effective tax rate was 19.8 per cent, compared to the UK corporation tax rate of 20.25 per cent.

During the year, the net deferred tax liability has increased by £60 million to £282 million, primarily as a result of the significant mark-to-market losses on hedging instruments driven by the sharp decline in fuel price offset by decreased defined benefit pension liabilities given significant actuarial gains recognised in the year.

Capital expenditure

Total capital expenditure in the year amounted to £1,073 million (2014: £1,494 million). This comprised: £993 million in fleet-related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £80 million on property, equipment, software, and landing rights.

During the year the Group took delivery of seven Airbus A320 aircraft, two Airbus A380 aircraft, five Boeing 787-900 aircraft and one Embraer E-190 aircraft.

Liquidity

The Group's liquidity position remains strong with £2.0 billion of cash, cash equivalents and other interest-bearing deposits (2014: £2.5 billion). Net debt stood at £2.5 billion (2014: £2.0 billion). This increase arose from financing for new aircraft. Refer to note 20 of the financial statements for further discussion around net debt.

In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £2.5 billion (2014: £1.8 billion) and further committed general facilities of £1.8 billion (2014: £0.6 billion).

Pensions

As reported in previous years, the Trustees of APS have purported to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. BA has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme. BA is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which BA may ultimately be exposed as the principal employer and sponsor of the scheme. BA is committed to an existing recovery plan, which sees deficit payments of £55 million per annum until March 2023. Legal proceedings, initiated by BA, are underway to determine the legitimacy of the additional discretionary increase. This discretionary increase has not been reflected in the accounting assumptions used.

Strategic report continued

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, leaves the Group exposed to a number of principal 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 risks and uncertainties described below are the ones that are expected to have the most significant impact on the Group. 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

Competition

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. 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. In addition the low cost model continues to be extended into long-haul by our competitors. The Group's strong global market positioning, leadership in strategic markets, alliances and diverse customer base continues to address this risk.

Competitors, or new entrants to the travel market, may use digital technology to disrupt our business. The Group's unrelenting focus on the customer, together with our own exploitation of digital technology, reduces the impact digital disrupters can have.

Consolidation and deregulation

Although the airline industry is competitive, we believe that the customer would benefit from further consolidation. This may involve further airline failures or consolidation leading to opportunities to capture market share and expand the Group. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue. The Group maintains rigorous cost control and targeted product investment to remain competitive.

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, while creating growth opportunities for the Group, may have a negative impact on margins.

Joint Businesses

Some of BA's revenue is within joint businesses. BA is subject to the risks of these joint businesses and potentially the risks which may impact our business partners. Strong governance and financial controls exist for each joint business.

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 performance.

Government taxes such as Air Passenger Duty, 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.

Airport, transit and landing fees and security charges represent a significant operating cost to BA. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not. BA is therefore particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports.

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 Group regularly monitors customer satisfaction through the global 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.

Economic conditions

The Group's revenue is highly sensitive to economic conditions in the markets it operates in. Deterioration in either the domestic and/or global economy may have a material impact on the reported financial position.

Strategic report continued

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 critical suppliers

BA is significantly dependant on critical suppliers particularly as industry supply chains are becoming more complex and outsourcing is increasing. Failure of a critical supplier to deliver to contract may have a significant impact on operational performance and customer delivery. BA has robust contingency plans and maintains regular oversight of suppliers to manage the risk of supplier failure.

Failure of a critical IT system

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

In 2015 the BA Travel Programme commenced implementation of its new customer management system that provides passenger check-in and aircraft boarding functionality. As such it is a critical operational system. In 2016 the system will be implemented in complex and high volume stations, including Gatwick and Heathrow. The programme has a strong risk management work stream designed to minimise, but not eliminate, the risk of disruption during implementation. The roll out plan is designed to build up operational experience of the system before it is implemented in higher volume stations.

Pandemic

If there is a significant outbreak of an 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 business continuity plans.

Safety and security incidents

The safety and security of customers and employees is fundamental for BA. Failure to prevent or respond effectively to a major safety or security incident may also adversely impact operations and financial performance. The Safety Committee satisfies itself that BA has appropriate safety resources and procedures. The Crisis Management 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, failure of the air traffic control 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 implemented robust business continuity plans to mitigate these risks to the extent feasible.

Financial

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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The BA Board delegates certain responsibilities to IAG senior management, who directly control day-to-day treasury operations and operate within clearly defined parameters. The financial risks faced by the Group are covered in note 26 to the financial statements.

The Group is exposed to currency devaluation of cash held in currencies other than the airline's local currency (sterling). This risk is minimised by holding cash in sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. The Group experienced delays in the repatriation of funds from Nigeria during the second half of 2015 and at the year-end held balances of £53 million equivalent in Nigerian Naira.

Debt funding

The Group carries substantial debt that needs to be repaid or refinanced. The ability to finance ongoing operations and committed future fleet growth plans is 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.

Fuel price

The Group used approximately 5.7 million tonnes of jet fuel in 2015. 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 financial risks faced by the Group are covered in more detail in note 26 to the financial statements.

Geopolitical tensions

Instability from geopolitical factors in any of our markets may have a detrimental impact on revenue and operating costs. BA maintains ongoing oversight of all markets and can adapt operational plans and capacity when prudent.

Strategic report continued

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 taking appropriate action.

Compliance and regulatory

Compliance with Competition, Bribery and Sanctions Laws

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

The Strategic report is approved by the Board and signed on its behalf by:

Keith Williams
Executive Chairman
26 February 2016

Nick Swift
Chief Financial Officer
26 February 2016

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2015.

Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 10 of the Strategic report.

Results and dividends

The pre-exceptional operating profit for the year ended 31 December 2015 amounted to £1,264 million (2014: £975 million).

An interim dividend of £240 million was paid in October 2015 and a further interim dividend of £20 million was paid in December 2015.

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2015 (2014: £nil).

Directors

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

Keith Williams	
Alison Reed	
Nick Swift	
Andrew Crawley	resigned 7 January 2016
Frank van der Post	resigned 31 March 2015
Ken Smart	
Gavin Patterson	
Garrett Copeland	
Julia Simpson	
Lynne Embleton	appointed 7 January 2016

It was announced on 6 November 2015 that Keith Williams and Nick Swift would be resigning as Directors of the Company during Q1 2016. They will be replaced by Alex Cruz, Chairman and CEO of Vueling, and Steve Gunning, CEO of IAG Cargo respectively.

Company Secretary

Andrew Fleming

Employment policies

The employment policies in place aim to balance rights of colleagues and the responsibilities of the Group in order to drive the 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.

BA continues to drive genuine and effective engagement with colleagues, putting the customer at the forefront of everything it does and maintaining a high performing organisation. BA'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 Group. Regular briefings (including updates on financial and economic factors affecting the performance of the Group) are run across the airline and other communication channels include live online forums, a personalised intranet, mobile SMS and video messages and a range of BA-wide and local newsletters

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

As a responsible organisation, disability is taken very seriously and applications are welcomed from individuals with disabilities. BA 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. BA has held the Two Ticks disability symbol for more than five years as recognition both of our commitment to encourage job applications from disabled people and to support disabled colleagues within BA.

Wellbeing and Inclusion is a key part of BA's people strategy. Mandatory training on inclusion principles, and how to avoid discrimination, continues for all colleagues and managers to ensure that BA has a culture of fairness and respect and all our colleagues feel supported and able to be their best at work.

Political donations

The Group does not make political donations or incur political expenditure and has no intention of doing so.

Directors' report continued

Internal control and risk management

Corporate Governance

As the shares of the Company are not listed, it is not required to comply with the UK Corporate Governance 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 the Disclosure and Transparency Rules. In order to comply with these provisions, certain information about the Company's corporate governance is detailed in this report.

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the 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 through 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 consider significant control matters raised by management and both the internal and external auditors, and report its findings to the IAG Audit Committee. Where weaknesses are identified, the BA Board ensures that management take appropriate action.

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 reports quarterly to the BA Board to assist in the management of risk in accordance with the UK Corporate Governance Code (2014).

The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk. The outcome includes a heat map which plots each critical risk on an impact and probability scale. For each critical risk, mitigating actions exist and are actively managed and this process is iterative and refreshed on an ongoing basis. The Strategic report does not include the mitigating actions for the principal risks because of the sensitive commercial nature of some of management's plans. The principal risk and uncertainties are detailed further on pages 8 to 10 of the Strategic report.

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 of the Strategic report, and further information is provided in note 26 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 financial statements.

Directors' report continued

Events after the balance sheet date

It was announced on 6 November 2015 that Keith Williams and Nick Swift would be resigning as Directors of the Company during Q1 2016. They will be replaced by Alex Cruz, Chairman and CEO of Vueling, and Steve Gunning, CEO of IAG Cargo respectively.

No other significant events have taken place post the balance sheet date.

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 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 Officers who joined during 2015 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 Officers who joined during 2015 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.

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 Strategic report, Directors' report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

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 European Union, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit or 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

Andrew Fleming
Company Secretary
26 February 2016
Company registration number - 1777777

British Airways Plc

Independent auditor's report

We have audited the financial statements of British Airways Plc for the year ended 31 December 2015 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 statement of changes in equity and the related notes 1 to 35. 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 pages 13 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications 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 2015 and of the Group's profit 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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared 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 matters where the Companies Act 2006 requires us 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.

Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 February 2016

Group consolidated income statement

For the year ended 31 December		Group	
£ million	Note	2015	2014
CONTINUING OPERATIONS			
Passenger revenue		10,164	10,452
Cargo revenue		547	598
Traffic revenue		10,711	11,050
Other revenue		622	669
Total revenue	4	11,333	11,719
Employee costs	8	2,466	2,422
Restructuring	8	27	39
Depreciation, amortisation and impairment	6	761	831
Aircraft operating lease costs		113	80
Fuel, oil and emission costs		3,031	3,515
Engineering and other aircraft costs		583	613
Landing fees and en route charges		792	787
Handling charges, catering and other operating costs		1,255	1,381
Selling costs		401	449
Currency differences		46	37
Accommodation, ground equipment and IT costs		594	590
Total expenditure on operations before exceptional items		10,069	10,744
Operating profit before exceptional items		1,264	975
Exceptional items	5	(25)	
Operating profit	6	1,239	975
Losses on fuel derivatives not qualifying for hedge accounting		(121)	(37)
Finance costs	9	(147)	(141)
Finance income	9	24	17
Net financing charge relating to pensions	31b	(9)	(3)
Net currency retranslation charges		(13)	(1)
Share of post-tax profits in associates accounted for using the equity method	17	149	39
Gain on disposal of property, plant and equipment and investments		1,502	
Net gain relating to available-for-sale financial assets		4	10
Profit before tax		2,628	859
Tax	10	(120)	(157)
Profit after tax		2,508	702
Attributable to:			
Equity holders of the parent		2,493	686
Non-controlling interest		15	16
		2,508	702

The above results are all in respect of continuing operations.

Group statement of other comprehensive income

For the year ended 31 December		Group	
£ million	Note	2015	2014
Profit for the year		2,508	702
Other comprehensive income:			
Items that will not be re-classified to the income statement			
Remeasurement of post-employment benefit obligations	31c	152	(467)
Income taxes	10	(37)	148
		<u>115</u>	<u>(319)</u>
Items that may be re-classified to the income statement			
Currency translation differences	30a	(9)	(5)
Fair value movements in equity on cash flow hedges	30a	(684)	(958)
Fair value of cash flow hedges reclassified to the income statement	30a	892	105
Share of other movements in reserves of associates	17	(1)	(72)
Available-for-sale financial assets - marked to market	30a	(8)	46
Available-for-sale financial assets - recycled to income statement	30a	1	(9)
Income taxes	10	(42)	170
		<u>149</u>	<u>(723)</u>
Total other comprehensive income/(loss)		264	(1,042)
Total comprehensive income/(loss) for the year (net of tax)		2,772	(340)
Attributable to:			
Equity holders of the parent		2,757	(356)
Non-controlling interest	30a	15	16
		<u>2,772</u>	<u>(340)</u>

