

## SIX MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (July 31, 2020) presented Group consolidated results for the six months to June 30, 2020.

*The results for the six months were significantly impacted by the outbreak of COVID-19, which has had a devastating impact on the global airline and travel sectors, particularly from late February 2020 onwards.*

### COVID-19 situation and management actions:

- Most Group aircraft grounded in quarter 2, with small programme of passenger flights for essential travel and repatriation
- 1,875 additional cargo flights operated in quarter 2 to transport critical equipment and essential supplies
- Additional operating procedures implemented to protect customers and staff including facemask use and additional cleaning
- Liquidity boosted by actions including accessing Spain's *Instituto de Crédito Oficial* (ICO) facility and UK's Coronavirus Corporate Finance Facility (CCFF). Also, British Airways' Revolving Credit Facility extended and additional one-year bridge aircraft financing facilities agreed and implemented in quarter 2
- Multi-year renewal signed with American Express on July 24, including €830 million payment, a significant part of which is Avios pre-purchase
- Cash operating costs for quarter 2 reduced to €205 million per week, with April and May slightly lower than previously estimated at €195 million per week, despite additional cost of operating cargo-only flights
- Current capacity planning scenario for an increase through quarter 3 and quarter 4, to -74 per cent and -46 per cent versus 2019 respectively, but plans highly uncertain and subject to easing lockdowns and travel restrictions
- Based on our current capacity planning scenario, IAG would reach breakeven in terms of Net cash flows from operating activities during quarter 4 2020
- Government wage support schemes accessed in main employee bases and other measures agreed to reduce employee costs due to much-reduced flying programme
- Capital spending for 2020 reduced by €1.5 billion, against the original plan, with 2020 fleet capital expenditure covered by committed financing
- Deliveries of 68 new aircraft due in 2020 to 2022 deferred and certain legacy aircraft retired early, including 32 Boeing 747s and 15 Airbus A340-600s
- IAG expects it will take until at least 2023 for passenger demand to recover to 2019 levels and is restructuring its cost-base to reduce each airline's size, with consultations being undertaken locally as required
- Active discussions remain ongoing with Globalia regarding a potential restructuring of the Air Europa acquisition, taking into account the impact of the COVID-19 pandemic. Any agreed transaction would remain subject to regulatory clearances

### IAG period highlights on results:

- Passenger capacity operated in quarter 2 down 95.3 per cent on 2019 and for the six months down 56.2 per cent on 2019
- Second quarter operating loss €1,365 million before exceptional items (2019 operating profit: €960 million)
- Operating loss before exceptional items for the half year €1,900 million (2019 operating profit: €1,095 million)
- Exceptional charge in the half year of €2,137 million on derecognition of fuel and foreign exchange hedges for 2020 and impairment of fleet
- Loss after tax before exceptional items for the half year €1,965 million, and 2020 statutory loss after tax and exceptional items: €3,806 million (2019 profit: €806 million)
- Cash of €6,016 million at June 30, 2020 down €667 million on December 31, 2019. Committed and undrawn general and aircraft facilities were €2.1 billion, bringing total liquidity to €8.1 billion

### Proposed capital increase:

- Proposed capital increase of up to €2.75 billion, to be supported by irrevocable commitment from largest shareholder and underwritten, subject to approval at General Shareholders' Meeting in September

### Performance summary:

	Six months to June 30		
Highlights € million	2020	2019 <sup>1</sup>	Higher / (lower)
Passenger revenue	4,151	10,586	(60.8)%
Total revenue	5,326	12,026	(55.7)%
Operating (loss)/profit before exceptional items	(1,900)	1,095	nm
Exceptional items	(2,137)	-	-
Operating (loss)/profit after exceptional items	(4,037)	1,095	nm
Available seat kilometres (ASK million)	71,625	163,431	(56.2)%
Passenger revenue per ASK (€ cents)	5.80	6.48	(10.5)%
Non-fuel costs per ASK (€ cents)	8.26	4.89	68.8 %
Alternative performance measures	2020	2019	Higher / (lower)
(Loss)/profit after tax before exceptional items (€ million)	(1,965)	806	nm
Adjusted (loss)/earnings per share (€ cents)	(99.0)	39.2	nm
Net debt (€ million) <sup>2</sup>	10,463	7,571	38.2 %
Net debt to EBITDA <sup>2</sup>	4.2	1.4	2.8x
Statutory results € million	2020	2019	Higher / (lower)
(Loss)/profit after tax and exceptional items	(3,806)	806	nm
Basic (loss)/earnings per share (€ cents)	(191.7)	40.6	nm
Cash and interest-bearing deposits <sup>2</sup>	6,016	6,683	(10.0)%
Interest-bearing long-term borrowings <sup>2</sup>	16,479	14,254	15.6 %

For definitions refer to the Alternative performance measures section.

<sup>1</sup> The 2019 results include a reclassification of the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the period to June 30, 2019 was €63 million. Further information is given in note 1.

<sup>2</sup> The prior year comparative is December 31, 2019.

**Willie Walsh, IAG Chief Executive Officer, said:**

“In quarter 2 we’re reporting a record operating loss of €1,365 million before exceptional items compared to an operating profit of €960 million last year. Total operating losses including exceptional items relating to the early retirement of British Airways’ Boeing 747s and Iberia’s Airbus A340s came to €2,177 million.

“We operated 1,875 cargo-only flights using passenger aircraft in quarter 2 which was an important cash contributor to the Group.

“All IAG airlines made substantial losses. As a result of government travel restrictions, quarter 2 passenger traffic fell by 98.4 per cent on a capacity reduction in the quarter of 95.3 per cent. We have seen evidence that demand recovers when government restrictions are lifted. Our airlines have put in place measures to provide additional reassurance to their customers and employees on board and at the airport.

“We continue to expect that it will take until at least 2023 for passenger demand to recover to 2019 levels. Each airline has taken actions to adjust their business and reduce their cost base to reflect forecast demand in their markets not just to get through this crisis but to ensure they remain competitive in a structurally changed industry.

“IAG continues to take action to strengthen its balance sheet and liquidity position including more than halving its operating cash costs and significantly reducing its capital spending. At the end of June liquidity stood at €8.1 billion. Based on our current capacity planning scenario, we would reach breakeven in terms of Net cash flows from operating activities during quarter 4 2020.

“Subject to shareholder approval at our AGM on September 8, IAG will undertake a capital increase of up to €2.75 billion which will enhance the Group’s resilience, balance sheet and liquidity position. We’re delighted that our largest shareholder, Qatar Airways, has already committed to support the proposed capital raising. This will best position IAG to continue executing its strategic objectives and capitalise on its existing market leading position and future growth and consolidation opportunities.”

**Trading outlook**

As announced on February 28, 2020, given the uncertainty on the impact and duration of COVID-19, IAG is not currently providing profit guidance for 2020.

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This announcement contains inside information and is disclosed in accordance with the Company’s obligations under the Market Abuse Regulation (EU) No 596/2014.

*Steve Gunning, Chief Financial Officer*

**Disclaimer relating to capital increase:**

The securities offered as part of the capital increase referred to in this document will not be registered under the U.S. Securities Act of 1933, amended and may not be offered or sold in the United States (including its territories and possessions, any state of the United States and the District of Columbia) absent registration or an applicable exemption from registration requirements in the United States. The offering of such securities may also be restricted or prohibited in certain other jurisdictions, including Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa, Switzerland and the United Arab Emirates.

**Forward-looking statements:**

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

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

Actual results may differ from those expressed or implied in the forward-looking statements in this announcement as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this announcement are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group’s risk management process is set out in the Risk management and principal risk factors section in the Annual Report and Accounts 2019; these documents are available on [www.iairgroup.com](http://www.iairgroup.com). All forward-looking statements made on or after the date of this announcement and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section. Many of these risks are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the global airline industry and economic environment as a result.

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## CONSOLIDATED INCOME STATEMENT

Six months to June 30

€ million	Before exceptional items		Total 2020	Total 2019 <sup>1</sup>	Higher/(lower)
	2020	Exceptional items			
Passenger revenue	4,151	(38)	4,113	10,586	(60.8)%
Cargo revenue	615		615	556	10.6 %
Other revenue	560		560	884	(36.7)%
<b>Total revenue</b>	<b>5,326</b>	<b>(38)</b>	<b>5,288</b>	12,026	(55.7)%
Employee costs	1,890		1,890	2,492	(24.2)%
Fuel, oil costs and emissions charges	1,313	1,269	2,582	2,936	(55.3)%
Handling, catering and other operating costs	853		853	1,413	(39.6)%
Landing fees and en-route charges	539		539	1,081	(50.1)%
Engineering and other aircraft costs	766	77	843	1,031	(25.7)%
Property, IT and other costs	406	22	428	380	6.8 %
Selling costs	268		268	551	(51.4)%
Depreciation, amortisation and impairment	1,114	731	1,845	1,035	7.6 %
Currency differences	77		77	12	nm
Total expenditure on operations	7,226	2,099	9,325	10,931	(33.9)%
<b>Operating (loss)/profit</b>	<b>(1,900)</b>	<b>(2,137)</b>	<b>(4,037)</b>	1,095	nm
Finance costs	(342)		(342)	(281)	21.7 %
Finance income	23		23	22	4.5 %
Net financing credit relating to pensions	3		3	13	(76.9)%
Net currency retranslation credits	97		97	138	(29.7)%
Other non-operating credits	50		50	20	nm
Total net non-operating costs	(169)		(169)	(88)	92.0 %
<b>(Loss)/profit before tax</b>	<b>(2,069)</b>	<b>(2,137)</b>	<b>(4,206)</b>	1,007	nm
Tax	104	296	400	(201)	nm
<b>(Loss)/profit after tax for the period</b>	<b>(1,965)</b>	<b>(1,841)</b>	<b>(3,806)</b>	806	nm

Operating figures	2020	2019	Higher/(lower)
Available seat kilometres (ASK million)	71,625	163,431	(56.2)%
Revenue passenger kilometres (RPK million)	52,772	135,684	(61.1)%
Seat factor (per cent)	73.7	83.0	(9.3)pts
Passenger numbers (thousands)	20,385	55,886	(63.5)%
Cargo tonne kilometres (CTK million)	1,751	2,802	(37.5)%
Sold cargo tonnes (thousands)	232	346	(32.9)%
Sectors	155,265	376,034	(58.7)%
Block hours (hours)	492,515	1,102,024	(55.3)%
Average manpower equivalent <sup>2</sup>	63,501	65,027	(2.3)%
Aircraft in service	548	588	(6.8)%
Passenger revenue per RPK (€ cents)	7.87	7.80	0.8 %
Passenger revenue per ASK (€ cents)	5.80	6.48	(10.5)%
Cargo revenue per CTK (€ cents)	35.12	19.84	77.0 %
Fuel cost per ASK (€ cents)	1.83	1.80	2.0 %
Non-fuel costs per ASK (€ cents)	8.26	4.89	68.8 %
Total cost per ASK (€ cents)	10.09	6.69	50.8 %

<sup>1</sup>The 2019 results include a reclassification of the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the six months to June 30, 2019 was €63 million. Further information is given in note 1.

<sup>2</sup>Included in the average manpower equivalent are 8,182 manpower equivalent on the Temporary Redundancy Plan arrangements in Spain.

