IAG full year results 2023

Strong growth in operating profit in 2023 underpinned by robust and sustainable demand for travel, alongside continued investment in our transformation to drive long-term earnings growth.

Summary

- Strong and sustained demand for travel, in particular in leisure
- Full year 2023 operating profit before exceptional items of €3,507 million significantly higher than last year and ahead of 2019 (2022: €1,247 million; 2019*: €3,253 million)
- Operating margin of 11.9% (2022: 5.4%) delivered by our transformation programme
- Strong free cash flow generation of €1.3 billion has delivered a strong balance sheet, with net debt to EBITDA before exceptional items of 1.7 times (2022: 3.1 times), below our target of 1.8 times over the cycle
- Positive outlook for 2024: confidence in significant free cash flow generation; disciplined capital allocation will maintain our strong balance sheet; committed to sustainable shareholder value creation and cash returns

Strategic highlights

- Capacity growth in 2023 of 22.6% vs 2022, focused on our core North Atlantic and South Atlantic markets
- Revenue and cost transformation initiatives driving improvements to our customer proposition
- Our Spanish businesses delivered €1.4 billion of operating profit (2022: €0.6 billion), highlighting the greater balance in our portfolio
- Our highly cash-generative, high-margin IAG Loyalty business grew profits by 17% to £280 million, adding 4.9 million new members (17% increase in new members) during the year
- Quarter 4 2023 operating profit before exceptional items of €502 million (quarter 4 2022: €477 million)
- Continued investment in our people, with 13,000 new colleagues hired in 2023
- One third of our sustainable aviation fuel target for 2030 is now committed

Luis Gallego, IAG Chief Executive Officer, said:

“In 2023, IAG more than doubled its operating margin and profits compared to 2022, generated excellent free cash flow and strengthened its balance sheet position, recovering capacity to close to pre-COVID-19 levels in most of its core markets.

“In 2024, we will execute on our strategy, building long-term value into the business. We will focus on strengthening our core airline businesses and on developing IAG Loyalty and our other asset-light growth opportunities, and we will do this while operating under a strong financial and sustainability framework. Our airlines operate in the largest and most attractive markets globally and we will continue to invest in our brands to transform the business, improve the customer experience and support the delivery of sustainable growth and world-class margins.

“I would like to thank all of the teams across the Group for their continued hard work and dedication to delivering our transformation plan.”

Financial summary:

	Year to 31 December		Three months to 31 December	
Statutory results (€ million)	**2023**	2022[1]	**2023**	2022[1]
Total revenue	**29,453**	23,066	**7,224**	6,386
Operating profit	**3,507**	1,278	**502**	477
Profit after tax	**2,655**	431	**504**	232
Basic earnings per share (€ cents)	**53.8**	8.7		
Cash, cash equivalents and interest-bearing deposits	**6,837**	9,599		
Borrowings	**16,082**	19,984		

Alternative performance measures (€ million)	**2023**	2022[1]	**2023**	2022[1]
Total revenue before exceptional items	**29,453**	23,066	**7,224**	6,386
Operating profit before exceptional items	**3,507**	1,247	**502**	477
Operating margin before exceptional items	**11.9%**	5.4%	**6.9%**	7.5%
Profit after tax before exceptional items	**2,655**	402	**504**	232
Adjusted earnings per share (€ cents)	**50.6**	5.6		
Net debt	**9,245**	10,385		
Net debt to EBITDA before exceptional items (times)	**1.7**	3.1		
Total liquidity[2]	**11,624**	13,999		

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment. There is no impact on the Profit after tax.

2 Total liquidity includes Cash, cash equivalents and interest-bearing deposits, plus committed and undrawn general and aircraft-specific financing facilities.

*The 2019 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment, and a restatement for the treatment of administration costs associated with the Group’s defined benefit pension schemes.

The definition of the Group’s alternative performance measures is set out in the Alternative performance measures note to the consolidated financial statements, which includes: Free cash flow; Net debt to EBITDA before exceptional items (‘leverage’); and Return on invested capital. Capital expenditure is measured as the ‘Acquisition of property, plant and equipment and intangible assets’ from the Cash flow statement. Operating margin is shown before exceptional items. All other profit, revenue and cost metrics are quoted on a statutory basis, unless indicated otherwise.