Balance sheets

As at 31 December		Group		Company	
£ million	Note	2015	2014	2015	2014
Non-current assets					
Property, plant and equipment:					
Fleet	12	7,066	6,930	6,813	6,646
Property	12	802	808	765	769
Equipment	12	252	252	239	231
		8,120	7,990	7,817	7,646
Intangibles:					
Goodwill	15	40	40		
Landing rights	15	665	667	643	643
Emissions allowances	15	6	26	6	26
Software	15	270	216	270	216
		981	949	919	885
Investments in subsidiaries	17			1,315	1,326
Investments in associates	17	1,775	76	1,563	
Available-for-sale financial assets	18	47	63	40	48
Employee benefit assets	31	697	673	697	673
Derivative financial instruments	27	12	18	12	18
Other non-current assets	19	340	69	441	195
Total non-current assets		11,972	9,838	12,804	10,791
Non-current assets held for sale	14	4	5	4	5
Current assets and receivables					
Inventories		139	133	136	129
Trade receivables	19	541	531	527	516
Other current assets	19	614	326	760	470
Derivative financial instruments	27	59	70	60	72
Other current interest-bearing deposits	20	1,199	1,849	1,199	1,849
Cash and cash equivalents	20	848	674	790	619
		2,047	2,523	1,989	2,468
Total current assets and receivables		3,400	3,583	3,472	3,655
Total assets		15,376	13,426	16,280	14,451
Shareholders' equity					
Issued share capital	28	290	290	290	290
Share premium	28	1,512	1,512	1,512	1,512
Other reserves	30	2,596	98	2,399	(7)
Total shareholders' equity		4,398	1,900	4,201	1,795
Non-controlling interests	30	200	200		
Total equity		4,598	2,100	4,201	1,795
Non-current liabilities					
Interest-bearing long-term borrowings	23	3,782	4,121	4,020	4,354
Employee benefit obligations	31	618	1,042	602	1,019
Provisions for deferred tax	10	282	222	193	120
Non-current provisions	25	233	210	156	133
Derivative financial instruments	27	101	139	101	139
Other non-current liabilities	22	62	90	36	60
Total non-current liabilities		5,078	5,824	5,108	5,825
Current liabilities					
Current portion of long-term borrowings	23	728	428	706	421
Trade and other payables	21	4,197	4,220	5,559	5,595
Derivative financial instruments	27	548	691	550	693
Current tax payable		69	36	29	26
Current provisions	25	158	127	127	96
Total current liabilities		5,700	5,502	6,971	6,831
Total equity and liabilities		15,376	13,426	16,280	14,451

Approved by the Board and signed on its behalf by

Keith Williams
Executive Chairman
26 February 2016

Nick Swift
Chief Financial Officer
26 February 2016

Cash flow statements

For the year ended 31 December

£ million	Note	Group		Company	
		2015	2014	2015	2014
CONTINUING OPERATIONS					
Cash flow from operating activities					
Operating profit		1,264	975	1,201	910
Depreciation, amortisation and impairment	6	761	831	723	795
Cash payments to pension schemes (excluding service costs)	31d	(302)	(312)	(301)	(311)
Movement in working capital and other non-cash movements		(320)	12	(352)	53
Interest paid		(113)	(113)	(101)	(94)
Taxation		(100)	(21)	(98)	(22)
Net cash generated from operating activities		1,190	1,372	1,072	1,331
Cash flow used in investing activities					
Purchase of property, plant and equipment and intangible assets		(1,073)	(1,494)	(1,067)	(1,470)
Investment in subsidiaries	17			(7)	(10)
Sale of property, plant and equipment and intangible assets		36	119	36	104
Cash disposed of on disposal of AGL		(2)			
Loan made to related party		(292)		(292)	
Interest received		23	21	23	21
Dividends received		12			6
Other investing movements		9	4	72	4
Decrease/(increase) in other current interest-bearing deposits		650	(629)	650	(629)
Net cash used in investing activities		(637)	(1,979)	(585)	(1,974)
Cash flow from financing activities					
Proceeds from long-term borrowings		459	1,391	459	1,391
Repayments of borrowings		(122)	(170)	(96)	(147)
Repayment of finance leases		(470)	(564)	(468)	(580)
Dividends paid		(259)		(259)	
Loan received from related party		29		29	
Distributions made to holders of perpetual securities		(15)	(16)		
Net cash flow from financing activities		(378)	641	(335)	664
Net change in cash and cash equivalents from continuing operations		175	34	152	21
DISCONTINUED OPERATIONS					
Net cash flow used in discontinued operations			(12)		
Net change in cash and cash equivalents		175	22	152	21
Net foreign exchange differences		(1)	22	19	36
Cash and cash equivalents at 1 January		674	630	619	562
Cash and cash equivalents as at 31 December	20	848	674	790	619

At 31 December 2015 cash and cash equivalents includes £53 million of restricted cash in Nigeria.

Statements of changes in equity

For the year ended 31 December 2015

£ million						Group
	Issued capital	Share premium	Other reserves (note 30)	Total shareholders' equity	Non-controlling interest	Total equity
Balance at 1 January 2015	290	1,512	98	1,900	200	2,100
Profit for the year			2,493	2,493	15	2,508
Other comprehensive income for the year			264	264		264
Total comprehensive income for the year			2,757	2,757	15	2,772
Distributions made to holders of ordinary shares			(260)	(260)		(260)
Cost of share-based payment (net of tax)			1	1		1
Distributions made to holders of perpetual securities					(15)	(15)
As at 31 December 2015	290	1,512	2,596	4,398	200	4,598

For the year ended 31 December 2014

£ million						Group
	Issued capital	Share premium	Other reserves (note 30)	Total shareholders' equity	Non-controlling interest	Total equity
Balance at 1 January 2014	290	1,512	453	2,255	200	2,455
Profit for the year			686	686	16	702
Other comprehensive income for the year			(1,042)	(1,042)		(1,042)
Total comprehensive income for the year			(356)	(356)	16	(340)
Cost of share-based payment (net of tax)			1	1		1
Distributions made to holders of perpetual securities					(16)	(16)
As at 31 December 2014	290	1,512	98	1,900	200	2,100

For the year ended 31 December 2015

£ million					Company
	Issued capital	Share premium	Other reserves (note 30)	Total equity	Total equity
Balance at 1 January 2015	290	1,512	(7)	1,795	1,795
Profit for the year			2,395	2,395	2,395
Other comprehensive income for the year			270	270	270
Total comprehensive income for the year			2,665	2,665	2,665
Distributions made to holders of ordinary shares			(260)	(260)	(260)
Cost of share-based payment (net of tax)			1	1	1
As at 31 December 2015	290	1,512	2,399	4,201	4,201

For the year ended 31 December 2014

£ million					Company
	Issued capital	Share premium	Other reserves (note 30)	Total equity	Total equity
Balance at 1 January 2014	290	1,512	463	2,265	2,265
Profit for the year			483	483	483
Other comprehensive income for the year			(954)	(954)	(954)
Total comprehensive income for the year			(471)	(471)	(471)
Cost of share-based payment (net of tax)			1	1	1
As at 31 December 2014	290	1,512	(7)	1,795	1,795

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 26 February 2016 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.

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 IFRSs, which also include International Accounting Standards ('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.

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 8 and 9), and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Group financial statements (and throughout) include those 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 all entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All intra-group account balances, including intra-group profits, have been eliminated in preparing the consolidated financial statements. Non-controlling 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 consolidated balance sheet.

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 consolidated balance sheet and its interest in their results is included in the income statement, below operating profit. The attributable results of those companies invested in or disposed of during the year are included for the period of ownership.

In the Company balance sheet investments in associates are recognised at cost subject to impairment review.

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as current liabilities as deferred revenue on ticket sales until the customer has flown. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

Other revenue including maintenance, handling, holiday and commission revenues is recognised at the time the service is provided in accordance with the invoice or contract.

Revenue recognition – customer loyalty programmes

The Group operated two principal loyalty programmes for part of the year; BA Executive Club and Avios. These were disposed of outside the Group on 28 January 2015 (see note 17 for further information). These principal customer loyalty programmes awarded travellers Avios points to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Avios points was deferred as a liability and recognised as revenue on redemption of the points and provision of service to the participants to whom the Avios points were issued.

2 Summary of significant accounting policies continued

Revenue recognition – customer loyalty programmes continued

In addition, Avios points were sold to commercial partners to use in loyalty activities. The fair value of the Avios points sold was deferred and recognised as revenue on redemption of the Avios points by the participants to whom the Avios points were issued. The cost of the redemption of the Avios points was recognised when the Avios points were redeemed.

The Group estimated the fair value of Avios points by reference to the fair value of the awards for which they could be redeemed and was reduced to take into account the proportion of award credits that were not expected to be redeemed based on the results of statistical modelling. The fair value of the Avios point reflected the fair value of the range of available awards.

The Group also operates other smaller loyalty programmes for which the fair value of points are deferred as a liability and recognised as revenue on redemption of the points and provision of services to members.

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 made up of the Executive Directors and other key management personnel and is responsible for the day-to-day running of the Group and discharging managerial responsibility.

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.

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

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 on acquisition (or fair value when acquired through a business combination). Subsequently they are accounted for at cost 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 provide that these landing rights are perpetual.

c Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised 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.

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 are capitalised and added to the cost of the asset concerned.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

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, are depreciated at rates calculated to write down the cost to the estimated residual value over a depreciation period of between seven and 29 years. 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 its residual value over the average remaining life of the related fleet.

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.

2 Summary of significant accounting policies continued

Property, plant and equipment continued

b Fleet continued

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable 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. Major overhaul expenditure is depreciated over periods ranging from 26-78 months, according to the engine type. 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.

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. 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.

d Leased assets

Where assets are financed through finance leases, 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 expense 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, without further 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 achieved within twelve months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. 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, determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

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.

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.

Employee benefits

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'.

a Pension obligations

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.

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 the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rate 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 net obligation calculation results in an asset to the Group, recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The cost of administering the Group's defined benefit pension plans is provided for when the services are received, whilst the cost of managing the plan investments is treated as part of the return on plan assets.

2 Summary of significant accounting policies continued

Employee benefits continued

a Pension obligations continued

The fair value of scheme assets is based on market price information and, in the case of quoted securities, is the published bid price. 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.

Current service costs are recognised within operating expenses in the period in which they arise. Past service costs are recognised at the earlier of the plan amendment or curtailment occurring and when the Group recognises the related restructuring costs or termination benefits. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the income statement. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in the statement of other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

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 with Iberia, 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 intercompany payables to IAG.

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 credited or charged 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 provision. 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.

2 Summary of significant accounting policies continued

Foreign currency translation continued

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 year. 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 remeasurement 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 equity investments (other than interests in associates) classified as available-for-sale financial assets are those that are neither classified as held for trading nor designated at fair value through profit or loss, 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 loss previously reported in equity is included in the income statement.

The fair value of quoted investments is determined by reference to published 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 (disclosed in note 27b).

c Derivatives

Derivative financial instruments, comprising foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures), 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. The gains or losses related to derivatives not used as effective hedging instruments are 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. 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, Chinese yuan 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.

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.

2 Summary of significant accounting policies continued

Exceptional items

Exceptional items (disclosed in note 5) are those that in management's view need to be disclosed by virtue of their size or incidence.

Critical 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 in the future may differ from estimates upon which financial information has been prepared. 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 affect the current year or have a significant risk of causing a material adjustment within the next financial year are discussed below.

a 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 amount of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 16.

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

b 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. These assumptions are based on each scheme's specific factors and are reviewed by management at the end of each year. Any difference between these assumptions and the actual outcome will impact future net assets and net income. The assumptions as of 31 December 2015 are set out in note 31.

c 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 equity. When the fair value declines, management makes assumptions about the decline in value, whether it is significant or prolonged, to determine whether it is an impairment that should be recognised in the income statement. The assumptions as of 31 December 2015 are set out in note 16.

d Investment in associates

The Group owns 13.55 per cent of the equity of IB OpCo Holding S.L. ("Iberia") and 86.26 per cent of the equity of Avios Group (AGL) Limited ("AGL"). BA uses the equity method of accounting for its investments in these entities because under IFRS it is considered to have significant influence but not control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but not control or joint control. BA has significant influence over Iberia due to its representation on the IAG Management Committee, the management committee of Iberia's ultimate parent company. BA has significant influence over AGL due to representation on the AGL board as provided for by the governance agreement, but not control as BA no longer has the power to direct the activities of AGL.

e Passenger revenue recognition

Passenger revenue is recognised when the transportation service 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.

In respect of customer loyalty programmes, the fair value attributed to awarded points is deferred as a liability and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points are issued. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.

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. The assumptions as of 31 December 2015 are set out in note 10.

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 to their residual values over their estimated useful lives.

2 Summary of significant accounting policies continued

Critical accounting estimates and judgements continued

h Lease classification

A lease is classified as a finance lease when substantially all the risk and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the legal form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

i Engineering and other aircraft costs

The Group has a number of maintenance contracts with service providers to repair or replace engine parts. These agreements are complex and the Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge.

Impact of new International Financial Reporting Standards

The Group has adopted the following interpretation for the first time in the financial year beginning 1 January 2015:

a IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' consistent with the requirements of IFRIC 21 in prior years.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2015 are not material to the Group.

3 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 year end 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:

IFRS 9 'Financial instruments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2018. 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. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting. The Group is currently assessing the impact of the new standard.

IFRS 15 'Revenue from contracts with customers' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2018. The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. This is a converged standard on revenue recognition which replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The Group is currently assessing the impact of the new standard.

IFRS 16 'Leases' (not yet endorsed by the EU); effective for periods beginning on or after January 1 2019. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. Applying this model, lessees are required to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets. The Group is currently assessing the impact of the new standard.

IAS 19 (Amendment) 'Employee benefits'; effective for periods beginning on or after February 1, 2015 in the European Union. The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives. It is anticipated that the application of this amendment will have no significant impact on the Group's net profit or net assets.