## CONSOLIDATED INCOME STATEMENT

Three months to June 30

€ million	Before exceptional items 2020	Exceptional items	Total 2020	Total 2019 <sup>1</sup>	Higher/ (lower)
Passenger revenue	198	(38)	160	5,963	(96.7)%
Cargo revenue	369		369	281	31.3 %
Other revenue	174		174	487	(64.3)%
<b>Total revenue</b>	<b>741</b>	<b>(38)</b>	<b>703</b>	6,731	(89.0)%
Employee costs	656		656	1,288	(49.1)%
Fuel, oil costs and emissions charges	104	(56)	48	1,570	(93.4)%
Handling, catering and other operating costs	201		201	749	(73.2)%
Landing fees and en-route charges	88		88	596	(85.2)%
Engineering and other aircraft costs	262	77	339	546	(52.0)%
Property, IT and other costs	181	22	203	211	(14.2)%
Selling costs	57		57	270	(78.9)%
Depreciation, amortisation and impairment	544	731	1,275	520	4.6 %
Currency differences	13		13	21	(38.1)%
Total expenditure on operations	2,106	774	2,880	5,771	(63.5)%
<b>Operating (loss)/profit</b>	<b>(1,365)</b>	<b>(812)</b>	<b>(2,177)</b>	960	nm
Finance costs	(191)		(191)	(144)	32.6 %
Finance income	12		12	12	-
Net financing credit relating to pensions	2		2	7	(71.4)%
Net currency retranslation credits	20		20	68	(70.6)%
Other non-operating credits	10		10	18	(44.4)%
Total net non-operating costs	(147)		(147)	(39)	nm
<b>(Loss)/profit before tax</b>	<b>(1,512)</b>	<b>(812)</b>	<b>(2,324)</b>	921	nm
Tax	103	98	201	(185)	nm
<b>(Loss)/profit after tax for the period</b>	<b>(1,409)</b>	<b>(714)</b>	<b>(2,123)</b>	736	nm

Operating figures	2020	2019 <sup>1</sup>	Higher/ (lower)
Available seat kilometres (ASK million)	4,103	88,008	(95.3)%
Revenue passenger kilometres (RPK million)	1,155	74,806	(98.5)%
Seat factor (per cent)	28.2	85.0	(56.8)pts
Passenger numbers (thousands)	508	31,504	(98.4)%
Cargo tonne kilometres (CTK million)	578	1,409	(59.0)%
Sold cargo tonnes (thousands)	84	172	(51.2)%
Sectors	11,296	207,024	(94.5)%
Block hours (hours)	58,271	600,662	(90.3)%
Average manpower equivalent <sup>2</sup>	63,532	66,402	(4.3)%
Passenger revenue per RPK (€ cents)	17.14	7.97	nm
Passenger revenue per ASK (€ cents)	4.83	6.78	(28.8)%
Cargo revenue per CTK (€ cents)	63.84	19.94	nm
Fuel cost per ASK (€ cents)	2.53	1.78	42.1%
Non-fuel costs per ASK (€ cents)	48.79	4.77	nm
Total cost per ASK (€ cents)	51.33	6.56	nm

<sup>1</sup>The 2019 results include a reclassification of the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the three months to June 30, 2019 was €40 million. Further information is given in note 1.

<sup>2</sup>Included in the average manpower equivalent are 16,201 manpower equivalent on the Temporary Redundancy Plan arrangements in Spain.

## FINANCIAL REVIEW

### **COVID-19 Summary – six months to June 30**

The results for the six months to June 30, 2020, were significantly impacted by the outbreak and escalation of COVID-19. In January and most of February the direct impact was mainly in the Asia and Pacific region, with suspension of services to China at the end of January and other capacity reductions in the Asia Pacific region. From late February, as the virus spread across the globe, many governments placed significant restrictions on the movement of people and on travel across international borders. This led to the cancellation of all flights to, from and within Italy and extensive reductions across the whole network, with capacity in the first quarter down 10.5 per cent on 2019.

In the second quarter, due to the impact of the virus worldwide and the associated travel and border restrictions applying in most countries, the Group was only able to operate a skeleton passenger schedule, with capacity operated only 5 per cent of that operated in the same quarter last year. The Group was able to operate additional cargo flights to assist in moving medical items and essential supplies, leading to record cargo revenue for the quarter.

The Group has taken action to preserve cash and boost liquidity. Cost savings have included the impact of employee furlough and equivalent schemes following measures taken by national governments, which were applied from April and these, together with other employee cost reductions and supplier cost reductions, have offset some of the impact of the significant fall in passenger revenue. The Group has also agreed and implemented additional borrowing and facilities. Additional non-aircraft debt of €1,010 million was drawn down in Spain as part of the *Instituto de Crédito Oficial* ('ICO') facility and British Airways issued commercial paper worth €330 million using the UK's Coronavirus Corporate Finance Facility (CCFF). The main British Airways Revolving Credit Facility was extended by one year to June 2021 and other credit facilities have also been added within the Group. The Group also agreed additional one-year aircraft financing facilities for old and new aircraft, with a total value of €870 million. The Group has agreed to defer 68 aircraft scheduled for delivery over the period 2020 to 2022, and, together with reductions in non-aircraft capital expenditure, has reduced its total capital expenditure for 2020 by €1.5 billion from the level planned at the start of the year.

Commodity fuel prices have fallen sharply since the start of the year and despite some recovery in recent weeks are still only slightly over half the level at the start of the year. The fall in fuel prices has led to significant losses on fuel hedging derivatives, which would normally be offset against lower costs for purchasing jet fuel. The impact of COVID-19 has led to a significant reduction in the requirement to purchase jet fuel, with only a skeleton flying programme operated in quarter 2 and a significantly reduced programme expected for the second half of the year. As a consequence the Group has recognised an exceptional charge for the six months to June 30, 2020 of €1,269 million relating to overhedging, being the losses on fuel hedging derivatives maturing in 2020 for which there will be no matching volume of fuel purchased, together with related foreign currency gains, calculated using the forward fuel curve and exchange rates at June 30, 2020. This overhedging loss has fallen slightly since the €1,325 million at March 31, 2020, as the rise in fuel prices during quarter 2 has broadly offset the impact of expected lower fuel requirements in the second half, in line with latest capacity plans.

The Group expects that it will take until at least 2023 for passenger demand to reach the levels of 2019. As a result the Group has taken the decision to retire legacy aircraft early and stand down some additional aircraft in advance of the end of lease contracts. British Airways expects that it will no longer need to operate any further Boeing 747 flights and hence the fleet and associated inventory has been fully impaired, pending disposal. Similarly Iberia has recognised an impairment in respect of its Airbus A340-600 fleet. For more details on impairments see note 3. These fleet plans remain subject to employee consultation as appropriate and decisions to dispose of the aircraft will only be taken once those processes have concluded.

### **Strategic overview – other developments**

The Group is actively involved in restructuring its cost-base to adjust to significantly lower levels of demand, with demand not expected to reach 2019 levels until 2023 at the earliest. As at the end of quarter 2 a number of employee consultation processes were in progress, but none was sufficiently advanced to result in restructuring provisions being made. As at July 29, 1,600 employees at British Airways had opted to take voluntary redundancy.

### **Basis of preparation**

In light of the COVID-19 pandemic the Group has undertaken scenario modelling, as detailed in note 1 of the consolidated interim financial statements, and the Directors have a reasonable expectation that the Group has sufficient liquidity for the foreseeable future and accordingly the Directors have adopted the going concern basis in preparing the consolidated interim financial statements. However, due to the uncertainty created by COVID-19 and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the stresses it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and fuel price variations. Whilst such scenarios are not considered likely, in the event that such a scenario were to occur the Group will likely need to secure additional funding over and above that which is contractually committed at July 30, 2020. Refer to note 1 of the consolidated interim financial statements for further information.

## FINANCIAL REVIEW continued

### **Principal risks and uncertainties**

The Group has continued to maintain and operate its structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group, detailed on pages 62 to 69 of the 2019 Annual Report and Accounts, remain relevant and included the risk of pandemic within “Event causing significant network disruption”.

As the pandemic outbreak has persisted, some of the principal risks have evolved in impact and likelihood. As a result, additional mitigating actions have been identified and implemented to respond and to minimise the continued impact to the Group and protect its businesses and people. These actions have been discussed with the Board through regular updates and include the results of modelling of potential scenarios, outlining the impact of further stress on the Group as summarised in note 1.

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

- Airports, infrastructure and critical third parties. Restrictions at hubs and airports have required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. The Group has pro-actively worked with suppliers to ensure operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary.
- Competition, consolidation and government regulation. The scale of governmental support and aviation specific state-aid measures have varied in different countries and the potential impact to the competitive landscape is under continuous assessment.
- Data and cyber security. The Group has maintained its planned investment in cyber security, and taken steps to mitigate IT and other risks as a result of remote working.
- People, culture and employee relations. Additional safety procedures have been introduced to protect the Group’s staff and customers, in line with industry recommendations. Where possible, the Group’s staff worked from home and in line with governments’ recommendations. Employee consultations have been undertaken as required and appropriate in relation to restructuring necessitated by COVID-19.
- Political and economic environment. National governments are imposing a range of travel and quarantine restrictions, which will continue to impact Group operations. These are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status. The economic impact of COVID-19 is expected to be significant if longer in duration, the Group will adjust its future capacity plans accordingly, retaining flexibility to adapt as required.
- Debt funding and financial risk. Financial markets have not operated normally since the spread of COVID-19, although the Group has been able to renew and extend credit facilities and agree new aircraft leases, as well as introduce additional one-year funding facilities in advance of an improvement in market conditions and the anticipated availability of regular aircraft financing arrangements. The Group has an established process to monitor financial and counterparty risk on an ongoing basis.

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

### **Operating and market environment**

Average commodity fuel prices for the six months to June 30, 2020, were significantly lower than the first half of 2019 as prices fell during March and remain well below last year’s levels. Foreign exchange rates for the euro and pound sterling against the US dollar were both approximately 3 per cent weaker than the same period last year.

IAG’s results are impacted by exchange rates used for the translation of British Airways’ and IAG Loyalty’s financial results from pound sterling to the Group’s reporting currency of euro. For the six months to June 30, 2020, the net impact of translation on the operating result was €16 million favourable.

From a transactional perspective, the Group’s financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The Group normally generates a surplus in most currencies in which it does business, except for the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. The Group hedges a portion of its transaction exposures. The net transaction impact on the operating result was adverse by €68 million for the period, increasing revenues by €51 million and costs by €119 million.

The net impact of translation and transaction exchange on the operating result for the Group was €52 million adverse.

## FINANCIAL REVIEW continued

### Capacity

In the six months to June 30, 2020, IAG capacity, measured in available seat kilometres (ASKs), was lower by 56.2 per cent with the impact of the COVID-19 pandemic felt across all regions.

Prior to the main impact of COVID-19 from late February onwards, Aer Lingus capacity was broadly flat for January and February with increases in North Atlantic routes, from the route to Minneapolis launched in July 2019, and increased frequencies to Boston and San Francisco, offset by reductions in shorthaul capacity. British Airways capacity was flat for January and February, with increases from new destinations including Dammam, Islamabad and Pittsburgh, offset by COVID-19 related cancellations to destinations in Asia Pacific. LEVEL longhaul capacity growth reflected the annualisation of new routes launched in 2019 to Santiago de Chile and New York JFK and additional frequencies on routes to the French Caribbean. Iberia increased its capacity in January and February primarily on its Latin American routes with a new route to Guayaquil, Ecuador and additional frequencies on routes to Colombia, Peru and Brazil. Vueling reduced its capacity in January and February primarily in Italy as it continued to focus on its core markets, prior to the spread of COVID-19.

During quarter 2 Aer Lingus capacity was driven by cargo needs with flights operating regularly to New York, Chicago and Boston in addition to flights from China carrying back Personal Protective Equipment (PPE). British Airways operated flights daily to a number of US cities including New York, Boston and Washington, mainly for cargo purposes. Towards the end of the quarter, activity in the Caribbean started to pick up with a number of charter flights operating to Barbados and Antigua. Hong Kong is the only destination in Asia Pacific where flights have been operating regularly (with some limited flights to Beijing and Singapore). British Airways operated very limited shorthaul flights, with a small increase in June. Iberia longhaul operations in April and May were mainly for repatriation flights from South America including Argentina, Chile and Peru. Minimum operations were maintained by Iberia for domestic and shorthaul routes to keep main European cities connected including Paris, Brussels and London. LEVEL longhaul operations were cancelled, with the exception of one repatriation flight from Buenos Aires, due to travel restrictions on the routes operated. On June 19, 2020 the operations of LEVEL Europe operating out of Vienna and Amsterdam were ceased. On July 8, 2020, LEVEL France announced its intention to commence consultations with the unions of its employees regarding the proposed cessation of its operations out of Paris Orly. LEVEL Spain operating out of Barcelona remains unaffected. Vueling operations in the quarter were mainly focused on domestic flights, connecting the peninsula with the islands.