Financial highlights for 2023

- Restored 95.7% of 2019 capacity, measured in available seat kilometres (ASKs), with quarter 4 at 98.6% of 2019
- Passenger unit revenue for the year was 8.2% higher than in 2022, with strong leisure traffic recovery and business traffic recovering more slowly. The premium leisure segment continued to perform very well
- Non-fuel unit costs reduced by 4.4% versus 2022, driven by a passenger capacity increase and transformation initiatives, offsetting inflation and the investments we are making in our customer offering and our systems
- Fuel unit cost was up 0.7% versus 2022, with effective fuel prices after hedging broadly unchanged from 2022 and the Group's investment in more fuel-efficient aircraft partially offsetting increased costs of Emissions Trading Schemes
- Profit after tax for the year of €2,655 million (2022: €431 million)

Outlook

- Demand continues to be robust, with particular strength in leisure travel. We are currently 92% booked for Q1 2024 and 62% booked for H1 2024*, ahead of our position last year
- We are continuing to invest in our core markets and in growing our global leadership positions. We plan to grow capacity (ASK) by c.7% in 2024. In particular British Airways will continue to rebuild to its pre-COVID-19 long-haul capacity and Iberia to grow efficiently in the attractive and growing Latin American market
- We expect our non-fuel unit costs to increase slightly in 2024, as we invest in our businesses. Our ongoing transformation programme will help us to offset the impact of inflation, improve our customer proposition and support the delivery of world-class margins and returns over the medium term
- We expect to generate significant free cash flow during the year, prior to the benefit of any leasing transactions and with no additional pension or material debt maturity repayments this year. This is net of capital expenditure related to our investment plans of around €3.7 billion in 2024

Delivering our strategy

Our strategy is designed to generate sustainable earnings growth at world-class margins, the combination of which we expect to drive sustainable returns to shareholders.

This will be achieved by focusing on three strategic imperatives:

1 Strengthening our core

Growing our portfolio of global leadership positions
IAG has leading positions in highly attractive, secular growth markets, in particular the valuable North Atlantic, South Atlantic and Domestic Spanish markets.

Airline markets worldwide were particularly strong in 2023 as demand for experiences increased and lifestyle priorities changed post-COVID-19. Leisure travel has been the strongest driver of passenger demand across all of our cabins. Corporate travel continues to return more slowly, in particular in short duration and short-haul trips.

Investing in our market-leading positions
We are focused on ensuring disciplined capacity deployment into our markets. British Airways is planned to return to pre-pandemic levels of non-premium capacity in 2024; long-haul capacity by 2025; and premium capacity by 2026. Iberia is deploying capacity into a structurally attractive long-term market which is supporting profitable growth. All of our airlines are supporting their growth in an efficient way through a combination of improved aircraft utilisation and more modern, new generation aircraft.

Investing in the North Atlantic – the largest aviation market from Europe
IAG and its joint business partners have market share of 45% on the North Atlantic market and it represents 32% of IAG's total capacity by ASK. We serve North America 150 times each day to 29 destinations, 30% more than nearest competitor.

Aer Lingus
- Aer Lingus has a unique advantage of strong cultural and geographic links to its core US long-haul market, as well as US-border pre-clearance at Dublin airport
- 2023: reopened Hartford and launched Cleveland
- 2024: expanding network to 21 routes to the US and Canada, including restarting Minneapolis and new route to Denver

British Airways
- British Airways is the market leader to North America from London, a highly-valuable and mainly point-to-point market
- 2023: new route to Cincinnati and back to 100% of pre-COVID-19 total capacity
- 2024: focus on frequencies and adding premium seats as it builds back towards its pre-COVID-19 premium and non-premium North Atlantic capacity

Iberia
- Iberia serves destinations in North America with strong commercial or cultural links to Spain
- 2023: consolidation of the new routes to Dallas and Washington that were launched in 2022
- 2024: growth to Los Angeles and further investment in route maturity through reinforcing its presence in select US markets

LEVEL
- Strong growth to Boston and New York, as it develops the long-haul, low-cost model from the valuable Barcelona market. New route to Miami in 2024

Delivery of three Airbus A321 XLRs in 2024 will allow us to create a competitive advantage over our European peers by using our geographic advantage to develop our network at low cost.

*as of 25 February 2024

Investing in the structurally growing South Atlantic market
IAG and its joint business partners have market share of 32% on the attractive South Atlantic market representing 19% of IAG's total capacity by ASK. IAG operates 45 flights each day to and from Latin America.