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

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

4 Segment information

a Business segments

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

b Geographical analysis - by area of original sale

£ million	Group	
	2015	2014
UK	5,498	5,492
USA	2,165	2,131
Rest of the world	3,670	4,096
Revenue	11,333	11,719

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 £10,718 million (2014: £8,897 million) and the total of these non-current assets located in other countries is £162 million (2014: £123 million).

5 Exceptional items

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

£ million	Group	
	2015	2014
Settlement of litigation provisions	(25)	
Exceptional items	(25)	

The exceptional item noted above relate to the following consolidated income statement category:

£ million	Group	
	2015	2014
Accommodation, ground equipment and IT costs	(25)	
Exceptional items	(25)	

The litigation provision represents the continuation of the civil claims brought against BA in 2006. This provision represents a settled case against the Company in the cargo claim, for a total of £25 million. The final amount required to pay the remaining claims detailed in note 32 is subject to significant uncertainty.

6 Expenses by nature

Operating profit is arrived at after charging:

Depreciation, amortisation and impairment of non-current assets:

£ million	Group	
	2015	2014
Owned assets	514	581
Finance leased aircraft	189	192
Other leasehold interests	32	46
Impairment charge on property, plant and equipment	4	
Amortisation of intangible assets	22	12
Depreciation, amortisation and impairment	761	831

Operating lease costs:

£ million	Group	
	2015	2014
Minimum lease rentals - aircraft	113	80
- property and equipment	94	100
Property and equipment sub-lease rentals received	(18)	(18)
Operating lease costs	189	162

Cost of inventories:

£ million	Group	
	2015	2014
Cost of inventories recognised as an expense, mainly fuel	2,563	3,310

7 Auditor's remuneration

£ '000	Group	
	2015	2014
Fees payable to the Group's auditor for the audit of the Group's accounts	1,514	1,523
Fees payable to the Group's auditor and its associates for other services:		
Audit of the Group's subsidiaries pursuant to legislation - UK	186	231
Audit of the Group's subsidiaries pursuant to legislation - Worldwide	109	114
Other services pursuant to legislation	269	212
Other services relating to taxation	46	80
Other assurance services	53	69
Fees payable to the Group's auditor for the audit of the Group's pension schemes	15	9
Other services relating to pension schemes	97	
	2,289	2,238

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.

Remuneration receivable by the Company's auditors for the supply of other services to the Company is not presented separately as this information is included in the Group auditors' remuneration.

8 Employee costs and numbers

a Employee costs

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

Number	Group		Company	
	2015	2014	2015	2014
UK	38,796	38,085	36,989	35,694
Overseas	4,754	5,035	3,723	4,174
	43,550	43,120	40,712	39,868

£ million	2015	2014	2015	2014
Wages and salaries	1,626	1,601	1,544	1,499
Social security costs	173	178	163	165
Costs related to pension scheme benefits (note 31)	245	216	242	210
Other employee costs	422	427	411	409
Total employee costs excluding restructuring	2,466	2,422	2,360	2,283
Restructuring	27	39	27	39
Total employee costs	2,493	2,461	2,387	2,322

Included in 'wages and salaries' is a total expense for share-based payments of £10 million (2014: £11 million) that arises from transactions accounted for as equity-settled share-based payment transactions (see note 29).

Other employee costs include allowances and accommodation for crew.

b Directors' emoluments

£ million	Group	
	2015	2014
Directors' remuneration	7	7

During the year, two Directors (2014: two) of the Company were employed and remunerated by IAG.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £4,024,000 (2014: £3,886,000) and contributions to the Company's defined benefit scheme amounted to £nil (2014: £nil). The value of the accrued benefits in respect of his pension scheme at 31 December 2015 amounted to £3,773,000 (2014: £3,375,000).

During the year no Directors (2014: none) accrued benefits under a defined benefit pension scheme and two Directors (2014: three) accrued benefits under a defined contribution pension scheme. Pension contributions for the year totalled less than £1 million which are included in the table above.

Six Directors (2014: six) participated in IAG's Long Term Incentive Schemes and during the year all six Directors exercised their awards (2014: six). In addition, one Director (2014: two) exercised their rights under the British Airways Share Option Plans.

c Remuneration of key management personnel

Compensation of key management personnel (which includes the Directors and Leadership Team of the Group but excludes the aggregate emoluments of the highest paid director):

£ million	Group and Company	
	2015	2014
Short-term employee benefits	8	6
Share-based payments	3	3
At 31 December	11	9

9 Finance costs and income

a Finance costs

£ million	Group	
	2015	2014
On bank loans	(16)	(20)
On finance leases	(92)	(81)
On other loans	(39)	(40)
Interest expense	(147)	(141)
Unwinding of discounting on provisions (note 25)	(2)	(3)
Capitalised interest ¹	1	2
Change in fair value of cross currency swaps	1	1
Finance costs	(147)	(141)

¹ Interest costs on progress payments are capitalised at a rate based on the London Interbank Offered Rate (LIBOR) plus the rate specific to the borrowings.

b Finance income

£ million	Group	
	2015	2014
Bank interest receivable (total interest income for financial assets not at fair value through the income statement)	24	17

10 Tax

a Tax on profit on ordinary activities

£ million	Group	
	2015	2014
Tax charge in the income statement		
Current income tax		
UK corporation tax	191	108
Overseas tax		1
Current tax adjustments in respect of prior years - UK corporation tax	4	16
Current tax adjustments in respect of prior years - overseas tax	1	
Total current income tax charge	196	125
Deferred tax arising on differences between the accounting and tax treatment of:		
Property, plant and equipment	2	(9)
Employee defined benefit plans	(3)	(2)
Advance corporation tax		80
Tax losses utilised	19	7
Foreign exchange	(13)	(2)
Fuel volatility	(13)	
Employee related provisions		(6)
Adjustments in respect of prior years	(13)	(29)
Effect of tax rate changes	(59)	1
Other items	4	(8)
Total deferred tax (credit)/charge	(76)	32
Total charge in the income statement	120	157

10 Tax continued

a Tax on profit on ordinary activities continued

Tax charge/(credit) in other comprehensive income or directly in equity £ million	Group	
	2015	2014
Current tax related to items credited to statement of other comprehensive income		
Employee defined benefit plans	(55)	(64)
Current tax related to items credited to statement of changes in equity		
Share-based payments in issue	(5)	(5)
Deferred tax relating to items charged/(credited) to statement of other comprehensive income		
Employee defined benefit plans	92	(90)
Foreign exchange	(4)	(7)
Net change on fair value cash flow hedges	46	(176)
Effect of tax rate changes ¹		19
Deferred tax relating to items credited to statement of changes in equity		
Share-based payments in issue	2	
Total tax charge/(credit) relating to items reported in other comprehensive income or directly in equity	76	(323)

¹In 2015 the effect of tax rate changes on items that will not be re-classified to the income statement was £nil (2014: £6 million charge) and the effect on items that may be re-classified to the income statement was £nil (2014: £13 million charge).

b Reconciliation of the total tax charge

£ million	Group	
	2015	2014
Profit before tax from continuing operations	2,628	859
Accounting profit multiplied by standard rate of corporation tax in the UK of 20.25 per cent (2014: 21.5 per cent)	532	185
Effects of:		
Tax on associates' profits and dividends	(30)	(9)
Non taxable dividends	(1)	
Euro preferred securities accounted for as non-controlling interests	(3)	(4)
Current year losses not recognised	1	1
Non-deductible expenses	3	
Gain on disposal of AGL	(311)	
Pension fund accounting	(6)	(4)
Disposal and write down of investments		(2)
Adjustments in respect of prior years	(8)	(13)
Impact of changes in substantively enacted tax rates	(59)	1
Other non-deductible expenses	2	2
Tax charge in the income statement	120	157

10 Tax continued

c Deferred tax provision

The deferred tax liability included in the balance sheet as a result of differences between the accounting and tax treatment is as follows:

£ million	Group		Company	
	2015	2014	2015	2014
Property, plant and equipment	619	665	510	543
Employee defined benefit plans	(107)	(195)	(101)	(190)
Exchange differences on funding liabilities	(5)	6	2	10
Tax losses carried forward	(68)	(66)	(68)	(66)
Fair value losses recognised on cash flow hedges	(123)	(159)	(123)	(159)
Share-based payments	(7)	(9)	(7)	(9)
Hedging ineffectiveness on open fuel contracts	(14)	(1)	(14)	(1)
Other items	(13)	(19)	(6)	(8)
As at 31 December	282	222	193	120

Movement in provision

£ million	Group		Company	
	2015	2014	2015	2014
Balance at 1 January	222	444	120	327
Deferred tax (credit)/charge relating to income statement	(77)	32	(64)	45
Deferred tax charge/(credit) taken to statement of other comprehensive income	134	(254)	135	(253)
Deferred tax charge taken to statement of changes in equity	2		2	1
Transfer on de-consolidation of subsidiary	1			
As at 31 December	282	222	193	120

d Other taxes

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

£ million	Group	
	2015	2014
UK Air Passenger Duty	649	646
Other ticket taxes	385	371
Payroll related taxes	173	178
Total	1,207	1,195

The UK Government announced the following changes that impact the amount of UK Air Passenger Duty paid: As of 1 April 2015, the number of UK Air Passenger Duty destination bands was reduced from four to two. Child exemption from Air Passenger Duty was extended to include children under the age of 12 travelling in the lowest class of travel from 1 May 2015, and from 1 March 2016 the exemption will be extended to include children under 16 on the date of the flight, in the lowest class of travel.

In line with the rate of inflation, Band B increased by £2 and £4 for reduced and standard rate APD respectively with effect from 1 April 2015.

10 Tax continued

e Factors that may affect future tax charges

£ million	Group	
	2015	2014
Unrecognised deferred tax assets		
Overseas corporate income tax losses as their utilisation is not currently anticipated	112	116
The following unrecognised losses are unlikely to be used in the foreseeable future in the ordinary course of business operations:		
Capital losses arising after the change in ownership of the Group in 2011	7	7
Capital losses arising on the disposal of properties that were historically eligible for Industrial Buildings Allowances ¹	250	255
Net unrecognised deferred tax asset		
Capital losses arising before the change in ownership of the Group in 2011 ²	74	100

¹Assumes properties will be realised at their residual values

²Available for offset against certain future chargeable gains subject to the tax legislation in relation to pre-entry losses

³The future capital gains would be offset against the capital losses arising before the change in ownership of the Group in 2011

Further reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 20% to 19% effective from 1 April 2017 and from 19% to 18% effective from 1 April 2020. The provision for deferred tax on temporary differences as at 31 December 2015 was calculated at the rate applicable to the year in which the temporary differences are expected to reverse and the impact is shown in note 10a.

11 Dividends

£ million	Company	
	2015	2014
First interim dividend for 2015:		
A1 Ordinary shares: £208.92 per share (2014: nil)	187	
A2 Ordinary shares: £208.92 per share (2014: nil)	21	
B Ordinary shares: £1 per share (2014: nil) ¹	1	
C Ordinary shares: £208.92 per share (2014: nil)	31	
Second interim dividend for 2015:		
A1 Ordinary shares: £17.48 per share (2014: nil)	16	
A2 Ordinary shares: £17.48 per share (2014: nil)	2	
C Ordinary shares: £17.48 per share (2014: nil)	2	
	260	

¹ Dividends declared in respect of the B class ordinary shares remained payable at 31 December 2015.

12 Property, plant and equipment

a Group

£ million				Group	
	Fleet	Property	Equipment	Total	
Cost					
Balance at 1 January 2014	13,970	1,515	823	16,308	
Additions	1,304	47	73	1,424	
Disposals	(456)	(2)	(3)	(461)	
Reclassifications	3			3	
Balance as at 31 December 2014	14,821	1,560	893	17,274	
Additions	920	38	48	1,006	
Disposals	(735)	(1)	(29)	(765)	
Reclassifications	(134)			(134)	
As at 31 December 2015	14,872	1,597	912	17,381	
Depreciation and impairment					
Balance at 1 January 2014	7,514	699	608	8,821	
Charge for the year	730	54	35	819	
Disposals	(353)	(1)	(2)	(356)	
Balance as at 31 December 2014	7,891	752	641	9,284	
Charge for the year	654	43	38	735	
Disposals	(666)		(19)	(685)	
Reclassifications	(73)			(73)	
As at 31 December 2015	7,806	795	660	9,261	
Net book amounts					
31 December 2015	7,066	802	252	8,120	
31 December 2014	6,930	808	252	7,990	
Analysis as at 31 December 2015					
Owned	3,066	768	183	4,017	
Finance leased	3,853		6	3,859	
Progress payments	147	34	63	244	
	7,066	802	252	8,120	
Analysis as at 31 December 2014					
Owned	3,148	743	159	4,050	
Finance leased	3,664		8	3,672	
Progress payments	118	65	85	268	
	6,930	808	252	7,990	
				Group	
£ million				2015	2014
The net book amount of property comprises:					
Freehold				249	248
Long-leasehold improvements				282	282
Short-leasehold improvements ¹				271	278
As at 31 December				802	808

¹ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2015, bank and other loans of the Group are secured on fleet assets with a cost of £1,069 million (2014: £920 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2014: £230 million).