Unit measures have been rendered much less meaningful than usual by the significant reduction in capacity operated, particularly in quarter 2, but the unit measures for the six months are included in the commentary below for completeness.

### Revenue

Passenger revenue for the six months to June 30, 2020, fell 60.8 per cent from the previous year, with quarter 2 down 96.7 per cent. Passenger unit revenue (passenger revenue per ASK) decreased 13.9 per cent at constant currency ('ccy'), due primarily to lower yields (passenger revenue per revenue passenger kilometre) and lower passenger seat factors from March onwards, associated with the impact of COVID-19.

Cargo revenue was 10.6 per cent higher than in 2019 and was up 11.0 per cent at constant currency, with cargo revenue boosted significantly by the additional flights operated for moving medical equipment and supplies, with an additional 1,875 cargo flights operated in quarter 2. Cargo revenue for quarter 2 was a record €369 million, up from €281 million in quarter 2 2019. Cargo carried for the six months to June 30, 2020, measured in cargo tonne kilometres (CTKs), fell by 37.5 per cent, due to the reduction in passenger schedules, but yields were significantly higher, as the additional flights carried no passengers and had no associated passenger revenue and hence the cost of operating such flights had to be met entirely from cargo revenue.

Other revenue fell by 36.7 per cent and by 39.0 per cent at ccy, as the growth of the Group's non-airline businesses was also impacted by COVID-19 from March.

### Costs

Employee costs for the six months to June 30 decreased by €602 million compared with 2019. Approximately half of this reduction was as a result of furlough and equivalent temporary cost reduction schemes, together with reductions to either hours worked or pay in quarter 2. Reductions were made at all levels and in all functions within the Group. Despite all these measures, the reduction in employee costs of 24.2 per cent was outweighed by the 56.2 per cent reduction in passenger capacity and as a consequence employee unit costs at ccy rose 71.1 per cent.

Fuel costs (excluding the exceptional charge for overhedging) reduced by 55.3 per cent, reflecting the reduced capacity operated. Fuel unit costs at ccy were down 1.9 per cent on 2019, linked to continued efficiencies and the net impact of commodity prices across the period and hedging losses versus the previous year.

Supplier costs decreased by 34.9 per cent, linked to volume-related savings due to the lower capacity operated, together with a reduction in non-essential expenditure as a result of COVID-19. The savings were lower than the reduction in volume, reflecting fixed costs and the rapid escalation of the virus in March, which led to capacity falling at a greater level than it was possible to reduce costs. Supplier unit costs for the six months to June 30, 2020, were up 41.0 per cent at ccy.

Ownership costs before exceptional items increased 7.6 per cent on the previous year, in line with the fleet replacement programme. The number of aircraft in service decreased from 598 in December 2019 to 548 at the end of June 2020, with the reduction mainly reflecting the Boeing 747s in British Airways and Airbus A340-600s in Iberia, which will lead to a reduction in depreciation in future quarters, following the impairments described below. The majority of the in-service fleet was grounded from March. Ownership costs before exceptional items on a unit basis and at ccy were up 144 per cent on 2019, as the grounded aircraft continue to have depreciation charged.

## FINANCIAL REVIEW continued

Overall airline non-fuel unit costs at ccy were up 66.3 per cent versus a year ago, linked to the significant capacity reduction.

### **Operating loss before exceptional items**

The Group's operating loss before exceptional items for the six months to June 30, 2020, was €1,900 million (2019: operating profit of €1,095 million), representing a deterioration of €2,995 million versus 2019.

### **Exceptional items**

Exceptional items are detailed in note 3. Exceptional items have been recognised in respect of the impact of overhedging in respect of the COVID-19 related capacity reductions, being the net of fuel and foreign currency overhedging (a loss of €1,269 million), and passenger revenue (a loss of €38 million). In addition there is an exceptional impairment expense of €731 million related to fleet and other assets, together with an associated inventory impairment expense of €71 million and expenses relating to contractual end of lease payments also in respect of surplus aircraft of €6 million. An exceptional expense of €22 million has been recorded in respect of a provision in relation to the theft of customer data at British Airways in 2018.

There were no exceptional items in the six months to June 30, 2019.

### **Net non-operating costs, taxation and profit after tax**

The Group's net non-operating costs for the six months to June 30, 2020, were €169 million compared with €88 million in 2019, mainly relating to arrangement fees and interest for new debt and facilities and costs associated with restructuring certain derivative contracts, for which the cashflows have been deferred to 2021 or later.

The tax credit for the period was €104 million before exceptional items (2019: tax charge of €201 million), with an effective tax rate for the Group of 5 per cent (2019: 20 per cent). The effective tax rate in the period was different to the expected rate of 20 per cent due to not recognising tax credits in respect of certain current and prior period losses and deductible temporary differences, and due to the cancellation of the UK rate reduction and its impact on UK deferred tax balances.

The loss after tax and exceptional items for the six months to June 30, 2020 was €3,806 million (2019: profit after tax €806 million), driven by the impact of COVID-19 on operating profit, together with the exceptional items relating to the overhedged position on fuel and the impairment of fleet assets, which were also the result of COVID-19.

### **Cash and leverage**

The Group's cash position of €6,016 million was €667 million lower than December 31, 2019. Net debt at the end of the period, including the debt associated with right of use assets, was €10,463 million compared with €7,571 million at December 31, 2019. Net debt to EBITDA, based on the 12 months to June 30, 2020, was 4.2 times, versus 1.4 times at the end of December 2019.

### **Other recent developments**

On July 24, 2020, the Group announced that IAG Loyalty had signed a multi-year renewal extending its worldwide commercial partnership with American Express. Under the agreements, American Express will make a payment of approximately €830 million (£750 million) to IAG Loyalty, a significant part of which is a pre-purchase of Avios points that American Express will utilise in the UK and worldwide for its British Airways co-branded cards and Membership Rewards Programme.

Having reached nine years in office last January (the maximum term recommended in the UK corporate governance code), Antonio Vázquez has announced his intention to retire in early January 2021, stepping down from his position as member and Chairman of the Board of Directors. On July 30, the Board unanimously approved the appointment of independent director Javier Ferrán as his successor.

Antonio Vázquez will continue to chair the Board of Directors for the remainder of 2020 subject to his proposed re-election as director being approved by the next IAG's Annual General Shareholders Meeting. This will enable him to support the succession of the Group's Chief Executive and allow for the orderly transition of chairman.



**INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.**

Unaudited Condensed Consolidated Interim Financial Statements  
January 1, 2020 - June 30, 2020

## CONSOLIDATED INCOME STATEMENT

€ million	Six months to June 30			
	Before exceptional items 2020	Exceptional items	Total 2020	Total 2019 <sup>1</sup>
Passenger revenue	4,151	(38)	4,113	10,586
Cargo revenue	615		615	556
Other revenue	560		560	884
<b>Total revenue</b>	<b>5,326</b>	<b>(38)</b>	<b>5,288</b>	<b>12,026</b>
Employee costs	1,890		1,890	2,492
Fuel, oil costs and emissions charges	1,313	1,269	2,582	2,936
Handling, catering and other operating costs	853		853	1,413
Landing fees and en-route charges	539		539	1,081
Engineering and other aircraft costs	766	77	843	1,031
Property, IT and other costs	406	22	428	380
Selling costs	268		268	551
Depreciation, amortisation and impairment	1,114	731	1,845	1,035
Currency differences	77		77	12
Total expenditure on operations	7,226	2,099	9,325	10,931
<b>Operating (loss)/profit</b>	<b>(1,900)</b>	<b>(2,137)</b>	<b>(4,037)</b>	<b>1,095</b>
Finance costs	(342)		(342)	(281)
Finance income	23		23	22
Net financing credit relating to pensions	3		3	13
Net currency retranslation credits	97		97	138
Other non-operating credits	50		50	20
Total net non-operating costs	(169)		(169)	(88)
<b>(Loss)/profit before tax</b>	<b>(2,069)</b>	<b>(2,137)</b>	<b>(4,206)</b>	<b>1,007</b>
Tax	104	296	400	(201)
<b>(Loss)/profit after tax for the period</b>	<b>(1,965)</b>	<b>(1,841)</b>	<b>(3,806)</b>	<b>806</b>
<b>Attributable to:</b>				
Equity holders of the parent	(1,965)		(3,806)	806
Non-controlling interest	-		-	-
	<b>(1,965)</b>		<b>(3,806)</b>	<b>806</b>
<b>Basic (loss)/earnings per share (€ cents)</b>	<b>(99.0)</b>		<b>(191.7)</b>	<b>40.6</b>
<b>Diluted (loss)/earnings per share (€ cents)</b>	<b>(99.0)</b>		<b>(191.7)</b>	<b>39.2</b>

<sup>1</sup> The 2019 Income statement includes a reclassification to conform to the current period presentation of compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the six months to June 30, 2019 was €63 million. Further information is given in note 1.

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Six months to June 30	
	2020	2019
<i>Items that may be reclassified subsequently to net profit</i>		
Cash flow hedges:		
Fair value movements in equity	(2,500)	554
Reclassified and reported in net profit	1,265	56
Fair value movements on cost of hedging	-	43
Cost of hedging reclassified and reported in net profit	(8)	-
Currency translation differences	(146)	35
 <i>Items that will not be reclassified to net profit</i>		
Fair value movements on equity instruments	(10)	(5)
Fair value movements on cash flow hedges	172	(1)
Fair value movements on cost of hedging	20	-
Remeasurements of post-employment benefit obligations	(994)	(68)
<b>Total other comprehensive (loss)/income for the period, net of tax</b>	<b>(2,201)</b>	<b>614</b>
(Loss)/profit after tax for the period	<b>(3,806)</b>	806
 <b>Total comprehensive (loss)/income for the period</b>	 <b>(6,007)</b>	 <b>1,420</b>
 Total comprehensive (loss)/income is attributable to:		
Equity holders of the parent	(6,007)	1,420
Non-controlling interest	-	-
	<b>(6,007)</b>	<b>1,420</b>

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

## CONSOLIDATED BALANCE SHEET

€ million	June 30, 2020	December 31, 2019 <sup>1</sup>
<b>Non-current assets</b>		
Property, plant and equipment	17,782	19,168
Intangible assets	3,330	3,442
Investments accounted for using the equity method	31	31
Other equity investments	71	82
Employee benefit assets	331	314
Derivative financial instruments	518	268
Deferred tax assets	724	546
Other non-current assets	247	273
	<b>23,034</b>	<b>24,124</b>
<b>Current assets</b>		
Inventories	418	565
Trade receivables	791	2,255
Other current assets	1,021	1,314
Current tax receivable	251	186
Derivative financial instruments	569	324
Other current interest-bearing deposits	1,320	2,621
Cash and cash equivalents	4,696	4,062
	<b>9,066</b>	<b>11,327</b>
<b>Total assets</b>	<b>32,100</b>	<b>35,451</b>
<b>Shareholders' equity</b>		
Issued share capital	996	996
Share premium	5,327	5,327
Treasury shares	(45)	(60)
Other reserves	(5,499)	560
<b>Total shareholders' equity</b>	<b>779</b>	<b>6,823</b>
Non-controlling interest	6	6
<b>Total equity</b>	<b>785</b>	<b>6,829</b>
<b>Non-current liabilities</b>		
Interest-bearing long-term borrowings	13,659	12,411
Employee benefit obligations	1,225	400
Deferred tax liability	59	290
Provisions	2,231	2,416
Derivative financial instruments	741	286
Other long-term liabilities	116	71
	<b>18,031</b>	<b>15,874</b>
<b>Current liabilities</b>		
Current portion of long-term borrowings	2,820	1,843
Trade and other payables	3,422	4,344
Deferred revenue on ticket sales	4,624	5,486
Derivative financial instruments	1,699	252
Current tax payable	-	192
Provisions	719	631
	<b>13,284</b>	<b>12,748</b>
<b>Total liabilities</b>	<b>31,315</b>	<b>28,622</b>
<b>Total equity and liabilities</b>	<b>32,100</b>	<b>35,451</b>

<sup>1</sup> The 2019 Balance sheet includes a reclassification in the presentation of assets and liabilities for employee benefits and deferred tax. Refer to note 1 for further information.