Iberia
- Iberia has strong cultural links to Latin America. It is also well-placed to build on the growing traffic from Latin America to Madrid as investment and migration of a wealthier demographic increases
- 2023: Increasing frequencies to primary cities in core LATAM markets, including Bogotá, Mexico City, Lima, Montevideo and Quito
- 2024: further development of frequencies to core markets
- Using new A350-900 is more efficient and supports higher utilisation, helping to drive a 10 percentage point improvement in unit operating cost versus the previous generation A340-600
- Opportunities to deploy A321 XLR to select geographies and secondary cities

LEVEL
- Strengthened its network between Barcelona and Latin America, including resuming the Santiago de Chile route. Further investment in 2024

British Airways
- Adding frequencies to Rio de Janeiro and adding a tag flight to Buenos Aires

We announced our proposed Air Europa acquisition in 2023, which will allow for network development in Latin America. We submitted our regulatory application to the European Commission in December; this moved to Phase 2 in early 2024 with a resolution expected in late 2024.

European short-haul market
This represents 34% of IAG's total capacity and is served by our network carriers delivering feeder traffic, alongside our efficient low cost operations providing a combination of feeder and point-to-point services. Our disciplined approach to capital allocation gives us the flexibility to focus investment in order to maximise sustainable, profitable growth.

Vueling
- Delivering efficient growth through higher utilisation and up-gauging of existing fleet
- De-seasonalising its network, with a focus on winter sun destinations
- Strengthening its Spanish domestic position through investment in Barcelona and Bilbao
- Leader in select European hubs, such as Paris-Orly to Spain; investing in London Gatwick to Spain

Strong performance from Iberia Express, including to the Spanish Islands throughout the year.

BA Euroflyer started operations under its own Air Operator Certificate ('AOC') in January 2023, focusing on the leisure point-to-point market in Europe. Its fleet increased from five to 20 aircraft during the year.

Once LEVEL has established a new AOC this gives the Group further flexibility in considering its options in short-haul operations.

Strengthening our portfolio of world-class brands and operations

Investing in our products and services to drive better customer experiences
We recognise that we need to continue to drive investment in the propositions of all our airlines to improve the customer experience. We are investing in our propositions to ensure we are competitive and remain attractive to our loyal customers.

Investing in our fleet:
- 34 aircraft delivered in 2023, of which 32 were new generation, efficient and sustainable aircraft with the latest onboard seat offerings
- British Airways now has 68% of its Heathrow-based long-haul fleet embodied with the Club Suite product. The focus in 2024 will be on the Boeing 787 fleet
- Iberia is delivering a step-change in customer experience with its new A350 fleet, retrofitting its A330 fleet with its new cabins and its A320-family fleet for the new 'L' overhead bins
- In 2023 we converted 10 A320neo options to firm deliveries in 2028 as replacement aircraft for our short-haul network
- We also announced a new order for six Boeing 787-10 aircraft to be delivered to British Airways in 2025 and 2026 to accelerate its premium widebody capacity recovery; and one new Airbus A350-900 aircraft for Iberia

Investing in our products and services:
- Aer Lingus aims to maximise the benefits of its unique customer base with a competitive onboard product, including its next generation business seat, digital self-service capability, as well as a differentiated service from our Connected Crew programme
- British Airways is focused on investing in a premium proposition across its cabins, including its lounges (London Heathrow, Edinburgh, Glasgow, Miami, New York JFK), onboard food and in-flight entertainment content. Investment in all of its customers across every cabin includes further development of its call centre in Delhi, using better IT and systems as well as a proactive customer care team
- Iberia similarly continues to invest in its highly-rated customer proposition, including at check-in and in its Madrid lounges; rolling out new Do&Co menus in all cabins; and making further progress in the digitalisation of our customers' journey, specifically with the digital concierge, WhatsApp text assistant and call-centre Smart Voice assistant
- Vueling's positioning as a value low-cost carrier sees a focus on its digital proposition across the customer journey: digital touchpoints across the airport journey, better digital self-service in disruption and digital assistance in the customer care channels

During 2023 our customer Net Promoter Score ('NPS') increased very slightly, which was driven positively by our investments in new products and services but negatively affected mostly by the impact of disruption, much of which is outside our control.