12 Property, plant and equipment continued

b Company

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2014	13,411	1,428	770	15,609
Additions	1,283	46	67	1,396
Disposals	(454)	(2)	(1)	(457)
Reclassifications	3			3
Balance as at 31 December 2014	14,243	1,472	836	16,551
Additions	920	37	44	1,001
Disposals	(735)	(1)	(6)	(742)
Reclassifications	(134)			(134)
As at 31 December 2015	14,294	1,508	874	16,676
Depreciation and impairment				
Balance at 1 January 2014	7,245	652	577	8,474
Charge for the year	702	52	29	783
Disposals	(350)	(1)	(1)	(352)
Balance as at 31 December 2014	7,597	703	605	8,905
Charge for the year	623	40	36	699
Disposals	(666)		(6)	(672)
Reclassifications	(73)			(73)
As at 31 December 2015	7,481	743	635	8,859
Net book amounts				
31 December 2015	6,813	765	239	7,817
31 December 2014	6,646	769	231	7,646
Analysis as at 31 December 2015				
Owned	2,824	731	170	3,725
Finance leased	3,842		6	3,848
Progress payments	147	34	63	244
	6,813	765	239	7,817
Analysis as at 31 December 2014				
Owned	2,878	704	138	3,720
Finance leased	3,650		8	3,658
Progress payments	118	65	85	268
	6,646	769	231	7,646
£ million	Company			
	2015	2014		
The net book amount of property comprises:				
Freehold		211	209	
Long-leasehold improvements		282	282	
Short-leasehold improvements ¹		272	278	
As at 31 December		765	769	

¹ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2015, bank and other loans of the Company are secured on fleet assets with a cost of £769 million (2014: £600 million) and letters of credit of £230 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2014: £230 million).

13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £6,458 million for the Group (2014: £6,658 million) and £6,454 million for the Company (2014: £6,651 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 £6,420 million for the acquisition of 18 Airbus A350s (from 2018 to 2021), 29 Boeing 787s (from 2016 to 2021), 26 Airbus A320s (from 2016 to 2022), two Airbus A380s (in 2016), ten Airbus A321s (from 2018 to 2019) and two Embraer E190s (in 2016).

14 Non-current assets held for sale

The non-current assets held for sale of £4 million in the Group and the Company represent three Boeing 737-400 airframes and nine Boeing 737-400 engines that have been stood down from use and are being marketed for sale. These are held at cost less accumulated depreciation and impairment. Total impairment charges recognised in the income statement relating to those assets during the year was £4 million (2014: nil).

At 31 December 2014, the non-current assets held for sale of £5 million in the Group and the Company consisted of six Boeing 737-400 engines.

15 Intangible assets

a Group

£ million					Group
	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 January 2014	40	728	26	311	1,105
Additions		1		81	82
Exchange differences		(2)			(2)
Balance as at 31 December 2014	40	727	26	392	1,185
Additions				77	77
Disposals			(20)	(7)	(27)
Exchange differences		(3)			(3)
As at 31 December 2015	40	724	6	462	1,232
Amortisation					
Balance at 1 January 2014		60		164	224
Charge for the year				12	12
Balance as at 31 December 2014		60		176	236
Charge for the year ¹				22	22
Disposals				(6)	(6)
Exchange differences		(1)			(1)
As at 31 December 2015		59		192	251
Net book amounts					
31 December 2015	40	665	6	270	981
31 December 2014	40	667	26	216	949

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

15 Intangible assets continued

b Company

£ million	Company			
	Landing rights	Emissions allowances	Software	Total
Cost				
Balance at 1 January 2014	691	26	310	1,027
Additions	1		81	82
Balance as at 31 December 2014	692	26	391	1,109
Additions			77	77
Disposals		(20)	(7)	(27)
As at 31 December 2015	692	6	461	1,159
Amortisation				
Balance at 1 January 2014	49		163	212
Charge for the year			12	12
Balance as at 31 December 2014	49		175	224
Charge for the year			22	22
Disposals			(6)	(6)
As at 31 December 2015	49		191	240
Net book amounts				
31 December 2015	643	6	270	919
31 December 2014	643	26	216	885

16 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 cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on two CGUs. 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 the OpenSkies CGU as it contains landing rights within the EU.

An impairment review involves the comparison of the carrying value of the CGU to the recoverable amount. An impairment charge is recognised to the extent that the carrying value exceeds the recoverable amount.

a Network airline operations

£ million	2015				2014			
	Emissions allowances	Landing rights	Goodwill	Total	Emissions allowances	Landing rights	Goodwill	Total
Network airline operations	6	646	40	692	26	646	40	712

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 tax and the risks specific to the assets.

No impairment charge has arisen as a result of the review performed on the network airline operations. No reasonable possible change in the key assumptions for the network airline operation would cause the carrying amount of goodwill and intangible assets with indefinite economic life to exceed the recoverable amount.

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

a Network airline operations continued

Key assumptions

	2015	2014
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	8.6%	10.0%
Long-term growth rate	2.5%	2.5%

b OpenSkies

£ million	Landing rights	2015		2014	
		Total	Landing rights	Total	Total
Carrying value of OpenSkies' intangible assets ¹	19	19	21	21	21

¹ Included within total intangible assets allocated to the OpenSkies CGU are £16 million (2014: £18 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 three-year period. Cash flows for the next two years have been projected in line with expected growth using the latest forecast approved by the Board. This includes consideration of historic and future growth in the countries that OpenSkies operates. 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 OpenSkies operates. The pre-tax discount rate applied to the cash flow projections is derived from OpenSkies' post-tax weighted average cost of capital, adjusted for tax and the risks specific to the assets.

The impairment review of OpenSkies resulted in no impairment during the year (2014: no impairment).

The recoverable amount of the assets within OpenSkies exceeds the carrying value by £5 million (2014: £3 million). If the discount rate were increased by 135 basis points (2014: 70 basis points) or the operating margin were to decrease by 30 per cent (2014: 8 per cent), the headroom would reduce to £nil.

Key assumptions

	2015	2014
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	9.4%	10.0%
Long-term growth rate	1.7%	2.0%

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 2015 three Boeing 737-400 airframes and nine Boeing 737-400 engines were written down to their net realisable value and an impairment charge of £4 million was recognised. All were classed as held for sale as at 31 December 2015.

17 Investments

a Group

Investment in associates

£ million	2015	2014
Balance at 1 January	76	115
Additions	1,569	
Exchange differences	(6)	(6)
Share of attributable results	149	39
Share of movements on other reserves	(1)	(72)
Dividends received	(12)	
As at 31 December	1,775	76

	Percentage of equity owned	Measurement basis	Principal activities	Holding	Country of incorporation and principal operations
IB Opco Holding S.L ('Iberia') ¹	13.55	Equity method	Airline operations	Ordinary shares	Spain
Avios Group (AGL) Limited ('AGL')	86.26	Equity method	Airline marketing	Ordinary shares	England

¹ Held by a subsidiary company

The following summarised financial information of the Group's investment in associates is shown below:

£ million	2015	2014
Non-current assets	2,498	2,433
Current assets	2,890	1,541
Current liabilities	(2,802)	(1,705)
Non-current liabilities	(1,642)	(1,770)
Net equity	944	499
Group's carrying amount of the investment	1,768	68
Goodwill attributable to investments in associates	7	8
Total investment in associate	1,775	76
Revenues	4,028	3,228
Operating costs	(3,735)	(3,544)
Other income and costs (including tax)	256	594
Net profit after tax	549	278
Other comprehensive income	(9)	
Total comprehensive income for the year (net of tax)	540	278

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

On 28 January 2015, BA entered into a business transfer agreement with its wholly-owned subsidiary Avios Group (AGL) Limited ("AGL"). This transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in the amount of 1.6 billion fully paid up Class A Shares in AGL.

17 Investments continued

a Group continued

Following the restructure, BA's shareholding has reduced from 100% of the existing AGL business to 86% of the larger combined customer loyalty business, whilst retaining the economic benefit of ownership through dividend distribution. As a result BA no longer has the power to affect the returns of AGL as it now falls within the governance structure of IAG.

From 28 January 2015, AGL was derecognised as a subsidiary of BA and recognised as an associate at the fair value of the retained interest. On initial recognition the investment in AGL was measured at £1.6 billion with a gain measured on loss of control of a subsidiary of £1.5 billion. The investment value recognised on 28 January 2015 was determined by an independent third party's assessment of the value of the new larger AGL loyalty business. The gain is not considered to be distributable as consideration was received in the form of shares. The effect of the disposal is detailed below:

£ million	AGL 2015
Fair value of shares issued	1,569
Total consideration on disposal	1,569
Assets/(liabilities) at disposal date	
Property, plant and equipment	12
Intangible assets	1
Other assets	299
Trade and other payables	(276)
Net assets	36
Profit on disposal	1,533

b Company

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

£ million	Cost	Provisions	Company	
			Total 2015	Total 2014
Balance at 1 January	2,278	(952)	1,326	2,453
Exchange differences	(11)		(11)	(9)
Additions	7		7	10
Disposals ¹	(89)	89		(1,029)
Provision ²		(7)	(7)	(99)
As at 31 December	2,185	(870)	1,315	1,326

¹ BA has de-recognised several investments in subsidiaries during the year following liquidation. The net carrying value after provisions on these investments at the date of liquidation was less than £1 million.

² The prior year charge of £99 million related mainly to the £89 million impairment in the Company's investment in AGL as the recoverable amount of the existing customer loyalty programme, which excluded the BA Executive Club and the Iberia Plus programmes, which was expected to be lower than the carrying value of the investment.

The Group and Company's principal investments in subsidiaries, associates and other investments are listed on pages 73 and 75.

18 Available-for-sale financial assets

£ million	Group		Company	
	2015	2014	2015	2014
Listed securities				
International Consolidated Airlines Group S.A.		4		4
Comair Limited	7	15		
Unlisted securities (see note 27b)	40	44	40	44
Available-for-sale financial assets	47	63	40	48

19 Trade receivables and other assets

Other non-current assets are set out below:

£ million	Group		Company	
	2015	2014	2015	2014
Prepayments and accrued income	14	17		
Other debtors	63	52	52	61
Amounts owed by fellow group undertakings	263		263	
Amounts owed by subsidiaries			126	134
Other non-current assets	340	69	441	195

Trade receivables and other current assets are set out below:

£ million	Group		Company	
	2015	2014	2015	2014
Trade receivables	556	550	542	535
Provision for doubtful receivables	(15)	(19)	(15)	(19)
Net trade receivables	541	531	527	516
Prepayments and accrued income	454	255	339	153
Other debtors	131	71	132	74
Amounts owed by fellow group undertakings	29		29	
Amounts owed by subsidiaries			260	243
Trade receivables and other current assets	1,155	857	1,287	986

The ageing analysis of trade receivables is as follows:

£ million	Group		Company	
	2015	2014	2015	2014
Neither past due nor impaired	492	456	478	442
Past due but not impaired:				
< 30 days	25	33	25	32
30 - 60 days	12	12	12	12
> 60 days	12	30	12	30
Net trade receivables	541	531	527	516

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

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

a Cash and cash equivalents

£ million	Group		Company	
	2015	2014	2015	2014
Cash at bank and in hand	848	649	790	594
Short-term deposits falling due within three months		25		25
Cash and cash equivalents	848	674	790	619
Other current interest-bearing deposits maturing after three months	1,199	1,849	1,199	1,849

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 £848 million for the Group (2014: £674 million) and £790 million for the Company (2014: £619 million).

At 31 December 2015, the Group and Company had no outstanding bank overdrafts (2014: £nil).

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

At 31 December 2015 cash and cash equivalents includes £53 million of restricted cash in Nigeria.

b Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2015	2014
Increase in cash and cash equivalents from continuing operations	175	34
Net cash flow used in discontinued operations		(12)
(Decrease)/increase in other current interest-bearing deposits	(650)	629
Net cash outflow from decrease in debt and lease financing	592	734
New loans and finance leases taken out and hire purchase arrangements made	(488)	(1,391)
Increase in net debt resulting from cash flow	(371)	(6)
Exchange differences and other non-cash movements	(66)	(52)
Increase in net debt during the year	(437)	(58)
Net debt at 1 January	(2,026)	(1,968)
Net debt as at 31 December	(2,463)	(2,026)

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

21 Trade and other payables

£ million	Group		Company	
	2015	2014	2015	2014
Trade creditors	971	911	922	867
Amounts owed to subsidiary companies			1,541	1,699
Other creditors	512	514	507	509
Other taxation and social security	33	34	32	32
Dividends payable	1		1	
Sales in advance of carriage	2,503	1,572	2,390	1,475
Accruals and deferred income ¹	177	1,189	166	1,013
As at 31 December	4,197	4,220	5,559	5,595

¹ Includes deferred income from customer loyalty programmes of £76 million (2014: £1,015 million) for the Group and £69 million (2014: £869 million) for the Company.