## CONSOLIDATED CASH FLOW STATEMENT

€ million	Six months to June 30	
	2020	2019
<b>Cash flows from operating activities</b>		
Operating (loss)/profit	(4,037)	1,095
Depreciation, amortisation and impairment	1,845	1,035
Movement in working capital	447	1,579
<i>Decrease/(increase) in trade receivables, inventories and other current assets</i>	1,615	(609)
<i>(Decrease)/increase in trade and other payables and deferred revenue on ticket sales</i>	(1,168)	2,188
Payments related to restructuring	(87)	(89)
Employer contributions to pension schemes	(182)	(368)
Pension scheme service costs	3	3
Provisions and other non-cash movements	352	165
Unrealised loss on derecognition of fuel and foreign exchange hedges	621	-
Interest paid	(263)	(213)
Interest received	11	19
Tax (paid)/received	(6)	61
<b>Net cash flows from operating activities</b>	<b>(1,296)</b>	<b>3,287</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(1,340)	(1,509)
Sale of property, plant and equipment and intangible assets	400	458
Decrease/(increase) in other current interest-bearing deposits	1,215	(799)
Other investing movements	(1)	(1)
<b>Net cash flows from investing activities</b>	<b>274</b>	<b>(1,851)</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term borrowings	2,709	441
Repayment of borrowings	(77)	(68)
Repayment of lease liabilities	(778)	(823)
Dividend paid	(52)	(52)
<b>Net cash flows from financing activities</b>	<b>1,802</b>	<b>(502)</b>
Net increase in cash and cash equivalents	780	934
Net foreign exchange differences	(146)	33
Cash and cash equivalents at 1 January	4,062	3,837
<b>Cash and cash equivalents at period end</b>	<b>4,696</b>	<b>4,804</b>
<b>Interest-bearing deposits maturing after more than three months</b>	<b>1,320</b>	<b>3,227</b>
<b>Cash, cash equivalents and other interest-bearing deposits</b>	<b>6,016</b>	<b>8,031</b>

At June 30, 2020 Aer Lingus held €40 million of restricted cash (2019: €42 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months to June 30, 2020

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	Total shareholders' equity	Non- controlling interest	Total equity
January 1, 2020	996	5,327	(60)	560	<b>6,823</b>	6	<b>6,829</b>
Total comprehensive loss for the period (net of tax)	-	-	-	(6,007)	<b>(6,007)</b>	-	<b>(6,007)</b>
Hedges reclassified and reported in property, plant and equipment	-	-	-	(30)	<b>(30)</b>	-	<b>(30)</b>
Cost of share-based payments	-	-	-	(4)	<b>(4)</b>	-	<b>(4)</b>
Vesting of share-based payment schemes	-	-	15	(18)	<b>(3)</b>	-	<b>(3)</b>
<b>June 30, 2020</b>	<b>996</b>	<b>5,327</b>	<b>(45)</b>	<b>(5,499)</b>	<b>779</b>	<b>6</b>	<b>785</b>

For the six months to June 30, 2019

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	Total shareholders' equity	Non- controlling interest	Total equity
At January 1, 2019	996	6,022	(68)	(786)	6,164	6	6,170
Total comprehensive income for the period (net of tax)	-	-	-	1,420	1,420	-	1,420
Hedges reclassified and reported in property, plant and equipment	-	-	-	(1)	(1)	-	(1)
Cost of share-based payments	-	-	-	19	19	-	19
Vesting of share-based payment schemes	-	-	8	(14)	(6)	-	(6)
Dividend	-	(695)	-	(327)	(1,022)	-	(1,022)
June 30, 2019	996	5,327	(60)	311	6,574	6	6,580

## NOTES TO THE ACCOUNTS

For the six months to June 30, 2020

### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on December 17, 2009. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on July 30, 2020. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited.

The same basis of preparation and accounting policies set out in the IAG Annual Report and Accounts for the year to December 31, 2019 have been applied in the preparation of these condensed consolidated interim financial statements, except for those in note 2. IAG's financial statements for the year to December 31, 2019 have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and with those of the Standing Interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

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

- In September 2019, the IFRS Interpretations Committee ('IFRIC') clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy during the fourth quarter of 2019, which previously classified this compensation as an operating expense. Accordingly, the Group has reclassified the comparative six months to June 30, 2019 to reflect €63 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs; and
- Deferred tax assets arising on the restriction of surpluses to reflect minimum funding requirements of the British Airways APS and NAPS defined benefit schemes, as detailed in note 15, previously recognised within Employee benefit assets in the Balance sheet at December 31, 2019, have been reclassified to be presented net within Deferred tax liabilities at both December 31, 2019 and January 1, 2019 to conform to the current period presentation. At December 31, 2019, the reclassification had the effect of reducing Deferred tax liabilities by €282 million, reducing the Employee benefit assets by €210 million and increasing the Employee benefit obligations by €72 million. At January 1, 2019, the reclassification had the effect of reducing Deferred tax liabilities by €372 million, increasing Deferred tax assets by €131 million, reducing the Employee benefit assets by €365 million and increasing the Employee benefit obligations by €138 million. There is no impact to Profit after tax for the period, Other comprehensive income for the period, Net assets or the Statement of changes in equity in any period presented.

#### Going concern

As detailed in the Financial Review at June 30, 2020, the Group has cash of €6.0 billion and a further €2.1 billion of committed and undrawn general and aircraft facilities. Liquidity was boosted by, amongst other actions, accessing Spain's *Instituto de Crédito Oficial* (ICO) facility and the UK's Coronavirus Corporate Finance Facility (CCFF). In addition, one-year bridge financing facilities for old and new aircraft were agreed. These actions raised an additional €2.2 billion of liquidity in the period. The Group also has a large and valuable portfolio of airport landing rights. Nevertheless, given the economic uncertainty of the COVID-19 pandemic, the Group has modelled two scenarios in its assessment of going concern over the period to December 31, 2021, referred to below as the Base Case and the Downside Case.

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

- capacity recovery modelled regionally (and in certain regions, by key destinations), with capacity (measured versus 2019) gradually increasing from the reduction of 95 per cent reported in quarter 2 to 46 per cent lower for quarter 4 2020 and still down 24 per cent on average for 2021;
- passenger unit revenue per ASK, although recovering is expected to remain at levels below those of 2019 over the going concern period, which is dependent on, amongst others, the weighting of shorthaul versus longhaul, business versus leisure and premium versus economy; and
- the Group has forecast securing 80 per cent of the financing required that is currently uncommitted to align with the timing and payments for aircraft deliveries. This is a conservative assumption against the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 1. CORPORATE INFORMATION AND BASIS OF PREPARATION continued

The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a deeper and more gradual recovery relative to the Base Case. The Downside Case is representative of a second wave of outbreaks of COVID-19 on a regional basis, which models a more acute impact on the longhaul sector, with the domestic and European shorthaul sector recovering faster than longhaul. In the Downside Case capacity would be 67 per cent lower than 2019 in quarter 4 2020 and 35 per cent lower averaged across 2021, with the first two quarters of 2021 approximately down a further 25 per cent versus 2019 than in the Base Case. In reviewing the Downside Case the Directors have also considered further sensitivities for adverse experience and external factors. The Directors consider the Downside Case to be a severe but plausible scenario.

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

Furthermore, to add resilience to the liquidity position of the Group, including for the period beyond the next 12 months, the Directors have resolved to undertake a Rights Issue during the second half of 2020 for an amount of up to €2.75 billion, which is expected to be fully covered by underwriting and irrevocable commitments. The Rights Issue will be subject to approval at the Company's Annual General Meeting on September 8, 2020 and would be expected to be completed by the end of September.

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

Due to the uncertainty created by COVID-19 and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the stresses it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and fuel price variations. Whilst such scenarios are not considered likely, in the event that such a scenario were to occur the Group will likely need to secure additional funding over and above that which is contractually committed at July 30, 2020. Sources of additional funding are expected to include regular financing arrangements for aircraft, an extension of the CCFF commercial paper until March 2022, and the Rights Issue referred to above.

However, if such funding were not secured against aircraft, the UK Government withdrew its CCFF programme or if the Rights Issue were not approved and executed as anticipated, the occurrence of a more severe downside scenario and the Group's ability to then obtain additional funding represents a material uncertainty at July 30, 2020 that could cast significant doubt upon the Group's ability to continue as a going concern.

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

### 2. ACCOUNTING POLICIES

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

The following amendments and interpretations apply for the first time in the six months to June 30, 2020, but do not have an impact on the condensed consolidated interim financial statements of the Group:

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

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



## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 2. ACCOUNTING POLICIES continued

#### New and changes in accounting policies

##### Government grants

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

#### Critical accounting estimates, assumptions and judgements

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

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

- The going concern basis of preparation (refer to note 1);
- Hedged forecast transactions, predominantly of fuel and foreign currency, are no longer expected to occur and accordingly the associated hedges de-recognised (refer to note 3 and note 17);
- The long-term fleet plans for each operating company and accordingly number of aircraft permanently stood down and impaired at the balance sheet date (refer to note 3 and note 10);
- The value-in-use calculations used in each of the cash generating unit (CGU) impairment assessments (refer to note 11); and
- The recoverability of deferred tax assets (refer to note 7).

### 3. EXCEPTIONAL ITEMS

€ million	Six months to June 30	
	2020	2019
Loss on derecognition of foreign currency passenger revenue hedges <sup>1</sup>	(38)	-
<b>Recognised in revenue</b>	<b>(38)</b>	-
Loss on derecognition of fuel and foreign exchange hedges <sup>1</sup>	1,269	-
Impairment of fleet and associated assets <sup>2</sup>	731	-
Engineering and other aircraft costs <sup>3</sup>	77	-
Settlement provision <sup>4</sup>	22	-
<b>Recognised in expenditure on operations</b>	<b>2,099</b>	-
<b>Total exceptional charge before tax</b>	<b>2,137</b>	-
<b>Tax on exceptional items</b>	<b>(296)</b>	-
<b>Total exceptional charge after tax</b>	<b>1,841</b>	-

<sup>1</sup> The exceptional charge to Fuel, oil costs and emissions charges of €1,269 million represented by an expense of €1,372 million relating to fuel derivatives and a credit of €103 million relating to the associated fuel foreign currency derivatives, and the exceptional charge to Passenger revenue of €38 million relates to the derecognition of hedges of the associated fuel derivatives and the foreign currency derivatives on forecast revenue and fuel consumption. These losses have arisen from the substantial deterioration in demand for air travel caused by the COVID-19 outbreak, which has caused a significant level of hedged fuel purchases in US dollars and hedged passenger revenue transactions in a variety of foreign currencies to no longer be expected to occur based on the Group's operating forecasts prevailing at the balance sheet date. The Group's risk management strategy has been to build up these hedges gradually over a three-year period when the level of forecast fuel consumption and passenger revenues were higher than current expectations. Accordingly, the hedges for these transactions has been derecognised and the losses recognised in the Income statement.