Investing in our operations
Efficient operations are a major driver of both customer satisfaction and direct financial (revenue and cost) performance.

- Iberia continues to deliver excellent operational performance. In 2023 Iberia was the most punctual airline in Europe and the fifth-most punctual airline in the world with On-Time Performance ('OTP') at 88.6%

- Vueling's OTP in 2023 was 80.0% after benefiting from the integrated approach to planning, scheduling and operations implemented over the last few years
- Aer Lingus' OTP was 67.5% as it was affected in particular by ATC issues in the UK and France
- British Airways was affected by similar issues, as well as still recovering its full operational capability at London Heathrow, with OTP in 2023 of 59.7%. As a result significant resource has been invested to drive better performance and some early initiatives are now starting to deliver improvement:
  - Improved OTP in December 2023 at 67.2% and a strong start to 2024. British Airways' OTP in January 2024 up 16 points to 79.8%, significantly better than January 2023 and close to January 2019 levels
  - First wave departures improved to 87% through dedicated resource, integrated planning, ongoing recruitment and training and better performance management
  - Integrated operations programme tools already adding value (performance dashboard, predictive maintenance, schedule, aircraft assignment)
  - A new operating model for London Heathrow will be rolled out for the summer

Transforming our businesses to drive sustainable earnings growth
IAG's transformation programmes are designed to create better businesses at each of its operating companies that are more efficient and resilient in order to sustain long-term competitive advantage

Customer and Innovation
Many of our revenue transformation initiatives are driven by technology and data. Some examples are as follows:
- British Airways is in the middle of a major transformation of its commercial digital platforms which it expects to deliver significant revenue benefits over the next three years. Improvements to British Airways' 'ba.com' website and app are expected in 2024, including a better content management system, as well as improvements in the revenue management system to follow
- Iberia is developing its personalisation capability, which will allow for greater content differentiation and digital marketing optimisation
- Vueling is continuing to improve its customer offering to drive ancillary revenue through developing its bundles and products
- The Qatar Joint Business is an opportunity for IAG to develop its network and customer proposition, particularly into the African and Asian markets. This includes greater commercial integration, as well as through the use of Avios

Efficiency
- Disruption was a major cause of cost inflation in 2023, as well as impacting customer NPS. British Airways has invested significantly to improve its On Time Performance in 2024, which will lead to cost savings through greater productivity and efficiency, as well as reducing EU261 costs and improving customer satisfaction
- IAG's investment in new aircraft will drive significant efficiency gains, as well as network benefits. New generation aircraft are typically c.20% more fuel-efficient than the previous generation and Iberia's new A350s' superiority over the A340s is allowing more capacity to be added to Latin America much more productively
- As well as supporting revenue growth, New Distribution Capability will drive cost savings across all of our carriers
- Third party supplier costs have seen significant inflation over the past couple of years and this is a big area of focus across all parts of IAG. Savings will be made through procurement in engineering and maintenance, and food and beverage; efficiencies in handling; and pricing across the supply chain

2 Driving earnings growth through asset-light businesses

Growing IAG Loyalty
Our loyalty business has continued to deliver a very strong performance, supporting higher earnings growth and margins, as well as strong cash flow.
- Record operating profit £280 million, up 17% year-on-year and 59% higher than 2019 operating profit
- Driven by our better customer engagement as we re-invest our margin in more attractive products:
  - 4.9 million new members enrolled in 2023 (17% increase in new members versus 2022) to support future value growth
  - More Avios are being collected through demand to fly on our airlines and strong third-party partnerships, with issuance up 37%
  - More Avios are being redeemed through increasing our range of offerings: 27 Avios-only flights on offer to a range of 11 popular destinations; or using Avios as payment for BA Holidays (c.20% of holidays sold have used some Avios as payment)
  - Opportunity to develop BA Holidays further, as part of an integrated loyalty ecosystem

Leveraging our strategic airline partnerships
IAG also seeks to generate capital-light value through its strategic airline partnerships, mainly through joint businesses that provide customers with a worldwide network of destinations and flights.
- In 2023 Iberia joined the Qatar Joint Business (QJB) and launched a service from Madrid to Doha
- As a result the QJB became the largest joint business in the world by number of countries, with Qatar bringing a strong network across Africa and Asia
- In 2024 British Airways will fly two daily services to Doha, giving its passengers access to that strong onward network
- Iberia will also start flying to Tokyo in 2024 as part of the Siberian Joint Business and British Airways will be back to two daily flights there in the summer