22 Other non-current liabilities

£ million	Group		Company	
	2015	2014	2015	2014
Accruals and deferred income	62	90	36	60
As at 31 December	62	90	36	60

23 Long-term borrowings

£ million	Group		Company	
	2015	2014	2015	2014
a Current				
Bank and other loans ¹	396	112	327	71
Finance leases ²	332	316	353	335
Loans from subsidiaries			26	15
As at 31 December	728	428	706	421
b Non-current				
Bank and other loans ¹	480	570	325	352
Finance leases ²	3,302	3,551	3,361	3,632
Loans from subsidiaries			334	370
As at 31 December	3,782	4,121	4,020	4,354

¹ Bank and other loans are repayable up to 2027. Bank and other loans of the Group amounting to £592 million (2014: £425 million) and bank loans of the Company amounting to £368 million (2014: £166 million) are secured on aircraft. Finance leases and hire purchase arrangements are all secured on aircraft or other property, plant and equipment.

² Included in finance leases for the Company is £86 million (2014: £107 million) of finance leases with subsidiaries of the Group, of which £24 million (2014: £21 million) is classified as current.

c Bank and other loans

£ million	Group		Company	
	2015	2014	2015	2014
£250 million fixed rate 8.75 per cent eurobonds 2016 (i)	250	249	250	249
Floating rate sterling mortgage loans secured on aircraft (ii)	40	98	17	70
Floating rate US dollar mortgage loans secured on aircraft (iii)	38	53	38	49
Fixed rate sterling mortgage loans secured on aircraft (iv)	74	91		
Floating rate euro mortgage loan secured on aircraft (v)	239	47	239	47
Fixed rate Chinese yuan mortgage loans secured on aircraft (vi)	74		74	
Fixed rate US dollar mortgage loan secured on aircraft (vii)	127	136		
European Investment Bank sterling loans secured on property (viii)	5	8	5	8
Fixed rate unsecured US dollar mortgage loan (ix)	29		29	
	876	682	652	423
Less: current instalments due on bank and other loans	396	112	327	71
Non-current bank and other loans as at 31 December	480	570	325	352

(i) £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment on 23 August 2016.

(ii) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.10 per cent and 1.27 per cent. The loans are repayable between 2016 and 2019.

(iii) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest between 1.31 per cent and 2.99 per cent. The loans are repayable between 2016 and 2017.

(iv) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 6.14 per cent and 6.30 per cent. The loans are repayable between 2016 and 2018.

(v) The floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.43 per cent and 1.50 per cent. The loan is repayable between 2024 and 2027.

(vi) Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.

(vii) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear interest of between 3.81 per cent and 4.76 per cent and are repayable between 2021 and 2026.

(viii) European Investment Bank sterling loan is secured on certain property assets of the Group and bears interest of 0.71 per cent. The loan is repayable in 2017.

(ix) Fixed rate US dollar fixed term loan is unsecured. This loan bears interest of 4.22 per cent and is repayable in 2017.

23 Long-term borrowings continued

d Total loans, finance leases and hire purchase arrangements

£ million	Group		Company	
	2015	2014	2015	2014
Loans:				
Bank:				
US dollar	\$246	\$295	\$57	\$76
euro	€328	€60	€328	€60
Chinese yuan	¥716		¥716	
Sterling	£119	£198	£21	£79
	626	433	402	174
Fixed rate bonds:				
Sterling	£250	£249	£250	£249
	250	249	250	249
Loans from subsidiary undertakings:				
US dollar			\$209	\$233
euro			€300	€300
			360	385
Finance leases:				
US dollar	\$2,802	\$3,209	\$2,794	\$3,197
euro	€1,170	€1,071	€1,170	€1,071
Japanese yen	¥44,599	¥37,104	¥44,599	¥37,104
Sterling	£656	£771	£742	£878
	3,634	3,867	3,714	3,967
As at 31 December	4,510	4,549	4,726	4,775

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 exercisable at the option of the Group. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

£ million	Group		Company	
	2015	2014	2015	2014
Future minimum payments due:				
Within one year	415	408	440	431
After more than one year but within five years	1,839	1,788	1,903	1,878
In five years or more	1,810	2,308	1,810	2,308
	4,064	4,504	4,153	4,617
Less: finance charges	430	637	439	650
Present value of minimum lease and hire purchase payments	3,634	3,867	3,714	3,967
The present value of minimum lease and hire purchase payments is analysed as follows:				
Within one year	332	316	353	335
After more than one year but within five years	1,611	1,507	1,670	1,588
In five years or more	1,691	2,044	1,691	2,044
As at 31 December	3,634	3,867	3,714	3,967

24 Operating lease commitments

The Group has entered into commercial leases on certain properties and aircraft. These leases have durations ranging from five years for aircraft to 130 years for ground leases. Certain leases contain options for renewal.

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

a Fleet

£ million	Group		Company	
	2015	2014	2015	2014
Within one year	127	125	98	118
Between one and five years	402	415	361	399
Over five years	116	195	116	194
As at 31 December	645	735	575	711

b Property

£ million	Group		Company	
	2015	2014	2015	2014
Within one year	76	83	74	80
Between one and five years	228	230	221	223
Over five years	1,774	1,594	1,764	1,594
As at 31 December	2,078	1,907	2,059	1,897

c Sub-leasing

The Group and Company sub-lease surplus rental properties and aircraft assets held under non-cancellable operating leases to third parties and subsidiary companies. These leases have remaining terms of one to 22 years. Future minimum rentals receivable under non-cancellable operating leases are as follows:

£ million	Group		Company	
	2015	2014	2015	2014
Within one year	3	4	3	4
Between one and five years	3	4	3	4
Over five years	2	2	2	2
As at 31 December	8	10	8	10

25 Provisions for liabilities

	Group				
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2015					
Current	19	42	3	63	127
Non-current	188		1	21	210
	207	42	4	84	337
Arising during the year	54	36	103	40	233
Utilised	(17)	(43)	(25)	(59)	(144)
Release of unused amounts	(11)	(9)	(1)	(23)	(44)
Exchange differences	8			(1)	7
Unwinding of discount	1			1	2
As at 31 December 2015	242	26	81	42	391
Analysis:					
Current	23	26	80	29	158
Non-current	219		1	13	233
	242	26	81	42	391
	Company				
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2015					
Current	6	42	3	45	96
Non-current	121		1	11	133
	127	42	4	56	229
Arising during the year	30	36	103	38	207
Utilised	(7)	(43)	(25)	(48)	(123)
Release of unused amounts	(10)	(9)	(1)	(15)	(35)
Exchange differences	5			(1)	4
Unwinding of discount	1				1
As at 31 December 2015	146	26	81	30	283
Analysis:					
Current	2	26	80	19	127
Non-current	144		1	11	156
	146	26	81	30	283

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.

The Group is subject to investigations into cargo and/or passenger fuel surcharges and related litigation in various jurisdictions and during the year £25 million was paid in relation to these (2014: £7 million). The Group has also been 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 and is outlined further in note 32.

Following an appeal to the General Court of the European Union, the 2010 European Commission decision on alleged cartel activity was partially annulled and BA was advised that the £75 million fine would be refunded in full. The refund was received in February 2016. It is not yet clear what the European Commission's next steps will be. At 31 December 2015, the Group recognised an asset included in Other current assets and an equal litigation provision, as it is not possible to predict the outcome of the proceedings.

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans.

25 Provisions for liabilities continued

Other provisions include: compensation due to customers whose flights were significantly delayed, unless the airline can prove that the delay was caused by circumstances beyond its control; 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; and provisions relating to unfavourable contracts.

26 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 and the IAG Management Committee. 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 IAG Management Committee, is to hedge between 60 per cent and 100 per cent of fuel consumption for the next quarter; an average of 45 per cent between quarters two and five (with an average flexibility of plus 15/minus ten per cent); and between nil and 30 per cent between quarters six and eight, with the flexibility to hedge up to 20 per cent in quarters nine to twelve.

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		
			2015		
Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	<i>Increase/(decrease) in fuel price per cent</i>	<i>Effect on profit before tax £ million</i>	<i>Effect on equity £ million</i>
			2014		
			Increase/(decrease)		
30	50	306	<i>30</i>	<i>(6)</i>	<i>496</i>
(30)	(36)	(358)	<i>(30)</i>	<i>8</i>	<i>(508)</i>

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

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

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar, euro, yen and yuan exchange rates, with all other variables held constant, on profit/(loss) before tax and equity. These represent both the Group and the Company as the majority of the foreign currency risks are borne by the Company.

Group	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
	per cent Increase /(decrease)	£ million Increase /(decrease)	£ million Increase /(decrease)	per cent Increase /(decrease)	£ million Increase /(decrease)	£ million Increase /(decrease)
2015	10 (10)		(162) 160	10 (10)	32 (32)	(135) 135
<i>2014</i>	<i>10</i> <i>(10)</i>	<i>(2)</i> <i>2</i>	<i>(158)</i> <i>154</i>	<i>10</i> <i>(10)</i>	<i>2</i> <i>(2)</i>	<i>(127)</i> <i>120</i>

Group	Strengthening/ (weakening) in yen rate	Effect on profit before tax	Effect on equity	Strengthening/ (weakening) in yuan rate	Effect on profit before tax	Effect on equity
	per cent Increase /(decrease)	£ million Increase /(decrease)	£ million Increase /(decrease)	per cent Increase /(decrease)	£ million Increase /(decrease)	£ million Increase /(decrease)
2015	10 (10)		(23) 23	10 (10)		(7) 7
<i>2014</i>	<i>10</i> <i>(10)</i>	<i>(2)</i> <i>2</i>	<i>(19)</i> <i>19</i>			

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 less than £1 million adverse (2014: £1 million favourable) impact on the Group and Company's shareholders' equity and income statement. A 50 basis point decrease in interest rates would have resulted in less than £1 million favourable (2014: £1 million adverse) impact on shareholders' equity and the income statement for both the Group and the Company.

26 Financial risk management objectives and policies continued

d Counterparty risk

The Group is exposed to counterparty 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 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 27.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 32.

e Liquidity risk

The Company's 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 as at 31 December 2015 assigned by Moody's and Standard and Poor's, respectively, were Ba2 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 2015 the Group and Company had unused overdraft facilities of £10 million (2014: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 December 2015 (2014: £25 million).

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

million	31 December 2015	
	Currency	£ equivalent
US dollar facility expiring September 2016	\$322	216
US dollar facility expiring October 2016	\$509	341
US dollar facility expiring December 2016	\$416	279
US dollar facility expiring December 2021	\$1,164	780
US dollar facility expiring June 2022	\$1,750	1,173

million	31 December 2014	
	Currency	£ equivalent
US dollar facility expiring October 2015	\$805	515
Euro facility expiring November 2015	€262	206
Renminbi facility expiring November 2015	RMB750	77
US dollar facility expiring September 2016	\$644	412
US dollar facility expiring October 2016	\$509	325
US dollar facility expiring December 2021	\$1,164	745

26 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date 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 2015
Financial assets						
Cash and cash equivalents	848					848
Other current interest-bearing deposits	1,014	185				1,199
Trade receivables	541					541
Other current assets	232	31				263
Other non-current assets			110	224		334
Derivative financial instruments:						
Forward currency contracts	34	23	10	2		69
Currency option contracts	1	1				2
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(185)	(231)	(504)	(1,335)	(1,809)	(4,064)
Fixed rate borrowings	(31)	(323)	(82)	(123)	(59)	(618)
Floating rate borrowings	(45)	(38)	(37)	(74)	(151)	(345)
Trade and other payables	(1,548)					(1,548)
Other long-term liabilities			(3)			(3)
Derivative financial instruments:						
Forward currency contracts	(1)			(1)		(2)
Fuel derivatives	(378)	(168)	(85)	(16)		(647)
As at 31 December	482	(520)	(591)	(1,323)	(2,019)	(3,971)

£ million						Group
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2014
Financial assets						
Cash and cash equivalents	674					674
Other current interest-bearing deposits	1,213	636				1,849
Trade receivables	531					531
Other current assets	84					84
Other non-current assets			52			52
Derivative financial instruments:						
Forward currency contracts	38	28	18			84
Currency option contracts	1	3				4
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(207)	(201)	(411)	(1,377)	(2,308)	(4,504)
Fixed rate borrowings	(28)	(38)	(340)	(97)	(56)	(559)
Floating rate borrowings	(29)	(54)	(62)	(34)	(33)	(212)
Trade and other payables	(1,505)					(1,505)
Derivative financial instruments:						
Fuel derivatives	(447)	(244)	(139)			(830)
As at 31 December	325	130	(882)	(1,508)	(2,397)	(4,332)

26 Financial risk management objectives and policies continued

e Liquidity risk continued

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

£ million	Company					Total 2015
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	
Financial assets						
Cash and cash equivalents	790					790
Other current interest-bearing deposits	1,014	185				1,199
Trade receivables	527					527
Other current assets	483	46				529
Other non-current assets			135	293	37	465
Derivative financial instruments:						
Forward currency contracts	34	23	10	2		69
Currency option contracts	1	1				2
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(196)	(244)	(530)	(1,373)	(1,810)	(4,153)
Fixed rate borrowings	(42)	(290)	(82)	(153)	(550)	(1,117)
Floating rate borrowings	(34)	(37)	(32)	(65)	(151)	(319)
Trade and other payables	(3,028)					(3,028)
Derivative financial instruments:						
Forward currency contracts	(1)			(1)		(2)
Fuel derivatives	(378)	(168)	(85)	(16)		(647)
As at 31 December	(830)	(484)	(584)	(1,313)	(2,474)	(5,685)

£ million	Company					Total 2014
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	
Financial assets						
Cash and cash equivalents	619					619
Other current interest-bearing deposits	1,213	636				1,849
Trade receivables	516					516
Other current assets	353					353
Other non-current assets			195			195
Derivative financial instruments:						
Forward currency contracts	38	28	18			84
Currency option contracts	1	3				4
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(218)	(213)	(436)	(1,442)	(2,308)	(4,617)
Fixed rate borrowings	(30)	(30)	(317)	(117)	(603)	(1,097)
Floating rate borrowings	(21)	(52)	(52)	(20)	(34)	(179)
Trade and other payables	(3,132)					(3,132)
Derivative financial instruments:						
Fuel derivatives	(447)	(244)	(139)			(830)
As at 31 December	(1,108)	128	(731)	(1,579)	(2,945)	(6,235)

26 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities

The Group enters into derivative transactions under master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated. The termination value is assessed and only a single amount is payable in settlement of all transactions.