The related tax credit was €204 million, with €7 million being attributable to the charge to passenger revenue and €197 million being attributable to the fuel expense. Further details are given in note 17.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 3. EXCEPTIONAL ITEMS continued

<sup>2</sup> The total exceptional impairment expense of €731 million is represented by an impairment of fleet assets of €729 million and an impairment of other assets of €2 million. The fleet impairment relates to 55 aircraft, their associated engines and rotatable inventories that have been stood down permanently and 6 further aircraft which have been impaired down to their recoverable value at June 30, 2020, which includes 32 Boeing 747 aircraft, 15 Airbus A340 aircraft, 4 Airbus A320 aircraft, 4 Airbus A330-200 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €635 million is recorded within Property, plant and equipment relating to owned aircraft and €94 million is recorded within Right of use assets relating to leased aircraft. Subsequent to these impairments, all assets are held at their recoverable amounts. The exceptional impairment expense has been recorded within Depreciation, amortisation and impairment in the Income statement.

The impairment expense has arisen from the substantial deterioration in current and forecast demand for air travel caused by the COVID-19 outbreak, which has led the Group to re-assess the medium and long term capacity and utilisation of the fleet.

The related tax credit was €87 million.

<sup>3</sup> The exceptional charge to Engineering and other aircraft costs of €77 million includes an inventory write down expense of €71 million and a charge relating to contractual lease provisions of €6 million. The inventory write down expense represents those expendable inventories that, given the aforementioned asset impairments, are no longer expected to be utilised. The charge relating to the recognition of contractual lease provisions of €6 million represents the estimation of the additional cost to fulfil the hand back conditions associated with the aforementioned leased aircraft that have been permanently stood down and impaired.

The related tax credit was €5 million.

<sup>4</sup> The exceptional charge of €22 million represents management's best estimate of the amount of any penalty issued by the Information Commissioner's Office (ICO) in the United Kingdom, relating to the theft of customer data at British Airways in 2018. The process is ongoing and no final penalty notice has been issued. The exceptional charge has been recorded within Property, IT and other costs in the Income statement, with a corresponding amount recorded in Provisions.

There is no tax impact on the recognition of this charge.

### 4. SEASONALITY

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

### 5. SEGMENT INFORMATION

#### a Business segments

The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee (IAG MC).

The Group has a number of entities which are managed as individual operating companies including airline and platform functions. Each airline operates its network operations as a single business unit and the IAG MC assesses performance based on measures including operating profit, and makes resource allocation decisions for the airlines based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results.

The Group has determined its operating segments based on the way that it treats its businesses and the manner in which resource allocation decisions are made. British Airways, Iberia, Vueling and Aer Lingus have been identified for financial reporting purposes as reportable operating segments. IAG Loyalty and LEVEL are also operating segments but do not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why they should be separately disclosed.

The platform functions of the business primarily support the airline operations. These activities are not considered to be reportable operating segments as they either earn revenues incidental to the activities of the Group and resource allocation decisions are made based on the passenger business, or are not reviewed regularly by the IAG MC and are included within Other Group companies.

**NOTES TO THE ACCOUNTS continued**

For the six months to June 30, 2020

## 5. SEGMENT INFORMATION continued

For the six months to June 30, 2020

€ million	2020					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	2,566	784	317	315	131	<b>4,113</b>
Cargo revenue	448	107	-	60	-	<b>615</b>
Other revenue	156	335	4	-	65	<b>560</b>
External revenue	3,170	1,226	321	375	196	<b>5,288</b>
Inter-segment revenue	53	147	(8)	2	211	<b>405</b>
<b>Segment revenue</b>	<b>3,223</b>	<b>1,373</b>	<b>313</b>	<b>377</b>	<b>407</b>	<b>5,693</b>
Depreciation, amortisation and impairment	(1,134)	(430)	(139)	(93)	(49)	<b>(1,845)</b>
<b>Operating (loss)/profit before exceptional items</b>	<b>(1,094)</b>	<b>(359)</b>	<b>(268)</b>	<b>(189)</b>	<b>10</b>	<b>(1,900)</b>
Exceptional items (note 3) <sup>2</sup>	<b>(1,360)</b>	<b>(508)</b>	<b>(118)</b>	<b>(127)</b>	<b>(24)</b>	<b>(2,137)</b>
<b>Operating loss</b>	<b>(2,454)</b>	<b>(867)</b>	<b>(386)</b>	<b>(316)</b>	<b>(14)</b>	<b>(4,037)</b>
Net non-operating costs						(169)
<b>Loss before tax</b>						<b>(4,206)</b>
Total assets	19,219	8,178	3,658	2,026	(981)	<b>32,100</b>
Total liabilities	(16,488)	(7,748)	(3,692)	(1,592)	(1,795)	<b>(31,315)</b>

<sup>1</sup> Includes eliminations on total assets of €14,159 million and total liabilities of €4,077 million.<sup>2</sup> Included within the exceptional items are impairments by segment of the following: British Airways €463 million; Iberia €234 million; Aer Lingus €25 million; and other Group companies €9 million.

For the six months to June 30, 2019

€ million	2019					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies <sup>1</sup>	
<b>Revenue</b>						
Passenger revenue	6,492	1,839	1,053	936	266	10,586
Cargo revenue	404	125	-	26	1	556
Other revenue	333	428	7	3	113	884
External revenue	7,229	2,392	1,060	965	380	12,026
Inter-segment revenue	105	237	-	3	288	633
<b>Segment revenue</b>	<b>7,334</b>	<b>2,629</b>	<b>1,060</b>	<b>968</b>	<b>668</b>	<b>12,659</b>
Depreciation, amortisation and impairment	(621)	(191)	(120)	(64)	(39)	(1,035)
<b>Operating profit before exceptional items</b>	<b>873</b>	<b>109</b>	<b>5</b>	<b>78</b>	<b>30</b>	<b>1,095</b>
<b>Operating profit</b>	<b>873</b>	<b>109</b>	<b>5</b>	<b>78</b>	<b>30</b>	<b>1,095</b>
Net non-operating costs						(88)
<b>Profit before tax</b>						<b>1,007</b>
Total assets	22,351	8,787	3,734	2,260	(1,062)	36,070
Total liabilities	(15,309)	(7,091)	(3,478)	(1,450)	(2,162)	(29,490)

<sup>1</sup> Includes eliminations on total assets of €14,731 million and total liabilities of €4,570 million.

**NOTES TO THE ACCOUNTS continued**

For the six months to June 30, 2020

## 5. SEGMENT INFORMATION continued

## b Geographical analysis

Revenue by area of original sale

	<b>Six months to June 30</b>	
€ million	<b>2020</b>	2019
UK	<b>1,739</b>	4,047
Spain	<b>1,024</b>	2,030
USA	<b>750</b>	2,111
Rest of world	<b>1,775</b>	3,838
	<b>5,288</b>	12,026

## Assets by area

June 30, 2020

€ million	<b>Property, plant and equipment</b>	<b>Intangible assets</b>
UK	<b>11,029</b>	<b>1,303</b>
Spain	<b>5,238</b>	<b>1,404</b>
USA	<b>150</b>	<b>17</b>
Rest of world	<b>1,365</b>	<b>606</b>
	<b>17,782</b>	<b>3,330</b>

December 31, 2019

€ million	Property, plant and equipment	Intangible assets
UK	12,214	1,401
Spain	5,324	1,402
USA	188	19
Rest of world	1,442	620
	19,168	3,442

**NOTES TO THE ACCOUNTS continued**

For the six months to June 30, 2020

**6. FINANCE COSTS, INCOME AND OTHER NON-OPERATING CREDITS/(CHARGES)**

€ million	<b>Six months to June 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Finance costs</b>		
Interest payable on bank and other loans, asset financed liabilities and lease liabilities	<b>(311)</b>	(273)
Unwinding of discount on provisions	<b>(6)</b>	(18)
Capitalised interest on progress payments	<b>7</b>	9
Change in fair value of cross currency swaps	<b>(9)</b>	1
Other finance costs	<b>(23)</b>	-
<b>Total finance costs</b>	<b>(342)</b>	<b>(281)</b>
<b>Finance income</b>		
Interest on other interest-bearing deposits	<b>15</b>	22
Other finance income	<b>8</b>	-
<b>Total finance income</b>	<b>23</b>	<b>22</b>
<b>Net financing credit relating to pensions</b>		
Net financing credit relating to pensions	<b>3</b>	13
<b>Other non-operating credits/(charges)</b>		
Profit on sale of property, plant and equipment and investments	<b>4</b>	10
Realised gain on derivatives not qualifying for hedge accounting	<b>53</b>	6
Unrealised losses on derivatives not qualifying for hedge accounting	<b>(6)</b>	(1)
Share of post-tax (losses)/profits in associates accounted for using equity method	<b>(3)</b>	2
Net credit relating to other equity investments	<b>2</b>	3
<b>Total Other non-operating credits</b>	<b>50</b>	<b>20</b>

**7. TAX**

The tax credit on the result after exceptional items for the six months to June 30, 2020 is €400 million (2019: €201 million charge), and the effective tax rate is 10 per cent (2019: 20 per cent). The effective tax rate in the period was different to the expected rate of 20 per cent due to not recognising tax credits in respect of certain current and prior period losses and deductible temporary differences, and due to the cancellation of the UK rate reduction and its impact on UK deferred tax balances. Had these losses and deductible temporary differences been recognised the additional tax credit would have been €371 million and the effective tax rate would have been 18 per cent.

**8. EARNINGS PER SHARE AND SHARE CAPITAL**

Millions	<b>Six months to June 30</b>	
	<b>2020</b>	<b>2019</b>
Weighted average number of ordinary shares in issue	<b>1,986</b>	1,984
Weighted average number for diluted earnings per share	<b>1,986</b>	2,080

  

€ cents	<b>Six months to June 30</b>	
	<b>2020</b>	<b>2019</b>
Basic (loss)/earnings per share	<b>(191.7)</b>	40.6
Diluted (loss)/earnings per share	<b>(191.7)</b>	39.2

The effect of the assumed conversion of the IAG €500 million convertible bond 2022 is antidilutive for the six months to June 30, 2020, and therefore has not been included in the diluted earnings per share calculation.

The number of shares in issue at June 30, 2020 was 1,992,032,634 (December 31, 2019: 1,992,032,634) ordinary shares with a par value of €0.50 each.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 9. DIVIDENDS

As a result of the impact of COVID-19, on April 2, 2020, the Board of Directors of the Group resolved to withdraw the proposal to the next Annual Shareholders' Meeting to pay a final dividend for 2019 of 0.17 euros per share.

The Directors propose that no dividend be paid for the six months to June 30, 2020 (June 30, 2019: nil).

The dividend paid in the six months to June 30, 2020 of €52 million relates to the withholding tax on the 2019 interim dividend, which was proposed in October 2019.

### 10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ million	Other Property, plant and equipment	Right of use assets	Total Property, plant and equipment	Intangible assets
Net book value at January 1, 2020	8,580	10,588	19,168	3,442
Additions	1,194	285	1,479	137
Modifications of leases	-	55	55	-
Disposals	(365)	(10)	(375)	(76)
Reclassifications	157	(155)	2	(2)
Depreciation, amortisation and impairment <sup>1</sup>	(1,083)	(685)	(1,768)	(77)
Exchange movements	(377)	(402)	(779)	(94)
<b>Net book value at June 30, 2020</b>	<b>8,106</b>	<b>9,676</b>	<b>17,782</b>	<b>3,330</b>

<sup>1</sup> Includes an impairment expense of €731 million mainly on fleet assets, recognised as an exceptional item (note 3).

€ million	Other Property, plant and equipment	Right of use assets	Total Property, plant and equipment	Intangible assets
Net book value at January 1, 2019	6,670	10,252	16,922	3,198
Additions	1,383	452	1,835	166
Disposals	(430)	-	(430)	(57)
Reclassifications	85	(85)	-	-
Depreciation, amortisation and impairment	(392)	(582)	(974)	(61)
Exchange movements	48	74	122	12
Net book value at June 30, 2019	7,364	10,111	17,475	3,258

At June 30, 2020, bank and other loans of the Group are secured on fleet assets with a net book value of €1,557 million.