3 Operating under a strengthened financial and sustainability framework

Industry leader to Net Zero
We continue to state the case for the positive social impact of aviation. Specifically, we are making further progress in our initiatives to deliver our sustainability targets:
- IAG has been awarded Eco-Airline of the year by Air Transport World for industry leadership and best-in-class Sustainable Aviation Fuel (SAF) programme
- We are taking an active role in EU and UK discussions on SAF, in particular around mandate design and potential pricing mechanisms
- IAG was the third largest user of SAF globally in 2023. We have now announced our largest-ever SAF purchase with Twelve, to provide advanced power-to-liquid SAF with a lifecycle emissions reduction of at least 80%. Our total contracted SAF commitment is now at approximately one third of our 2030 target
- We are investing in 178 new aircraft between 2023 and 2028. New aircraft are generally around 20% more fuel-efficient than the previous generation and significantly quieter. 24% of IAG's short-haul fleet is currently new generation and 42% of long-haul

- Carbon intensity reduced by 3.6% year-on-year and is more than 10% down on 2019 levels
- CORSIA and ETS – IAG spent €264 million on carbon credits in 2023 and supports the proposed global CORSIA offset scheme

Disciplined capital allocation and balance sheet management

IAG has historically delivered market-leading Return on Invested Capital through its disciplined allocation of capital to its operating companies. As disclosed at our Capital Markets Day in 2023, through our strategy we are targeting the following metrics for the Group in the medium term:

- Operating margins of 12% to 15%.
- Return on Invested Capital of 13% to 16%
- Organic average annual capacity growth of 4% to 5% between 2024 and 2026

Our operational and financial performance in 2023 has allowed us to strengthen the balance sheet, while investing in our continued transformation. We ended the year at 1.7 times leverage, below our target of 1.8 times through the cycle.

Given the Group's strong cash-generation capability, in 2024 we expect to generate significant free cash flow, prior to the benefit of any leasing transactions and after capital expenditure of around €3.7 billion in the year.

This is further strengthened by the fact that we have no additional pension payments or non-aircraft debt repayments in 2024.

Our first priority is to maintain our strong balance sheet.

We will continue to invest in our business to support sustainable growth and margins.

We are committed to sustainable shareholder value creation and cash returns.

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Forward-looking statements:

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

Forward-looking statements often use words such as "expects", "believes", "may", "will", "could", "should", "continues", "intends", "plans", "targets", "predicts", "estimates" "envisages" or "anticipates" or other words of similar meaning or their negatives. 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, acquisitions and divestments relating to the Group and discussions of the Group's business plans, and its assumptions, expectations, objectives and resilience with respect to climate scenarios. 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, economic and geo-political, market, regulatory, climate, supply chain or other significant external events, 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 2022; this document is available on 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.

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CONSOLIDATED INCOME STATEMENT

€ million	Year to 31 December 2023	2022[1]	Higher/ (lower)	Three months to 31 December 2023	2022[1]	Higher/ (lower)
Passenger revenue	**25,810**	19,458	32.6 %	**6,293**	5,438	15.7 %
Cargo revenue	**1,156**	1,615	(28.4)%	**290**	399	(27.3)%
Other revenue	**2,487**	1,993	24.8 %	**641**	549	16.8 %
Total revenue	**29,453**	23,066	27.7 %	**7,224**	6,386	13.1 %
Employee costs	**5,423**	4,647	16.7 %	**1,438**	1,230	16.9 %
Fuel, oil costs and emissions charges	**7,557**	6,120	23.5 %	**1,978**	1,720	15.0 %
Handling, catering and other operating costs	**3,849**	2,971	29.6 %	**958**	828	15.7 %
Landing fees and en-route charges	**2,308**	1,890	22.1 %	**546**	499	9.4 %
Engineering and other aircraft costs	**2,509**	2,101	19.4 %	**647**	594	8.9 %
Property, IT and other costs	**1,058**	950	11.4 %	**270**	280	(3.6)%
Selling costs	**1,155**	920	25.5 %	**304**	249	22.1 %
Depreciation, amortisation and impairment	**2,063**	2,070	(0.3)%	**555**	539	3.0 %
Net gain on sale of property, plant and equipment[1]	**(2)**	(22)	(90.9)%	**13**	9	44.4 %
Currency differences	**26**	141	(81.6)%	**13**	(39)	nm
Total expenditure on operations	**25,946**	21,788	19.1 %	**6,722**	5,909	13.8 %
Operating profit	**3,507**	1,278	nm	**502**	477	5.2 %
Finance costs	**(1,113)**	(1,017)	9.4 %	**(246)**	(294)	(16.3)%
Finance income	**386**	52	nm	**101**	41	nm
Net change in fair value of financial instruments	**(11)**	81	nm	**(11)**	(51)	(78.4)%
Net financing credit relating to pensions	**103**	26	nm	**26**	7	nm
Net currency retranslation credits/(charges)	**176**	(115)	nm	**112**	190	(41.1)%
Other non-operating credits[1]	**8**	110	(92.7)%	**(43)**	(121)	(64.5)%
Total net non-operating costs	**(451)**	(863)	(47.7)%	**(61)**	(228)	(73.2)%
Profit before tax	**3,056**	415	nm	**441**	249	77.1 %
Tax	**(401)**	16	nm	**63**	(17)	nm
Profit after tax for the year	**2,655**	431	nm	**504**	232	nm