Certain transactions do not meet the criteria for offsetting in the balance sheet. This is because the Group does not have any current legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of derivatives recognised in the Group and Company balance sheets that are subject to the above.

£ million	Group and Company				
	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related financial instruments that are not offset	Net amount
31 December 2015					
Financial assets					
- Forward currency contracts	69		69		69
- Currency option contracts	4	(2)	2		2
- Fuel derivatives	12	(12)			
	85	(14)	71		71
Financial liabilities					
- Forward currency contracts	(2)		(2)		(2)
- Currency option contracts	(2)	2			
- Fuel derivatives	(659)	12	(647)		(647)
	(663)	14	(649)		(649)
	(578)		(578)		(578)

£ million	Group and Company				
	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related financial instruments that are not offset	Net amount
31 December 2014					
Financial assets					
- Forward currency contracts	84		84		84
- Currency option contracts	4		4		4
- Fuel derivatives	4	(4)			
	92	(4)	88		88
Financial liabilities					
- Fuel derivatives	(834)	4	(830)		(830)
	(834)	4	(830)		(830)
	(742)		(742)		(742)

g 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 (adjusted net debt as a percentage of total capital adjusted for operating leases). 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. Total capital is defined as the total of share capital and share premium (see note 28), reserves (see note 30a), non-controlling interests (see note 30a) and net debt (see note 20b).

27 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2015 and 31 December 2014 by nature and classification for measurement purposes is as follows:

At 31 December 2015

£ million	Financial assets			Non-financial assets	Group Total carrying amount
	Loans and receivables	Derivatives used for hedging	Available for sale		
Non-current financial assets					
Available-for-sale financial assets			47		47
Derivative financial instruments		12			12
Other non-current assets ¹	326			14	340
Current financial assets					
Trade receivables	541				541
Derivative financial instruments		59			59
Other current assets ¹	259			355	614
Other current interest-bearing deposits	1,199				1,199
Cash and cash equivalents	848				848

¹ Within the Company, total other non-current assets are £441 million, all of which are classified as loans and receivables. Total other current assets in the Company were £760 million, of which £519 million were considered loans and receivables and £241 million were non-financial assets.

£ million	Financial liabilities		Non-financial liabilities	Group Total carrying amount
	Loans and payables	Derivatives used for hedging		
Non-current financial liabilities				
Interest-bearing long-term borrowings		3,782		3,782
Derivative financial instruments			101	101
Other long-term liabilities ¹		3	59	62
Current financial liabilities				
Current portion of long-term borrowings		728		728
Trade and other payables ¹		1,548	2,649	4,197
Derivative financial instruments			548	548

¹ Within the Company, total other long-term liabilities were £36 million, all of which are classified as non-financial liabilities. Total trade and other payables in the Company were £5,559 million, of which £3,028 million were loans and payables and £2,531 million were non-financial liabilities.

27 Financial instruments continued

a Financial assets and liabilities by category continued

At 31 December 2014

£ million	<i>Financial assets</i>			Group	
	<i>Loans and receivables</i>	<i>Derivatives used for hedging</i>	<i>Available for sale</i>	<i>Non-financial assets</i>	<i>Total carrying amount</i>
Non-current financial assets					
Available-for-sale financial assets			63		63
Derivative financial instruments		18			18
Other non-current assets ¹	52			17	69
Current financial assets					
Trade receivables	531				531
Derivative financial instruments		70			70
Other current assets ¹	84			242	326
Other current interest-bearing deposit	1,849				1,849
Cash and cash equivalents	674				674

¹ Within the Company, total other non-current assets are £195 million, all of which are classified as loans and receivables. Total other current assets in the Company were £470 million, of which £328 million were considered loans and receivables and £142 million were non-financial assets.

£ million	<i>Financial liabilities</i>			Group	
	<i>Loans and payables</i>	<i>Derivatives used for hedging</i>		<i>Non-financial liabilities</i>	<i>Total carrying amount</i>
Non-current financial liabilities					
Interest-bearing long-term borrowings		4,121			4,121
Derivative financial instruments			139		139
Other long-term liabilities ¹		4		86	90
Current financial liabilities					
Current portion of long-term borrowings		428			428
Trade and other payables ¹		1,505		2,715	4,220
Derivative financial instruments			691		691

¹ Within the Company, total other long-term liabilities were £60 million, all of which are classified as non-financial liabilities. Total trade and other payables in the Company were £5,595 million, of which £3,132 million were loans and payables and £2,463 million were non-financial liabilities.

27 Financial instruments continued

b Fair values of financial assets and financial liabilities

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

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

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2015 are set out below:

£ million	Fair value			Group
	Level 1	Level 2	Level 3	Carrying value
				Total
Financial assets:				
Available-for-sale financial assets ¹	7		40	47
Forward currency contracts ²		69		69
Currency option contracts ²		2		2
Financial liabilities:				
Interest-bearing loans and borrowings: ¹				
Finance lease and hire purchase obligations		3,829		3,829
Fixed rate borrowings	261	379		640
Floating rate borrowings		331		331
Forward currency contracts ³		2		2
Fuel derivatives ³		647		647

¹ Within the Company, available-for-sale financial assets of £40 million are fair valued at £40 million (Level 3), finance lease and hire purchase obligations of £3,714 million are fair valued at £3,886 million (Level 2), fixed rate borrowings of £494 million are fair valued at £526 million (Level 1: £261 million and Level 2: £265 million) and floating rate borrowings of £299 million are fair valued at £299 million (Level 2).

² Current portion of derivative financial assets is £59 million.

³ Current portion of derivative financial liabilities is £548 million.

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2014 are set out below:

£ million	Fair value			Group
	Level 1	Level 2	Level 3	Carrying value
				Total
Financial assets:				
Available-for-sale financial assets ¹	19		44	63
Forward currency contracts ²		84		84
Currency option contracts ²		4		4
Financial liabilities:				
Interest-bearing loans and borrowings: ¹				
Finance lease and hire purchase obligations		4,101		3,867
Fixed rate borrowings	273	247		520
Floating rate borrowings		206		206
Cross currency swaps ³		1		1
Fuel derivatives ³		830		830

¹ Within the Company, available-for-sale financial assets of £48 million are fair valued at £48 million (Level 1: £4 million and Level 3: £44 million), finance lease and hire purchase obligations of £3,967 million are fair valued at £4,211 million (Level 2), fixed rate borrowings of £634 million are fair valued at £674 million (Level 1: £508 million and Level 2: £166 million) and floating rate borrowings of £174 million are fair valued at £174 million (Level 2).

² Current portion of derivative financial assets is £70 million.

³ Current portion of derivative financial liabilities is £691 million.

27 Financial instruments continued

b Fair values of financial assets and financial liabilities continued

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

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

Available-for-sale financial assets and loan notes

Listed fixed asset investments (Level 1) are stated at market value as at 31 December 2015. For unquoted investments (Level 3) where the fair value cannot be measured reliably, the investment is stated at historic cost less accumulated impairment losses.

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

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

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

The fair value of the Group's interest-bearing borrowings and loans including leases, are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2015 (Level 2).

Euro-sterling bond 2016

This is stated at quoted market value (Level 1).

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

c Level 3 financial assets reconciliation

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

£ million	Group		Company	
	2015	2014	2015	2014
Balance at 1 January	44	10	44	10
Repayment of loan notes (classified as available-for-sale financial assets)	(4)	(5)	(4)	(5)
Interest accrued on loan notes (classified as available-for-sale financial assets)		1		1
Fair value uplift on available-for-sale financial asset ¹		38		38
As at 31 December	40	44	40	44

¹ During 2014 certain shareholders disposed of their combined interest in The Airline Group Limited, allowing the Group to estimate the fair value of the investment held which resulted in a fair value uplift of £38 million in the year ended 31 December 2014. The re-measurement was recognised in the statement of other comprehensive income as available-for-sale financial assets – marked to market.

27 Financial instruments continued

d Cash flow hedges

At 31 December 2015 the Group and Company had 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 and Company					Total 2015
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	5	11	24	19	(7)	52
Forward contracts to hedge future payments	(32)	(23)	(9)	(1)		(65)
Hedges of future fuel purchases	378	186	67	8		639
	351	174	82	26	(7)	626
Related deferred tax (credit)						(128)
Total amount included within equity						498

Notional value of financial instruments used as cash flow hedging instruments:

million	Group and Company Notional amount
To hedge future currency revenues against euro	€160
To hedge future operating payments in US dollars	\$1,551
Hedges of future fuel purchases	\$3,111
Debt repayments to hedge future revenue	
- US dollars	\$3,061
- euro	€1,498
- yen	¥41,698
- yuan	¥716

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.

27 Financial instruments continued

d Cash flow hedges continued

£ million	Group and Company					Total 2014
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	12	5	12	39	(35)	33
Forward contracts to hedge future payments	(40)	(30)	(17)			(87)
Hedges of future fuel purchases	451	276	156			883
	423	251	151	39	(35)	829
Related deferred tax (credit)						(165)
Total amount included within equity						664

Notional value of financial instruments used as cash flow hedging instruments:

million	Group Notional amount
To hedge future currency revenues against US dollars	\$730
To hedge future operating payments in US dollars	\$1,483
Hedges of future fuel purchases	\$4,090
Debt repayments to hedge future revenue	
- US dollars	\$3,307
- euro	€1,130
- yen	¥34,335

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a loss of £54 million (2014: £37 million). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases.

28 Share capital and share premium

	Group and Company			
	2015		2014	
	Number of shares 000s	£ million	Number of shares 000s	£ million
Share capital allotted, called up and fully paid				
A1 Ordinary shares of £289.70 each	897	260	897	260
A2 Ordinary shares of £289.70 each	99	29	99	29
B Ordinary shares of £1 each	1,000	1	1,000	1
C Ordinary shares of £1 each	148		148	
As at 31 December	2,144	290	2,144	290

£ million	Group and Company	
	2015	2014
Share premium as at 31 December	1,512	1,512

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 have minimal economic rights attached to them. The C class ordinary shareholders have full economic rights in accordance with the percentage of shares held, however are non-voting.

29 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 of specified performance targets by the BA Group for BA granted options and by the IAG Group for IAG granted shares.

The share-based payments charge has been recorded as part of 'employee costs' (note 8) in the income statement as follows:

£ million	2015	2014
IPSP and IDBP schemes recharged from IAG (b)	10	11
Total share-based payments charge recorded in employee costs	10	11

a BA granted schemes

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 to 31 March 2005, when there was a single re-test after a further year which measured performance of BA 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. At 31 December 2015 there are no awards outstanding.

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.

Outstanding options from BA granted schemes are set out below:

£ million	Options with an exercise price ³	
	2015	2014
As at 1 January	1	3
Exercised during the year ¹	(1)	(2)
Expired/cancelled		
As at 31 December²		1
Of which exercisable		1

¹ The average share price at the date of exercise for options exercised was £5.50 (2014: £4.13).

² The weighted average remaining life of options is zero months (2014: six months).

³ The shares outstanding at the year-end have an exercise price of £2.76 (2014: £2.76).