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €11,306 million (December 31, 2019: €12,830 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

### 11. IMPAIRMENT REVIEW

#### Basis for calculating recoverable amount

The Group performs its annual impairment test of goodwill and indefinite live assets during the fourth quarter of each year based on the five year Business plans prepared and approved at each operating company.

At each other reporting date, the Group considers the existence of indicators of potential impairment. At June 30, 2020, the disruption caused by COVID-19 has led to a decrease in demand across each CGU and economic uncertainty over the short and medium term.

As a result, a full impairment test at June 30, 2020 has been conducted for each CGU, based on the updated operating companies' Business plans which consolidate into the Group Business plan, approved by the Board.

The recoverable amount of each CGU is measured based on its value-in-use, which at June 30, 2020 utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 1.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 11. IMPAIRMENT REVIEW continued

#### Key assumptions

The value-in-use calculations for each CGU reflected the increased risks arising from COVID-19, including updated projected cash flows for the decreased activity for the remaining six months of 2020 through to the end of 2024, an increase in the pre-tax discount rates to incorporate increased equity market volatility and a decrease in long-term growth rates.

For each of the CGUs the key assumptions used in the weighted average multi-scenario value-in-use calculations are as follows:

June 30, 2020					
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin	(32)-15	(24)-9	(60)-10	(49)-14	17-27
ASKs as a proportion of 2019 <sup>1</sup>	45-90	42-98	39-111	40-103	n/a
Long-term growth rate	1.6	1.2	0.8	1.4	1.2
Pre-tax discount rate	10.3	10.7	10.5	10.7	12.5

  

December 31, 2019					
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin	15	10-15	10-14	13-15	20-23
Average ASK growth per annum	2-4	3	1-5	2-11	n/a
Long-term growth rate	2.2	1.8	1.5	1.8	1.8
Pre-tax discount rate	8.0	9.1	9.4	8.0	8.5

<sup>1</sup>In prior periods the Group applied the average ASK growth per annum as a key assumption. Given the impact of COVID-19, the Group has presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation.

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

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics).

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

#### Summary of results

At June 30, 2020 Management reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions have been considered for each CGU, where applicable, which include reducing operating margin by 2 per cent in each year, ASKs by 5 per cent in each year, long-term growth rates to zero, increasing pre-tax discount rates by 2.5 percentage points, and increasing the fuel price by 40 per cent.

While the Iberia CGU recoverable amount is estimated to exceed the carrying amount by €628 million, the recoverable amount would be below the carrying amount when applying certain of the reasonable possible changes in key assumptions. The recoverable amount of the Iberia CGU would equal its carrying amount if the following were applied individually to the cash flow projections: (i) if the pre-tax discount rate applied had been 1.4 percentage points higher; (ii) if operating margin had been 2 per cent lower; (iii) if ASKs had been 4.1 per cent lower; and (iv) if the fuel price had been 7.1 per cent higher.

For the remainder of the reasonable possible changes in key assumptions applied to the Iberia CGU and for all the reasonable possible changes in key assumptions applied to the remaining CGUs, no impairment arises.

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

**NOTES TO THE ACCOUNTS continued**

For the six months to June 30, 2020

## 12. FINANCIAL INSTRUMENTS

## a Financial assets and liabilities by category

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

**June 30, 2020**

€ million	Financial assets				Total carrying amount by balance sheet item
	Amortised cost	Fair value through comprehensive income	Fair value through Income statement	Non-financial assets	
<b>Non-current assets</b>					
Other equity investments	-	71	-	-	<b>71</b>
Derivative financial instruments <sup>1</sup>	-	-	518	-	<b>518</b>
Other non-current assets	179	-	-	68	<b>247</b>
<b>Current assets</b>					
Trade receivables	791	-	-	-	<b>791</b>
Other current assets	310	-	-	711	<b>1,021</b>
Derivative financial instruments <sup>1</sup>	-	-	569	-	<b>569</b>
Other current interest-bearing deposits	1,320	-	-	-	<b>1,320</b>
Cash and cash equivalents	4,696	-	-	-	<b>4,696</b>
€ million	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through comprehensive income	Fair value through income statement	Non-financial liabilities	
<b>Non-current liabilities</b>					
Lease liabilities	8,987	-	-	-	<b>8,987</b>
Interest-bearing long-term borrowings	4,672	-	-	-	<b>4,672</b>
Derivative financial instruments <sup>1</sup>	-	-	741	-	<b>741</b>
Other long-term liabilities	-	-	-	116	<b>116</b>
<b>Current liabilities</b>					
Lease liabilities	1,604	-	-	-	<b>1,604</b>
Current portion of long-term borrowings	1,216	-	-	-	<b>1,216</b>
Trade and other payables	2,824	-	-	598	<b>3,422</b>
Derivative financial instruments <sup>1</sup>	-	-	1,699	-	<b>1,699</b>

<sup>1</sup> For further information regarding derivative financial instruments, refer to note 17.



**NOTES TO THE ACCOUNTS continued**

For the six months to June 30, 2020

## 12. FINANCIAL INSTRUMENTS continued

December 31, 2019

€ million	Financial assets				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial assets	
<b>Non-current assets</b>					
Other equity investments	-	82	-	-	82
Derivative financial instruments	-	-	268	-	268
Other non-current assets	133	-	-	140	273
<b>Current assets</b>					
Trade receivables	2,255	-	-	-	2,255
Other current assets	414	-	-	900	1,314
Derivative financial instruments	-	-	324	-	324
Other current interest-bearing deposits	2,621	-	-	-	2,621
Cash and cash equivalents	4,062	-	-	-	4,062

€ million	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	
<b>Non-current liabilities</b>					
Lease liabilities	9,352	-	-	-	9,352
Interest-bearing long-term borrowings	3,059	-	-	-	3,059
Derivative financial instruments	-	-	286	-	286
Other long-term liabilities	12	-	-	59	71
<b>Current liabilities</b>					
Lease liabilities	1,694	-	-	-	1,694
Current portion of long-term borrowings	149	-	-	-	149
Trade and other payables	3,881	-	-	463	4,344
Derivative financial instruments	-	-	252	-	252

## b Fair value of financial assets and financial liabilities

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Derivative instruments are measured based on the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant. The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

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

**NOTES TO THE ACCOUNTS continued**

For the six months to June 30, 2020

## 12. FINANCIAL INSTRUMENTS continued

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

The carrying amounts and fair values of the Group's financial assets and liabilities at June 30, 2020 are as follows:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
<b>Financial assets</b>					
Other equity investments	-	-	71	71	<b>71</b>
Derivative financial assets <sup>1</sup>	-	1,087	-	1,087	<b>1,087</b>
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings	1,321	4,307	-	5,628	<b>5,888</b>
Derivative financial liabilities <sup>2</sup>	-	2,440	-	2,440	<b>2,440</b>

<sup>1</sup>Current portion of derivative financial assets is €569 million.

<sup>2</sup>Current portion of derivative financial liabilities is €1,699 million.

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

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
<b>Financial assets</b>					
Other equity investments	10	-	72	82	82
Derivative financial assets <sup>1</sup>	-	592	-	592	592
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings	1,640	1,985	-	3,625	3,208
Derivative financial liabilities <sup>2</sup>	-	538	-	538	538

<sup>1</sup>Current portion of derivative financial assets is €324 million.

<sup>2</sup>Current portion of derivative financial liabilities is €252 million.

There have been no transfers between levels of fair value hierarchy during the period.

The financial instruments listed in the previous table are measured at fair value for reporting purposes, with the exception of interest-bearing borrowings, which are measured at amortised cost.

## c Level 3 financial assets reconciliation

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

€ million	June 30, 2020	December 31, 2019
Opening balance for the period	<b>72</b>	63
Additions	<b>3</b>	6
Exchange movements	<b>(4)</b>	3
<b>Closing balance for the period</b>	<b>71</b>	72

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 13. BORROWINGS

€ million	June 30, 2020	December 31, 2019
<b>Current</b>		
Bank and other loans	1,113	75
Asset financed liabilities	103	74
Lease liabilities	1,604	1,694
	<b>2,820</b>	<b>1,843</b>
<b>Non-current</b>		
Bank and other loans	2,901	1,879
Asset financed liabilities	1,771	1,180
Lease liabilities	8,987	9,352
	<b>13,659</b>	<b>12,411</b>

Banks and other loans are repayable up to the year 2028. Bank and other loans of the Group amounting to €1,367 million (December 31, 2019: €266 million) are secured on fleet assets with a net book value of €1,557 million (December 31, 2019: €325 million) (note 10). Asset financed liabilities are all secured on the associated aircraft or other property, plant and equipment.

On March 30, 2020, British Airways extended its US dollar secured Revolving Credit Facility (RCF) for one year from June 23, 2020 to June 23, 2021. The amount available under the extended facility was €1.23 billion (\$1.38 billion) at the time of exercising the extension. As at June 30, 2020, €523 million (\$588 million) of the facility remains undrawn and available.

On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility, issuing commercial paper to the government of the United Kingdom of €330 million (£298 million) and repayable in April 2021 for a principal value of £300 million.

On April 30, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements for €750 million and €260 million, respectively. The facilities are amortising from April 30, 2023 with maturity in 2025.

On May 19, 2020, British Airways entered into a syndicated mortgage loan of €667 million (\$750 million) secured on specific aircraft. The loan is repayable 12 months from the date of signing. At June 30, 2020 this loan had been fully drawn and hence the aircraft collateral available for the British Airways RCF was reduced.

On June 10, 2020, Iberia entered into a mortgage loan of €203 million (\$228 million) secured on specific aircraft. The loan is repayable 12 months from the date of signing. As at June 30, 2020, €167 million (\$189 million) remains undrawn.

### 14. SHARE BASED PAYMENTS

During the period 7,387,766 nil-cost options were awarded under the Group's Performance Share Plan (PSP) to key senior executives and selected members of the wider management team. The fair value of equity-settled share awards granted is estimated at the date of the award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded, or based on the share price at the date of grant, dependent on the performance criteria attached. The following are the inputs to the model for the PSP awards granted in the period:

Expected share price volatility (per cent)	35
Expected life of options (years)	4.4
Weighted average share price (£)	4.59

The Group also made awards under the Group's Incentive Award Deferral Plan during the period, under which 1,694,385 conditional shares were awarded.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 15. EMPLOYEE BENEFIT OBLIGATIONS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. NAPS was closed to future accrual from March 31, 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments following the 2021 valuation has been made in the valuation of the defined benefit obligation. The NAPS actuarial valuation at March 31, 2018 resulted in a deficit of €2,736 million.

APS has been closed to new members since 1984. The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment. The APS actuarial valuation at March 31, 2018 resulted in a surplus of €683 million.

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. In October 2019, the latest deficit recovery plan was agreed as at March 31, 2018 with respect to NAPS. The actuarial valuations performed as at March 31, 2018 for APS and NAPS are different to the valuation performed as at December 31, 2019 under IAS 19 'Employee benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Group of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

€ million	June 30, 2020			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,634	21,715	410	30,759
Present value of scheme liabilities	(8,181)	(22,383)	(691)	(31,255)
Net pension asset/(liability)	453	(668)	(281)	(496)
Effect of the asset/(liability) ceiling <sup>1</sup>	(136)	(252)	-	(388)
Other employee benefit obligations	-	-	(10)	(10)
<b>June 30, 2020</b>	<b>317</b>	<b>(920)</b>	<b>(291)</b>	<b>(894)</b>
Represented by:				
Employee benefit assets				331
Employee benefit obligations				(1,225)
				<b>(894)</b>

€ million	December 31, 2019 <sup>2</sup>			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,830	22,423	428	31,681
Present value of scheme liabilities	(8,401)	(21,650)	(731)	(30,782)
Net pension asset/(liability)	429	773	(303)	899
Effect of the asset ceiling <sup>1</sup>	(127)	(847)	-	(974)
Other employee benefit obligations	-	-	(11)	(11)
December 31, 2019	302	(74)	(314)	(86)
Represented by:				
Employee benefit assets				314
Employee benefit obligations				(400)
				<b>(86)</b>

<sup>1</sup> APS has an accounting surplus under IAS 19 (2019: both APS and NAPS) and NAPS has future minimum funding requirements, which would be available to the Group as a refund upon wind up of the scheme. These refunds are restricted due to the withholding taxes that would be payable by the Trustee.