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment within Operating profit. Accordingly, for the year and three month period to 31 December 2022, the Group has reclassified gains of €22 million and losses of €9 million, respectively, from Other non-operating credits to Expenditure on operations. There is no impact on the Profit after tax.

ALTERNATIVE PERFORMANCE MEASURES

All figures in the tables below are before exceptional items. Refer to Alternative performance measures section for more detail.

	Year to 31 December			Three months to 31 December		
	Before exceptional items			Before exceptional items		
€ million	**2023**	2022[1]	Higher/ (lower)	**2023**	2022[1]	Higher/ (lower)
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Tax	**(401)**	18	nm	**63**	(17)	nm
Profit after tax	**2,655**	402	nm	**504**	232	nm

Operating figures	**2023**	2022[1]	Higher/ (lower)	**2023**	2022[1]	Higher/ (lower)
Available seat kilometres (ASK million)	**323,111**	263,592	22.6 %	**80,818**	71,048	13.8 %
Revenue passenger kilometres (RPK million)	**275,727**	215,749	27.8 %	**67,648**	59,125	14.4 %
Seat factor (per cent)	**85.3**	81.8	3.5pts	**83.7**	83.2	0.5pts
Passenger numbers (thousands)	**115,559**	94,726	22.0 %	**28,011**	25,222	11.1 %
Cargo tonne kilometres (CTK million)	**4,666**	3,980	17.2 %	**1,304**	1,090	19.6 %
Sold cargo tonnes (thousands)	**596**	561	6.2 %	**157**	153	2.6 %
Sectors	**714,562**	619,122	15.4 %	**176,149**	162,285	8.5 %
Block hours (hours)	**2,137,749**	1,781,829	20.0 %	**532,055**	473,511	12.4 %
Average headcount	**69,762**	59,800	16.7 %	**n/a**	n/a	n/a
Aircraft in service	**582**	558	4.3 %	**n/a**	n/a	n/a
Passenger revenue per RPK (€ cents)	**9.36**	9.02	3.8 %	**9.30**	9.20	1.1 %
Passenger revenue per ASK (€ cents)	**7.99**	7.38	8.2 %	**7.79**	7.65	1.7 %
Cargo revenue per CTK (€ cents)	**24.77**	40.58	(38.9)%	**22.24**	36.61	(39.2)%
Fuel cost per ASK (€ cents)	**2.34**	2.32	0.7 %	**2.45**	2.42	1.1 %
Non-fuel costs per ASK (€ cents)	**5.69**	5.96	(4.4)%	**5.87**	5.90	(0.4)%
Total cost per ASK (€ cents)	**8.03**	8.28	(3.0)%	**8.32**	8.32	– %

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment within Operating profit. Accordingly, for the year and three month period to 31 December 2022, the Group has reclassified gains of €22 million and losses of €9 million, respectively, from Other non-operating credits to Expenditure on operations. There is no impact on the Profit after tax.