BA settles all options exercised with IAG shares, held on the balance sheet as 'available-for-sale financial assets'. The Group monitors the number of listed IAG ordinary shares held against the exposure to exercisable options, investing in additional shares at appropriate intervals. At 31 December 2015, an insignificant number of shares were held (2014: 1 million).

b IPSP and IDBP schemes recharged from IAG

BA participates in two IAG share-based payment schemes, with awards to BA employees being made in plans operated by IAG that represent rights over its ordinary shares. The costs of these awards are recharged from IAG based on their determination of award fair values. The amount outstanding at the year end is disclosed in note 33 (related party transactions). A brief description of the schemes is set out below:

i) IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan, 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. For 2011 to 2014, 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. From 2015, the award was made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made between 2012 and 2014 will vest based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The award made in 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of return on invested capital targets.

ii) IAG Incentive Award Deferral Plan

In 2011 the Group introduced the IAG Incentive Award Deferral Plan (IADP), 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 will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

30 Other reserves and non-controlling interests

a Group

£ million	Group				
	Retained earnings	Unrealised gains and losses	Currency translation	Total	Non-controlling interests ¹
Balance at 1 January 2014	387	33	33	453	200
Profit for the year	686			686	16
Exchange losses			(5)	(5)	
Fair value of cash flow hedges transferred to passenger revenue		17		17	
Fair value of cash flow hedges transferred to fuel and oil costs		56		56	
Fair value of cash flow hedges transferred to currency differences		32		32	
Net change in fair value of cash flow hedges ²		(958)		(958)	
Share of movements in reserves of associates	(72)			(72)	
Available-for-sale financial assets - marked to market		46		46	
Available-for-sale financial assets - recycled to the income statement		(9)		(9)	
Pension remeasurements	(467)			(467)	
Cost of share-based payments	(4)			(4)	
Income tax	153	170		323	
Distributions made to holders of perpetual securities					(16)
Total income and expense for the year	296	(646)	(5)	(355)	
Balance at 1 January 2015	683	(613)	28	98	200
Profit for the year	2,493			2,493	15
Exchange losses			(9)	(9)	
Fair value of cash flow hedges transferred to passenger revenue		14		14	
Fair value of cash flow hedges transferred to fuel and oil costs ²		940		940	
Fair value of cash flow hedges transferred to losses on fuel derivatives ²		44		44	
Fair value of cash flow hedges transferred to currency differences		(106)		(106)	
Net change in fair value of cash flow hedges ²		(684)		(684)	
Share of movement in reserves of associates	(1)			(1)	
Available-for-sale financial assets - marked to market		(8)		(8)	
Available-for-sale financial assets - recycled to the income statement		1		1	
Pension remeasurements	152			152	
Cost of share-based payments	(2)			(2)	
Income tax	(34)	(42)		(76)	
Distributions made to holders of ordinary shares	(260)			(260)	
Distributions made to holders of perpetual securities					(15)
Total income and expense for the year	2,348	159	(9)	2,498	
As at 31 December 2015	3,031	(454)	19	2,596	200

¹ Non-controlling interests comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. 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. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinated 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. Refer to note 26g for the disclosure of the Group's Capital risk management.

² Significant fair value losses relate to the impact of the average decline in fuel price during the year on fuel derivative contracts outstanding as of 31 December 2015. Amounts transferred to the income statement represent the release of fair value losses on fuel derivative contracts on settlement of those contracts. The amounts held in equity and the period in which cash flows are expected to occur are summarised in note 27d.

Retained earnings

The retained earnings reserve represents the accumulated retained profits of the Group and includes the undistributable gain on the disposal of the BA Executive Club of £1.5 billion.

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.

30 Other reserves and non-controlling interests continued

b Company

£ million	Company		
	Retained earnings	Unrealised gains and losses	Total
Balance at 1 January 2014	443	20	463
Profit for the year	483		483
Fair value of cash flow hedges transferred to passenger revenue		17	17
Fair value of cash flow hedges transferred to fuel and oil costs		56	56
Fair value of cash flow hedges transferred to currency differences		32	32
Net change in fair value of cash flow hedges		(958)	(958)
Available-for-sale financial assets - marked to market		38	38
Available-for-sale financial assets - recycled to the income statement		(1)	(1)
Pension remeasurements	(454)		(454)
Cost of share-based payments	(4)		(4)
Income tax	151	170	321
Total income and expense for the year	176	(646)	(470)
Balance at 1 January 2015	619	(626)	(7)
Profit for the year	2,395		2,395
Fair value of cash flow hedges transferred to passenger revenue		14	14
Fair value of cash flow hedges transferred to fuel and oil costs ¹		940	940
Fair value of cash flow hedges transferred to losses on fuel derivatives ¹		44	44
Fair value of cash flow hedges transferred to currency differences		(106)	(106)
Net change in fair value of cash flow hedges ¹		(688)	(688)
Available-for-sale financial assets - marked to market		(1)	(1)
Available-for-sale financial assets - recycled to the income statement		1	1
Pension remeasurements	146		146
Cost of share-based payments	(2)		(2)
Distributions made to holders of ordinary shares	(260)		(260)
Income tax	(35)	(42)	(77)
Total income and expense for the year	2,244	162	2,406
As at 31 December 2015	2,863	(464)	2,399

¹ Significant fair value losses relate to the impact of the average decline in fuel price during the year on fuel derivative contracts outstanding as of 31 December 2015. Amounts transferred to the income statement represent the release of fair value losses on fuel derivative contracts on settlement of those contracts. The amounts held in equity and the period in which cash flows are expected to occur are summarised in note 27d.

See note 30a for a description of the reserves.

31 Employee benefits

The Company operates two principal funded defined benefit pension schemes, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003. The Company's principal defined contribution scheme is the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 16 employed by the Company and certain subsidiary undertakings in the UK may become members.

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 are based on the Consumer Price Index (CPI). 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.

The Trustees of APS have purported to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. This would be expected to reduce the APS accounting surplus by £12 million. BA has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme. BA is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which BA may ultimately be exposed as the principal employer and sponsor of the scheme. BA is committed to an existing recovery plan, which sees deficit payments of £55 million per annum until March 2023. Legal proceedings, initiated by BA, are underway to determine the legitimacy of the additional discretionary increase. This discretionary increase has not been reflected in the accounting assumptions used.

31 Employee benefits continued

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two Schemes is common. Most Main Board and Committee meetings are held in tandem, although each Trustee Board reaches its decisions independently. There are three Committees which are separately responsible for the governance, operation and investments of each Scheme. British Airways Pension Trustees Limited holds the assets of both Schemes on behalf of their respective Trustees.

Deficit payment plans 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 latest deficit recovery plan was agreed at 31 March 2012 (see note 31i).

The actuarial valuations performed as at 31 March 2012 are different to the valuation performed under IAS 19 'Employee Benefits' as of 31 December 2015 due mainly to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation vs. IAS guidance used in the accounting valuation assumptions, notably the discount rate to calculate the present value of the liabilities.

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 through the US Post-Retirement Medical Benefit plan ('US PRMB').

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

Disclosures for post-retirement benefits are presented on a consolidated basis and include a net pension liability of £16 million (2014: £23 million) relating to British Airways Holidays Limited, with the remainder relating to the Company.

a Employee benefit schemes recognised on the balance sheet

£ million	As at 31 December 2015			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	7,232	13,126	304	20,662
Present value of scheme liabilities	(6,130)	(13,464)	(571)	(20,165)
Net pension asset/(liability)	1,102	(338)	(267)	497
Effect of the asset ceiling ²	(409)			(409)
Other employee benefit obligations			(9)	(9)
	693	(338)	(276)	79
Represented by:				
Employee benefit assets				697
Employee benefit obligations				(618)
				79
£ million	As at 31 December 2014			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	7,509	12,750	334	20,593
Present value of scheme liabilities	(6,446)	(13,484)	(626)	(20,556)
Net pension asset / (liability)	1,063	(734)	(292)	37
Effect of the asset ceiling ²	(395)			(395)
Other employee benefit obligations			(11)	(11)
	668	(734)	(303)	(369)
Represented by:				
Employee benefit assets				673
Employee benefit obligations				(1,042)
				(369)

¹ The present value of scheme liabilities for the US PRMB was £45 million at 31 December 2015 (£65 million as at 31 December 2014).

² APS is in an IAS 19 accounting surplus, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustees.

During 2015 the IASB published an exposure draft of amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction. The purpose of this proposed amendment is to provide additional clarity on the role of the trustees' rights in an assessment of the recoverability of a surplus on an employee pension fund. BA is considering the impact of this exposure draft on the APS surplus recognised but has not recognised any adjustments as the amendment remains in exposure draft form only.

31 Employee benefits continued

b Pension costs charged/(credited) to the consolidated income statement

Pension costs charged/(credited) to operating profit:

£ million	2015	2014
Defined benefit plans:		
Past service cost	(1)	
Current service cost ¹	193	164
	192	164
Defined contribution plans	53	50
Pension costs recorded as employee costs²	245	214

¹ Includes £2 million (2014: £1 million) relating to the US post-retirement medical benefit plan.

Pension costs charged/(credited) as finance costs:

£ million	2015	2014
Interest income on scheme assets	750	856
Interest expense on scheme liabilities	(745)	(850)
Interest expense on asset ceiling	(14)	(9)
Net financing expense relating to pensions	(9)	(3)

c Remeasurements recognised in the statement of other comprehensive income

£ million	2015	2014
Return on plan assets excluding interest income	(336)	1,083
Remeasurement of plan liabilities from changes in financial assumptions	363	(1,487)
Remeasurement of experience gains	134	138
Remeasurement of the APS asset ceiling		(188)
Exchange differences	(9)	(13)
Pension remeasurements	152	(467)

d Fair value of scheme assets

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

£ million	2015	2014
As at 1 January	20,593	18,851
Interest income	750	856
Return on plan assets excluding interest income	(336)	1,083
Employer contributions ^{1 2}	495	476
Employee contributions	83	86
Benefits paid	(928)	(764)
Exchange differences	5	5
	20,662	20,593

¹ Includes employer contributions to APS of £87 million (2014: £67 million) and to NAPS of £389 million (2014: £396 million), of which deficit funding payments represented £80 million for APS (2014: £61 million) and £283 million for NAPS (2014: £185 million).

² Cash payments to pension schemes (net of service costs) reflected in the consolidated cash flow statement were £302 million (2014: £312 million), being the employer contributions of £495 million (2014: £476 million) less the current service cost of £193 million (2014: £164 million) as set out in note 31b.

31 Employee benefits continued

d Fair value of scheme assets continued

Scheme assets as at 31 December comprise:

£million	2015	2014
Return seeking investments - equities		
UK	1,987	1,967
Overseas	5,187	5,089
	7,174	7,056
Return seeking investments - other		
Private equity	643	605
Property	1,562	1,426
Alternative investments	893	730
	3,098	2,761
Liability matching investments		
UK Fixed bonds	2,880	2,816
Overseas Fixed bonds	79	161
UK Index-Linked bonds	4,850	4,889
Overseas Index-Linked bonds	90	109
	7,899	7,975
Other		
Cash and cash equivalents	856	1,051
Derivatives	(83)	(201)
Insurance contract	1,406	1,469
Longevity swap	(29)	(37)
Other	341	519
	20,662	20,593

All equities and bonds have quoted prices in active markets.

For APS and NAPS, the composition of the scheme assets is:

£ million	As at 31 December 2015		As at 31 December 2014	
	APS	NAPS	APS	NAPS
Return seeking investments	1,255	8,875	1,348	8,304
Liability matching investments	4,451	3,367	4,455	3,437
	5,706	12,242	5,803	11,741
Insurance contract and related longevity swap	1,358		1,415	
Other	168	884	291	1,009
Fair value of scheme assets	7,232	13,126	7,509	12,750

For both APS and NAPS, the Trustees have ultimate responsibility for decision making on investment matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in projected benefit obligations over time. The Investment Committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The Investment Committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger-based dynamic governance process to be able to take advantage of opportunities as they arise. The Investment Committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At 31 December 2015 the benchmark for APS, expressed as a percentage of the assets excluding the insurance contract, was 18.7 per cent (2014: 21.2 per cent) in return seeking assets and 81.3 per cent (2014: 78.8 per cent) in liability matching investments; and for NAPS the benchmark was 68 per cent (2014: 68 per cent) in return seeking assets and 32 per cent (2014: 32 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and its investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which now covers 24 per cent (2014: 24 per cent) of the pensioner liabilities 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. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2014: 20 per cent) of the pensioner liabilities for the same members covered by the insurance 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 pensions payable by the scheme under the contract.

Both schemes use derivative instruments for both investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest-rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

31 Employee benefits continued

e Present value of scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

£ million	2015	2014
As at 1 January	20,556	18,854
Current service cost	193	164
Past service cost	(1)	
Interest expense	745	850
Remeasurements – financial assumptions	(363)	1,487
Remeasurements – demographic assumptions	(134)	(138)
Benefits paid	(928)	(764)
Employee contributions	83	86
Exchange differences	14	17
As at 31 December	20,165	20,556

The defined benefit obligation comprises £55 million (2014: £75 million) arising from unfunded plans and £20,110 million (2014: £20,481 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS is set out below:

£ million	2015	2014
As at 1 January	395	198
Interest expense	14	9
Remeasurements		188
As at 31 December	409	395

g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Per cent per annum	2015			2014		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate	3.60	3.85	3.8 – 4.4	3.45	3.80	3.4 – 4.1
Rate of increase in pensionable pay ¹	2.85	3.00	3.0 – 4.0	2.85	2.95	3.5 – 4.0
Rate of increase of pensions in payment ³	1.85	2.00	1.5 – 3.5	1.85	1.95	1.5 – 3.5
RPI rate of inflation ²	2.85	3.00	3.0 – 3.1	2.85	2.95	3.0 – 3.1
CPI rate of inflation ²	1.85	2.00	2.1 – 3.0	1.85	1.95	2.1 – 3.0

¹ Rate of increase in salaries is assumed to be in line with the RPI rate of inflation.