<sup>2</sup> Refer to note 1 for information relation to the reclassification from the Employee benefit obligations to deferred taxes at December 31, 2019.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 15. EMPLOYEE BENEFIT OBLIGATIONS continued

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

Per cent per annum	June 30, 2020		December 31, 2019	
	APS	NAPS	APS	NAPS
Discount rate	1.35	1.55	1.85	2.05
Rate of increase in pensionable pay	2.85	-	2.90	-
Rate of increase of pensions in payment	2.85	2.20	2.90	2.15
RPI rate of inflation	2.85	-	2.90	-
CPI rate of inflation	-	2.20	-	2.15

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

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

### 16. PROVISIONS

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2020	1,675	528	664	82	98	3,047
Provisions recorded during the period	199	6	19	33	15	272
Utilised during the period	(99)	(87)	(13)	(16)	(14)	(229)
Release of unused amounts <sup>1</sup>	(109)	-	-	(5)	(4)	(118)
Unwinding of discount	4	-	2	-	-	6
Exchange differences	(17)	(3)	(1)	(4)	(3)	(28)
<b>Net book value June 30, 2020</b>	<b>1,653</b>	<b>444</b>	<b>671</b>	<b>90</b>	<b>92</b>	<b>2,950</b>
Analysis:						
Current	373	173	57	68	48	719
Non-current	1,280	271	614	22	44	2,231
	<b>1,653</b>	<b>444</b>	<b>671</b>	<b>90</b>	<b>92</b>	<b>2,950</b>

<sup>1</sup>Included within Restoration and handback provisions are amounts that the Group provides for on leased aircraft for the cost of returning fleet assets to pre-defined contractual conditions. During the six months to June 30, 2020, as part of certain lease modifications, these pre-conditions have been removed and the associated provision released to the Income statement.

### 17. FINANCIAL RISK MANAGEMENT

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

#### Fuel price risk

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

During the six months to June 30, 2020, following a substantial fall in the global price of crude oil and associated products, the fair value of such net liability derivative instruments was €2,047 million at June 30, 2020, representing a loss of €1,936 million since January 1, 2020, which was recognised in Other comprehensive income. In addition, with the substantial decline in demand for air travel and the grounding of the majority of the fleet during the second quarter of 2020, a significant proportion of the associated hedge relationships were no longer expected to occur and subsequently fuel hedges were derecognised. As a result of this derecognition, €1,372 million of the losses were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs.

The loss arising from the derecognition of fuel hedges has been recorded as an exceptional item. Refer to note 3 for further details.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 17. FINANCIAL RISK MANAGEMENT continued

The determination of the number of hedge relationships to derecognise fuel hedges is a critical judgement and is highly dependent on assumptions regarding the duration of the grounding of the majority of the fleet as well as the period over which the recovery of demand will occur.

#### Foreign currency risk

The Group is exposed to foreign currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group has a number of strategies to hedge foreign currency risk. The Group strategy is to hedge a proportion of its foreign currency sales and purchases for up to three years.

At June 30, 2020, the fair value of foreign currency net asset derivatives instruments were €706 million, representing a gain of €597 million, since January 1, 2020, which was recognised in Other comprehensive income. As per the fuel price risk above, a significant proportion of the hedge relationships associated with fuel foreign currency derivatives and revenue foreign currency derivatives were no longer expected to occur and subsequently derecognised. As a result of this derecognition, €103 million of the gains associated with the fuel foreign currency derivatives and €38 million of the losses associated with the revenue foreign currency derivatives were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue, respectively.

#### Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits. Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars.

#### Credit risk

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

At each period end, the Group assesses the effect of counterparties' and the Group's own credit risk on the fair value of derivatives and any ineffectiveness arising is immediately recognised in the Income statement within Other non-operating expenses.

### 18. CONTINGENT LIABILITIES

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

For information pertaining to previous contingent liabilities associated with the theft of customer data at British Airways, that have been recognised as legal claims provisions in note 16, refer to note 3.

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at June 30, 2020 amounted to €54 million (December 31, 2019: €53 million).

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

#### Tax related contingent liabilities

The Group has certain contingent liabilities, across all taxes, which at June 30, 2020 amounted to €187 million (December 31, 2019: €165 million). No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liabilities is the following:

##### *Merger gain*

Following tax audits covering the period 2011 to 2014, the Spanish Tax Authorities issued a corporate income tax assessment to the Company regarding the merger in 2011 between British Airways and Iberia. The assessment is for €69 million, resulting in a contingent liability of €90 million, including accrued interest. The Company subsequently appealed the assessment to the *Tribunal Económico-Administrativo Central* or 'TEAC' (Central Administrative Tax Tribunal). On October 23, 2019 the TEAC ruled in favour of the Spanish Tax Authorities. The Company subsequently appealed this ruling to the Audiencia Nacional (National High Court) on December 20, 2019. The Company does not expect a hearing at the National High Court until 2021 at the earliest.

The Company disputes the technical merits of the assessment and ruling of the TEAC, both in terms of whether a gain arose and in terms of the quantum of any gain. The Company believes that it has strong arguments to support its appeals. The Company does not consider it appropriate to make a provision for these amounts and accordingly has recognised this matter as a contingent liability.

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 19. GOVERNMENT GRANTS AND ASSISTANCE

During the six months to June 30, 2020, British Airways, IAG Loyalty and other subsidiaries utilised of the Coronavirus Job Retention Scheme implemented by the United Kingdom government, where those employees designated as being 'furloughed workers' are eligible to have 80 per cent of their wage costs paid up to a maximum amount of £2,500 per month. In the same period, Aer Lingus utilised the Temporary Wage Subsidy Scheme implemented by the government of Ireland, where those employees designated as part of the scheme are eligible to have their wage costs paid up to an amount of €410 per week. The total amount of such relief received by the Group amounted to €155 million (six months to June 30, 2019: nil) and is offset within Employee costs in the Income statement.

During the six months to June 30, 2020, Iberia and Vueling availed themselves of the Temporary Redundancy Plan (ERTE) provided by the government of Spain. Under this plan, employment is temporarily suspended and those designated employees are paid directly by the government and there is no remittance made to the companies. Had those designated employees not been temporarily suspended for the six months to June 30, 2020, the Group would have incurred further employee costs of €127 million.

On April 12, 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility (CCFF) implemented by the government of the United Kingdom. Under the CCFF, British Airways received €330 million (£298 million), with interest incurred at the prevailing market rate. The facility is classified within Borrowings in the Balance sheet. Refer to note 13 for further details.

On April 30, 2020, Iberia and Vueling entered into syndicated financing agreements of €750 million and €260 million, respectively, with interest incurred at the prevailing market rate. The *Instituto de Crédito Oficial* ('ICO') in Spain has guaranteed 70 per cent of both financial agreements. The financing agreements and the associated commission costs are classified within Borrowings in the Balance sheet. Refer to note 13 for further details.

There are no unfulfilled conditions or contingencies attached to these grants.

### 20. RELATED PARTY TRANSACTIONS

The Group had the following transactions in the ordinary course of business with related parties.

Sales and purchases of goods and services:

€ million	Six months to June 30	
	2020	2019
<b>Sales of goods and services</b>		
Sales to associates	2	3
Sales to significant shareholders	7	13
<b>Purchases of goods and services</b>		
Purchases from associates	25	33
Purchases from significant shareholders	47	66

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

€ million	June 30,	December 31,
	2020	2019
<b>Receivables from related parties</b>		
Amounts owed by associates	3	2
Amounts owed by significant shareholders	1	8
<b>Payables to related parties</b>		
Amounts owed to associates	2	3
Amounts owed to significant shareholders	-	18

For the six months to June 30, 2020 the Group has not made any allowance for expected credit losses relating to amounts owed by related parties (2019: nil).

## NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2020

### 20. RELATED PARTY TRANSACTIONS continued

#### Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel is as follows:

€ million	Six months to June 30	
	2020	2019
<b>Base salary, fees and benefits</b>		
Board of Directors' remuneration	2	2
Management Committee remuneration	3	4

For the six months to June 30, 2020, the remuneration for the Board of Directors includes two Executive Directors (in the six months to June 30, 2019 there were three Executive Directors but only two at any one time as there was a change of CFO at the AGM). The Management Committee includes remuneration for 11 members (June 30, 2019: 11 members), excluding the Executive Directors. For 2020, the Executive Directors have taken a 20 per cent reduction in basic salary from April 1, 2020, the Non-Executive Directors have taken a 20 per cent reduction in fees from April 1, 2020, and members of the Management Committee have taken at least a 20 per cent reduction in basic salary from April 1, 2020.

The Company provides life insurance for all Executive Directors and the Management Committee. For the six months to June 30, 2020 the Company's obligation was €20,000 (2019: €33,000).

At June 30, 2020 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €1 million (2019: €1 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at June 30, 2020 (2019: nil).

### 21. POST BALANCE SHEET EVENTS

On July 24, 2020, the Group announced that IAG Loyalty, had signed a multi-year renewal extending its worldwide commercial partnership with American Express. Under the agreements, American Express will make a payment of approximately €830 million (£750 million) to IAG Loyalty, a significant part of which is a pre-purchase of Avios points that American Express will utilise in the UK and world-wide for its British Airways co-branded cards and Membership Rewards Programme.



**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

**LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 11.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).**

At a meeting held on July 30, 2020, the directors of International Consolidated Airlines Group, S.A. (the "Company") state that, to the best of their knowledge, the condensed consolidated financial statements for the six months to June 30, 2020, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the companies that fall within the consolidated group taken as a whole, and that the interim management report includes a fair review of the required information.

July 30, 2020

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Antonio Vázquez Romero  
Chairman

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William Matthew Walsh  
Chief Executive Officer

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Marc Jan Bolland

---

Margaret Ewing

---

Francisco Javier Ferrán Larraz

---

Stephen William Lawrence Gunning

---

Deborah Linda Kerr

---

María Fernanda Mejía Campuzano

---

Kieran Charles Poynter

---

Emilio Saracho Rodríguez de Torres

---

Lucy Nicola Shaw

---

Alberto Terol Esteban

## REPORT ON LIMITED REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of International Consolidated Airlines Group, S.A. at the request of management:

### Report on the condensed consolidated interim financial statements

#### *Introduction*

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (hereinafter the interim financial statements) of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. (hereinafter the parent) and subsidiaries (hereinafter the Group), which comprise the balance sheet at June 30, 2020, the income statement, the statement of other comprehensive income, the cash flow statement, the statement of changes in equity, and the explanatory notes, all of which have been condensed and consolidated for the six-month period then ended. The parent's directors are responsible for the preparation of said interim financial statements in accordance with the requirements established by IAS 34, "Interim Financial Reporting", adopted by the European Union for the preparation of interim condensed financial reporting in conformity with article 12 of Royal Decree 1362/2007 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

#### *Scope of review*

We have performed our limited review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making enquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit carried out in accordance with regulations on the auditing of accounts in force in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

#### *Conclusion*

During the course of our limited review, which under no circumstances can be considered an audit of accounts, no matter came to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended June 30, 2020 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation of interim financial statements and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

#### *Emphasis paragraphs*

We draw attention to Note 1 of the interim financial statements, which discloses the Group may require additional funds above those contractually committed at July 30, 2020 should the impact of Covid-19 be more severe than the Directors' expectations. As set out in Note 1, this condition indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

We draw attention to the matter described in the accompanying explanatory Note 1 in the interim financial statements, which indicates that the abovementioned accompanying interim financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2019.