FINANCIAL REVIEW

In the commentary below, references are made in selected places to variances versus 2019 to aid understanding, due to the significant reductions in capacity the Group's airlines made due to the impact of the COVID-19 pandemic in the period from 2020 to 2022. It is anticipated that 2023 will be the last year for which analysis versus 2019 is required.

IAG capacity

In 2023, passenger capacity operated, measured in available seat kilometres (ASKs), rose by 22.6% versus 2022. For the year, capacity operated was 95.7% of 2019 levels and capacity was almost fully restored to 2019 levels by the end of the year, reaching 98.6% of 2019 levels in the final quarter.

Capacity operated by region

Year to 31 December 2023	ASKs higher/ (lower) v2022	ASKs higher/ (lower) v2019	Passenger load factor (%)	Higher/ (lower) v2022	Higher/ (lower) v2019
Domestic	7.8 %	8.4 %	89.5	4.0pts	2.3pts
Europe	15.4 %	(3.1)%	85.9	4.4pts	2.3pts
North America	23.0 %	3.2 %	82.9	3.6pts	(1.2)pts
Latin America and Caribbean	18.8 %	(1.7)%	87.6	2.5pts	1.2pts
Africa, Middle East and South Asia	32.2 %	1.1 %	83.3	2.2pts	0.3pts
Asia Pacific	258.0 %	(59.7)%	88.4	4.4pts	2.6pts
Total network	**22.6 %**	**(4.3)%**	**85.3**	**3.5pts**	**0.7pts**

Whilst capacity was fully restored to most of IAG's markets, the recovery in the Asia Pacific region was slower, linked to later easing of COVID-19 restrictions in the region.

Capacity operated by airline

Year to 31 December 2023	ASKs higher/ (lower) v2022	ASKs higher/ (lower) v2019	Passenger load factor (%)	Higher/ (lower) v2022	Higher/ (lower) v2019
Aer Lingus	20.3 %	4.4 %	80.6	3.7pts	(1.2)pts
British Airways	28.1 %	(9.9)%	83.6	3.8pts	0.0pts
Iberia	18.5 %	3.2 %	87.2	3.0pts	0.0pts
LEVEL	33.1 %	(32.8)%	93.4	3.7pts	9.5pts
Vueling	10.5 %	8.5 %	91.4	4.2pts	4.5pts
Group	**22.6 %**	**(4.3)%**	**85.3**	**3.5pts**	**0.7pts**

In 2023, British Airways had only restored 90.1% of its total 2019 capacity, as the substantial majority of the Group's capacity to the Asia Pacific region in 2019, for which recovery following COVID-19 has been slower, was operated by British Airways. Capacity for British Airways was also impacted by the accelerated retirement of its Boeing 747-400 fleet during the COVID-19 pandemic and further restoration of capacity is planned for British Airways in 2024 and 2025. The reduction in LEVEL versus 2019 relates to the discontinuation of operations from Paris Orly in 2020, with the capacity of LEVEL's operation in Barcelona up 32.4% versus 2019.

Domestic and Europe

Capacity and passenger numbers in IAG's Domestic markets, which are predominantly within mainland Spain and to the Canary and Balearic Islands, increased in line with strong leisure demand, with capacity 7.8% higher than 2022, and with a higher passenger load factor of 89.5%, which was up 4.0 points versus the previous year. Capacity and the passenger load factor were also higher than in 2019, up 8.4% and 2.3 points respectively.

The Group's capacity in Europe was 15.4% higher than in 2022, also boosted by the demand for leisure travel. Aer Lingus began services to Brindisi, Kos and Olbia. British Airways expanded the flying undertaken by its subsidiary launched at London Gatwick airport in 2022, BA Euroflyer, with new routes including Corfu, Mykonos, Innsbruck, and Fuerteventura. Vueling's new routes include a service from Barcelona to Rovaniemi (Finland) and the airline added an extra aircraft at its Bilbao base, with six new routes launched. Passenger load factor for the region was up 4.4 points versus 2022 to 85.9% and was up 2.3 points versus 2019.