² The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. The inflation assumptions are used to determine the rate of increase for pensions in payment and the rate of increase in deferred pensions where there is such an increase.

³ It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS. However, the Trustees have purported to grant an additional discretionary increase of 20 basis points in relation to 2013/14 payments, a decision that BA has challenged, which has not been reflected in the IAS 19 assumptions and has commenced legal proceedings to determine the legitimacy of the additional increase.

Rate of increase in healthcare costs is based on medical trend rates of 7.0 per cent grading down to 5.0 per cent over nine years (2014: 7.5 per cent to 5.0 per cent over five 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. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	UK	
	2015	2014
Life expectancy at age 60 for a:		
- male currently aged 60	28.3	28.3
- male currently aged 40	29.9	29.8
- female currently aged 60	29.9	29.8
- female currently aged 40	32.4	32.3

At 31 December 2015, the weighted-average duration of the defined benefit obligation was 12 years for APS (2014: 12 years) and 19 years for NAPS (2014: 19 years). In the US, mortality rates were based on the RP-14 mortality tables.

31 Employee benefits continued

h Sensitivity analysis

Reasonable possible changes at the reporting date to a significant actuarial assumption, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

£ million	Increase in net pension liability
Discount rate (decrease of 10 basis points)	327
Future salary growth (increase of 10 basis points)	61
Future pension growth (increase of 10 basis points)	241
Future mortality rate - one year increase in life expectancy	572

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2012 using assumptions and methodologies agreed between the Company and Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to £680 million and £2,660 million respectively. In order to address the deficits in the schemes, BA has also committed to the following undiscounted deficit payments:

£ million	APS	NAPS
Within 12 months	55	150
2-5 years	220	796
5-10 years	124	1,411
More than 10 years		78
Total expected deficit payments for APS and NAPS	399	2,435

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan, subject to withholding taxes that would be payable by the Trustees. This determination has been made independently for each plan. As such, no additional liability is required.

Deficit payments in respect of local arrangements outside the UK have been determined in accordance with local practice.

In total, the Group expects to pay £420 million in employer contributions and deficit payments to its post-retirement benefit plans in 2016. This includes expected employer contributions of £61 million to APS (of which £55 million relates to the funding shortfall) and £340 million to NAPS (of which £150 million relates to the funding shortfall). This excludes any additional deficit contributions that would be required if BA declares dividends in future years in excess of payments into the scheme for that year.

32 Contingent liabilities and guarantees

a Contingent Liabilities

The Group and the Company have contingent liabilities which at 31 December 2015 amounted to £90 million (2014: £66 million). These contingent liabilities include claims and litigation related to operations and tax affairs.

Regulatory proceedings and litigation

The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined BA and ten other airline groups for participating in a cartel in respect of air cargo prices. The decision was partially annulled as against BA following an appeal to the general court of the European Union and BA was advised that the fine would be refunded in full. It is not yet clear what the European Commission's next steps will be.

The original decision has led to a large number of claimants seeking, in proceedings brought in the English courts, to recover damages from BA which they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which BA will vigorously defend. BA has joined the other airlines alleged to have participated in cartel activity to these proceedings to contribute to such damages, if any are awarded.

The Group is also party to similar litigation in a number of other jurisdictions, including Germany, the Netherlands and Canada, together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

We are currently unable to determine whether the Group has an existing obligation as a result of the past event.

Taxation

The Group files income and other tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's tax returns which contain matters that could be subject to differing interpretations of applicable tax laws and regulations. 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.

b Guarantees

Bank guarantees

The Group and Company have issued bank guarantees totalling £35 million (2014: £34 million) and £35 million (2014: £33 million) respectively.

Pensions and perpetual preferred securities

The Group and the Company have provided collaterals on certain payments to the Company's pension scheme, APS, triggered in the event of BA's insolvency, which at 31 December 2015 amounted to £250 million (2014: £250 million). In addition, a guarantee amounting to £230 million (2014: £230 million) secured by certain aircraft (see note 12) was issued by a third party in favour of APS which is also triggered in the event of insolvency.

The Company has also issued guarantees in respect of the fixed perpetual preferred securities issued by a subsidiary undertaking which amounted to £219 million (2014: £236 million) and in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 30 for details of the guarantee provided in respect of the fixed perpetual securities and note 35 in respect of the audit exemption guarantee.

33 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2015 with related parties.

£ million	Group		Company	
	2015	2014	2015	2014
Parent¹:				
Sales to/purchases on behalf of IAG	55	38	55	38
Purchases from IAG	41	50	41	50
Amounts owed by IAG	36	17	36	17
Amounts owed to IAG	18	13	18	13
Subsidiary undertakings of the parent:				
Sales to subsidiary undertakings of the parent	37	29	37	29
Purchases on behalf of subsidiary undertakings of the parent	55	29	55	29
Amounts owed by subsidiary undertakings of the parent	303	8	303	8
Amounts owed to subsidiary undertakings of the parent	48	9	48	9
Associates²:				
Sales to associates ⁴	305	36	305	33
Purchases from associates	363	136	363	136
Amounts owed by associates ⁴	40	11	40	8
Amounts owed to associates	926	31	926	31
Subsidiaries³:				
Sales to subsidiaries			328	361
Purchases from subsidiaries			163	231
Amounts owed by subsidiaries			388	391
Amounts owed to subsidiaries			1,987	2,191

¹ 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. Transactions with IAG are carried out on an arm's length basis.

² Sales and purchases with associates are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms.

³ Outstanding 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.

⁴ Sales to associates and amounts owed by associates in 2014 included £3 million of Avios sales to Iberia for BA Group.

In addition, costs borne by the Company on behalf of the Group's retirement benefit plans amounted to £5 million in relation to the Pension Protection Fund levy (2014: £5 million).

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 2015 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2014: £nil).

Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or Officers of the Company at 31 December 2015 or that arose during the year that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006.

34 Post balance sheet event

It was announced on 6 November 2015 that Keith Williams and Nick Swift would be resigning as Directors of the Company during Q1 2016. They will be replaced by Alex Cruz, Chairman and CEO of Vueling, and Steve Gunning, CEO of IAG Cargo respectively.

No other significant events have taken place post the balance sheet date.

35 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2015 by virtue of Section 479A of the Companies Act 2006: British Airways Leasing Limited (04150220), BA and AA Holdings Limited (03840072), British Airways 777 Leasing Limited (04954270), BritAir Holdings Limited (03537574), British Airways (BA) Limited (07990613), British Airways Associated Companies Limited (00590083), BA European Limited (06346489), British Airways Avionic Engineering Limited (02775232), British Airways Interior Engineering Limited (03109109), British Airways Maintenance Cardiff Limited (02204178), The Plimsoll Line Limited (01967358) and Teleflight Limited (03918190).

Operating and financial statistics

Not forming part of the audited financial statements

Total Group continuing operations	Year ended 31 December			
	2015	2014	2013	
Traffic and capacity				
Revenue passenger km (RPK)	m	142,016	138,431	131,333
Available seat km (ASK)	m	174,274	170,917	161,444
Passenger load factor	%	81.5	81.0	81.3
Cargo tonne km (CTK)	m	4,180	4,458	4,646
Total revenue tonne km (RTK)	m	18,256	18,198	17,767
Total available tonne km (ATK)	m	25,427	25,185	24,536
Overall load factor	%	71.8	72.3	72.4
Passengers carried	'000	43,323	41,516	39,960
Tonnes of cargo carried	'000	664	706	733
Operations				
Average manpower equivalent (MPE)		39,304	39,710	38,592
ASKs per MPE		4,434	4,304	4,183
Aircraft in service at year end		284	279	278
Aircraft utilisation (average hours per aircraft per day)		10.59	10.44	10.61
Punctuality - within 15 minutes	%	78	79	76
Regularity	%	99.1	99.2	98.6
Financial				
Passenger revenue per RPK	p	7.16	7.55	7.71
Passenger revenue per ASK	p	5.83	6.12	6.27
Cargo revenue per CTK	p	13.09	13.41	14.82
Average fuel price (US cents/US gallon)		174.44	301.50	314.84
Operating margin	%	10.9	8.3	6.2
Operating margin before exceptional items	%	11.1	8.3	5.7
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	2,133	1,886	1,515
Net debt/total capital ratio ¹	%	34.2	48.1	44.5
Total traffic revenue per ATK	p	42.1	43.9	44.1
Total traffic revenue per ASK	p	6.1	6.5	6.7
Total expenditure before exceptional items on operations per ASK	p	5.78	6.29	6.67
Total expenditure before exceptional items on operations excluding fuel per ASK	p	4.04	4.23	4.35
Total expenditure before exceptional items on operations per ATK	p	39.6	42.6	43.9

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

Fleet table

Number in service with Group companies at 31 December 2015

	On Balance Sheet fixed assets	Off Balance Sheet operating leases	Total December 2015	Total December 2014	Changes since December 2014 (Notes 2 and 3)	Future deliveries (Note 4)	Options (Note 5)
CONTINUING AIRLINE OPERATIONS							
Airbus A318	2		2	2			
Airbus A319	31	13	44	44			
Airbus A320	40	26	66	59	7	26	33
Airbus A321	14	4	18	18		10	
Airbus A330							
Airbus A350						18	36
Airbus A380	10		10	8	2	2	7
Boeing 737-400				5	(5)		
Boeing 747-400	40		40	43	(3)		
Boeing 757-200	1	2	3	3			
Boeing 767-300	12		12	14	(2)		
Boeing 777-200	41	5	46	46			
Boeing 777-300	9	3	12	12			
Boeing 787-8	8		8	8		1	
Boeing 787-9	5		5		5	16	6
Boeing 787-10						12	
Embraer E170	6		6	6			
Embraer E190	9	3	12	11	1	2	15
TOTAL CONTINUING OPERATIONS	228	56	284	279	5	87	97

Notes:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.
2. Five Boeing 737-400s, three Boeing 747-400s & two Boeing 767-300 aircraft were stood down from service during the period.
3. Ten Boeing 737-400s, three Boeing 747-400s & two Boeing 767-300 aircraft were disposed of during the period.
4. Future deliveries have increased by three. Seven Airbus A320s, two Airbus A380s, five Boeing 787-900s and one Embraer E190 aircraft were delivered during the period. Three Embraer E-190 aircraft were ordered, 15 A320 family options were converted into firm orders and three orders for Airbus A320 aircraft were converted to Airbus A321s.
5. Options have decreased by 27. 15 Airbus A320 family options were converted into firm orders, ten 787-9 rolling options expired and two Airbus A320 family options were transferred to another Group airline.

Principal investments

At 31 December 2015

Investments in subsidiaries

The following table includes those principal investments which 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
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 ¹	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 ¹	Airline operations	England
OpenSkies SASU ¹	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
Avios Group (AGL) Limited	86.26	Airline marketing	England
IB Opco Holding S.L. ¹	13.55	Airline operations	Spain
Dunwoody Airline Services (Holdings) Limited	40.00	Holding company	England

Available-for-sale investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Comair Limited ¹	11.50	Airline operations	South Africa
International Consolidated Airlines Group S.A.	0.01	Airline operations	Spain
The Airline Group Limited	16.68	Air traffic control holding company	England

¹ 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 expected 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.
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.
JOLCO	Japanese operating lease with call option.
Load factor	The percentage relationship of revenue load carried to capacity available.
Manpower equivalent	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 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.
EETC	This is the enhanced equipment trust certificate borrowing facility obtained in 2013 and secured on related aircraft upon drawdown.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
Ready-to-go	The percentage of flights that have the aircraft door being closed three minutes prior to the advertised scheduled departure time.
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.
Passenger revenue per ASK	Passenger revenue divided by ASK.
Passenger revenue per RPK	Passenger revenue divided by RPK.
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 2015

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Country of incorporation
BA and AA Holdings Limited	England
BA Call Centre India Private Limited (callBA)	India
BA Cityflyer Limited	England
BA European Limited	England
BA Healthcare Trust Limited	England
BA Number One Limited	England
BA Number Two Limited	Jersey
Bealine plc	England
bmibaby Limited	England
BritAir Holdings Limited	England
British Airways (BA) 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 Mediterranean Airways Limited	England
British Midland Airways Limited	England
British Midland Limited	England
Deutsche BA Holding GmbH	Germany
Diamond Insurance Company Limited	Isle of Man
Flyline Tele Sales & Services GmbH	Germany
Illiad Inc	USA
OpenSkies SASU	France
Overseas Air Travel Limited	England
Speedbird Insurance Company Limited	Bermuda
Teleflight Limited	England
The Plimsoll Line Limited	England