#### *Report on other legal and regulatory reporting requirements*

The accompanying consolidated interim management report for the six-month period ended June 30, 2020 contains such explanations as the parent's directors consider necessary regarding significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the interim financial statements for the six-month period ended on June 30, 2020. Our work is limited to verifying the consolidated interim management report in accordance with the scope described in this paragraph and does not include the review of information other than that obtained from the accounting records of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. and its subsidiaries.

#### *Paragraph on other issues*

This report has been prepared at the request of management with regard to the publication of the semi-annual financial report required by article 119 of the consolidated text of the Securities Market Law, approved by Royal Legislative Decree 4/2015, of October 23 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

ERNST & YOUNG, S.L.

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Hildur Eir Jónsdóttir

July 30, 2020

## ALTERNATIVE PERFORMANCE MEASURES

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. These measures are not defined under International Financial Reporting Standards (IFRS), should be considered in addition to IFRS measurements and may differ to definitions given by regulatory bodies applicable to the Group. They are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'. Further information on why these APMs are used is provided in the Strategic priorities and key performance indicators section in IAG's 2019 Annual Report and Accounts.

The definition of each APM, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

### a Changes to APMs in 2020

During the six month period to June 30, 2020, the Group has made one change to APMs to those disclosed in the Annual Report and Accounts for the year ended December 31, 2019.

Pro forma financial information - The Group adopted IFRS 16 'Leases' on January 1, 2019 and applied the modified retrospective transition approach. In doing so, the comparative figures for 2018 were not restated. Accordingly, to provide a consistent basis for comparison with 2019, the Group introduced Pro forma financial information for 2018. As comparative figures for 2018 are no longer required, this pro forma information is no longer required.

### b (Loss)/profit after tax before exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. The exceptional items recorded in the Income statement include items such as significant settlement agreements with the Group's pension schemes; significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; significant derecognition of hedges; legal settlements; and the impact of the sale, disposal or impairment of an asset or investment in a business.

In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as exceptional.

Management believes that these additional measures are useful as they exclude the impact of exceptional items in profit from operations, which have less bearing on the routine operating activities of the Group, thereby enhancing users' understanding of underlying business performance.

The details of these exceptional items are given in note 3 of the condensed consolidated interim financial statements and on the face of the consolidated Income statement.

### c Basic (loss)/earnings per share before exceptional items and adjusted (loss)/earnings per share <sup>(KPI)</sup>

Earnings are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.

€ million	June 30, 2020	June 30, 2019
(Loss)/profit after tax attributable to equity holders of the parent	<b>(3,806)</b>	806
Exceptional items	<b>1,841</b>	-
<b>(Loss)/profit after tax attributable to equity holders of the parent before exceptional items</b>	<b>(1,965)</b>	806
Interest expense on convertible bonds <sup>1</sup>	-	9
<b>Adjusted (loss)/earnings</b>	<b>(1,965)</b>	815
Weighted average number of shares used for basic earnings per share	<b>1,986</b>	1,984
Weighted average number of shares used for diluted earnings per share	<b>1,986</b>	2,080
<b>Adjusted (loss)/earnings per share (€ cents)</b>	<b>(99.0)</b>	39.2
<b>Basic (loss)/earnings per share before exceptional items (€ cents)</b>	<b>(99.0)</b>	40.6

<sup>1</sup> The effect of the assumed conversion of the IAG €500 million convertible bond 2022 is antidilutive for the six months to June 30, 2020, and therefore has not been included in the diluted earnings per share calculation.

**d Airline non-fuel unit costs**

The Group monitors airline unit costs (per ASK, a standard airline measure of capacity) as a means of tracking operating efficiency of the core airline business. As fuel costs can vary with commodity prices, the Group monitors fuel and non-fuel costs individually. Within non-fuel costs are the costs associated with generating 'Other revenue', which typically do not represent the costs of transporting passengers or cargo and instead represent the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams. Airline non-fuel costs per ASK is defined as total operating expenditure before exceptional items, less fuel, oil costs and emission charges and less non-flight specific costs divided by total available seat kilometres (ASKs), and is shown on a constant currency basis.

<b>€ million</b>	<b>Six months to June 30, 2020 Reported</b>	<b>ccy adjustment</b>	<b>Six months to June 30, 2020 ccy</b>	<b>Six months to June 30, 2019</b>
Total operating expenditure before exceptional items	7,226	(227)	6,999	10,931
Less: Fuel, oil costs and emissions charges	(1,313)	51	(1,262)	(2,936)
Non-fuel costs	5,913		5,737	7,995
Less: Non-flight specific costs	(482)	18	(464)	(761)
<b>Airline non-fuel costs</b>	<b>5,431</b>		<b>5,273</b>	<b>7,234</b>
Available seat kilometres (ASK million)	71,625		71,625	163,431
<b>Airline non-fuel unit costs (€ cents)</b>	<b>7.58</b>		<b>7.36</b>	<b>4.43</b>

**e Levered free cash flow <sup>(KPI)</sup>**

Levered free cash flow represents the cash generating ability of the underlying businesses before shareholder returns and is defined as the net increase in cash and cash equivalents taken from the Cash flow statement, adjusting for movements in Other current interest-bearing deposits and adding back the cash outflows associated with dividends paid and the acquisition of treasury shares. The Group believes that this measure is useful to the users of the financial statements in understanding the underlying cash generating ability of the Group that is available to return to shareholders, to improve leverage and/or to undertake inorganic growth opportunities.

<b>€ million</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<b>Net Increase in cash and cash equivalents</b>	<b>780</b>	<b>934</b>
(Decrease)/increase in other current interest-bearing deposits	(1,215)	799
Dividends paid	52	52
<b>Levered free cash flow</b>	<b>(383)</b>	<b>1,785</b>

## f Return on invested capital <sup>(KPI)</sup>

Management monitors return on invested capital (RoIC) as it gives an indication of the Group's capital efficiency relative to the capital invested as well as the ability to fund growth and to pay dividends. RoIC is defined as the rolling four quarter EBITDA, less fleet depreciation adjusted for inflation, depreciation on other property and equipment and amortisation of software intangibles divided by average invested capital and is expressed as a percentage.

Invested capital is defined as the average of property, plant and equipment and software intangible assets over a 12 month period between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets.

€ million	June 30, 2020	December 31, 2019
EBITDA	2,480	5,396
Less: Fleet depreciation multiplied by inflation adjustment	(2,115)	(2,040)
Less: Other property, plant and equipment depreciation	(258)	(259)
Less: Software intangible amortisation	(147)	(131)
	(40)	2,966
<b>Invested capital</b>		
Average fleet value <sup>1</sup>	15,299	15,598
Less: average progress payments <sup>2</sup>	(1,110)	(1,297)
	14,189	14,301
Inflation adjustment <sup>3</sup>	1.19	1.19
	16,928	17,065
Average net book value of other property, plant and equipment <sup>4</sup>	2,329	2,448
Average net book value of software intangible assets <sup>5</sup>	638	603
<b>Total invested capital</b>	<b>19,895</b>	<b>20,116</b>
<b>Return on Invested Capital</b>	<b>(0.2)%</b>	<b>14.7%</b>

<sup>1</sup> The average net book value of owned aircraft excluding progress payments is calculated from an amount of €15,472 million at June 30, 2020 and €15,127 million at June 30, 2019.

<sup>2</sup> The average net book value of progress payments is calculated from an amount of €1,077 million at June 30, 2020 and €1,143 million at June 30, 2019.

<sup>3</sup> Presented to two decimal places and calculated using a 1.19 per cent inflation (June 30, 2019: 1.20 per cent inflation) rate over the weighted average age of the fleet (June 30, 2020: 11.7 years, June 30, 2019: 12.0 years).

<sup>4</sup> The average net book value of other property, plant and equipment is calculated from an amount of €2,309 million at June 30, 2020 and €2,349 million at June 30, 2019.

<sup>5</sup> The average net book value of software intangible assets is calculated from an amount of €679 million at June 30, 2020 and €596 million at June 30, 2019.

## g Net debt to EBITDA <sup>(KPI)</sup>

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA to assess its level of net debt in comparison to the underlying earnings generated by the Group in order to evaluate the underlying business performance of the Group. This measure is used to monitor the Group's leverage and to assess financial headroom. Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and other current interest-bearing deposits. EBITDA is calculated as the rolling four quarter operating result before exceptional items, depreciation, amortisation and impairment.

€ million	June 30, 2020	December 31, 2019
Interest-bearing long-term borrowings	16,479	14,254
Less: Cash and cash equivalents	(4,696)	(4,062)
Less: Other current interest-bearing deposits	(1,320)	(2,621)
<b>Net debt</b>	<b>10,463</b>	<b>7,571</b>
Operating result before exceptionals	290	3,285
Add: Depreciation, amortisation and impairment	2,190	2,111
<b>EBITDA</b>	<b>2,480</b>	<b>5,396</b>
<b>Net debt to EBITDA</b>	<b>4.2</b>	<b>1.4</b>

## **h Results on a constant currency (ccy) basis**

Movements in foreign exchange rates impact the Group's financial results. The Group reviews the results, including revenue and operating costs at constant rates of exchange (abbreviated to 'ccy'). The Group calculates these financial measures at constant rates of exchange based on a re-translation, at prior year exchange rates, of the current year's results of the Group. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the Group's operating performance on a constant currency basis. Accordingly, the financial measures at constant currency within the discussion of the Group Financial review should be read in conjunction with the information provided in the Group financial statements.

The following table represents the main average and closing exchange rates for the reporting periods. Where 2020 figures are stated at a constant currency basis, they have applied the 2019 rates stated below:

<b>Foreign exchange rates</b>	<b>Average six months to</b>		<b>Closing at</b>	<b>Closing at</b>
	<b>June 30</b>		<b>June 30</b>	<b>December 31</b>
	<b>2020</b>	2019	<b>2020</b>	2019
Euro to pound sterling	<b>1.15</b>	1.14	<b>1.11</b>	1.18
US dollar to the euro	<b>1.09</b>	1.13	<b>1.12</b>	1.11
US dollar to pound sterling	<b>1.26</b>	1.29	<b>1.24</b>	1.31

## AIRCRAFT FLEET

### Number in service with Group companies

	Owned	Right of use	Total June 30, 2020	Total December 31, 2019	Changes since December 31, 2019	Future deliveries	Options
Airbus A318	1	-	1	1	-	-	-
Airbus A319	13	39	52	57	(5)	-	-
Airbus A320	58	192	250	254	(4)	27	76
Airbus A321	20	50	70	66	4	43	14
Airbus A330-200	4	17	21	24	(3)	-	-
Airbus A330-300	4	14	18	16	2	-	-
Airbus A340-600	4	-	4	15	(11)	-	-
Airbus A350	10	5	15	9	6	28	52
Airbus A380	2	10	12	12	-	-	-
Boeing 747-400	-	-	-	32	(32)	-	-
Boeing 777-200	35	8	43	46	(3)	-	-
Boeing 777-300	2	10	12	12	-	4	-
Boeing 777-9	-	-	-	-	-	18	24
Boeing 787-8	-	12	12	12	-	-	-
Boeing 787-9	1	17	18	18	-	-	-
Boeing 787-10	-	-	-	-	-	10	-
Embraer E170	2	-	2	6	(4)	-	-
Embraer E190	9	9	18	18	-	-	-
<b>Group total</b>	<b>165</b>	<b>383</b>	<b>548</b>	<b>598</b>	<b>(50)</b>	<b>130</b>	<b>166</b>

As well as those aircraft in service the Group also holds 70 aircraft (2019: 10) not in service, which includes 55 impaired aircraft and 15 aircraft grounded but not disposed of pre COVID-19.