North America

The Group's airlines launched new routes and increased services to North America, one of the Group's core profit pools, with capacity 23.0% higher than in 2022 and 3.2% higher than in 2019. Aer Lingus started flights to Cleveland and resumed its route to Hartford, Connecticut, together with additional frequencies to Los Angeles, Seattle, Orlando, and Washington DC. The airline will resume its service to Minneapolis and launch a new route to Denver in 2024. British Airways launched services from London Heathrow to Cincinnati and from London Gatwick to Vancouver, a destination already served from its London Heathrow hub. The airline plans further increases in 2024, including doubling its services to San Diego in the summer. Iberia increased its recently-launched routes to Dallas and Washington to year-round services. LEVEL increased its capacity to North America by 23.8% in 2023 and in 2024 will increase further, with a new route from Barcelona to Miami and significant capacity increases to Boston, Los Angeles and New York, JFK. Passenger load factor for the region was up 3.6 points versus 2022 to 82.9% and was down 1.2 points versus 2019.

Latin America and Caribbean (LACAR)

IAG's other core international profit pool is the Latin America and Caribbean region, including Iberia's network of 20 daily flights to the region and British Airways flights to the Caribbean. British Airways launched flights from London Gatwick to Aruba and Guyana. Iberia increased its capacity to primary cities such as Bogotá, Lima, Mexico City, Montevideo and Quito. LEVEL increased its route to Santiago de Chile to operate as a year-round service, with LEVEL's capacity to the region up 45.4% versus 2022. IAG's capacity in LACAR grew 18.8% versus 2022, although was still down 1.7% on 2019, linked to the retirement of aircraft following the COVID-19 pandemic, with further long-haul aircraft due for delivery in 2024. Passenger load factor for the region at 87.6% increased 2.5 points versus 2022 and was up 1.2 points versus 2019.

Africa, Middle East and South Asia (AMESA)

Capacity to this region was up 32.2% on 2022 and up by 1.1% versus 2019. BA Euroflyer launched a service from London Gatwick to Sharm El Sheikh. British Airways began flights from London Gatwick to Accra and the airline will resume flights to Abu Dhabi in 2024. Iberia started services to Cairo and launched a new route to Doha, which will serve to develop its network with partner Qatar Airways. Vueling's new routes from Barcelona included Luxor and Sharm El Sheikh. Passenger load factor for the region was up 2.2 points versus 2022 to 83.3% and was up 0.3 points versus 2019.

Asia Pacific

During 2023, the Asia Pacific continued to be the least recovered region from COVID-19, as restrictions linked to the pandemic were lifted later than in other markets and industry recovery has been slower. British Airways services to Shanghai and Beijing resumed in the summer 2023 travel season and during the year the airline increased frequencies to Hong Kong and Tokyo Haneda. Iberia will re-open its route to Tokyo in October 2024. The increases during 2023 led to capacity 258.0% higher than 2022 but still 59.7% lower than 2019, with the passenger load factor for the region up 4.4 points versus 2022 to 88.4% and up 2.6 points versus 2019.

Basis of preparation

In its assessment of going concern over the period of at least 12 months from the date of approval of this report (the 'going concern period'), the Group has prepared extensive modelling, including considering a severe but plausible downside scenario. Having reviewed these scenarios and sensitivities, and the Group's aircraft financing requirements, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern period, and hence continue to adopt the going concern basis in preparing the consolidated financial statements.

Summary

The Group was able to substantially restore its capacity compared with 2019 and saw recovery in all its businesses, with particular strength in Spain and the North and South Atlantic. Fuel costs were substantially higher than in 2019 and the Group also faced higher supplier cost inflation. The Group was able to successfully offset both of these challenges through its high-quality and increasingly diverse revenue stream, and through continued transformation of its businesses. The net result was an Operating profit for the year of €3,507 million, versus an Operating profit of €1,278 million in 2022. The Profit after tax for the year was €2,655 million, versus a profit of €431 million in 2022.

Profit for the year

Statutory results € million	**2023**	2022[1]	Higher/ (lower) vly
Operating profit	**3,507**	1,278	2,229
Profit before tax	**3,056**	415	2,641
Profit after tax	**2,655**	431	2,224

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment within Operating profit. Accordingly, for the year to 31 December 2022, the Group has reclassified gains of €22 million from Other non-operating credits to Expenditure on operations. There is no impact on the Profit before or after tax.

Summary of exceptional items

The Group uses Alternative performance measures (APMs) to analyse the underlying results of the business excluding exceptional items, which are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance.

There were no exceptional items in 2023. During 2022, the Group recorded exceptional credits relating to the partial reversal of a fine issued to British Airways in 2010 and the reversal of the impairment of certain aircraft returned to service in 2022.

A summary of the exceptional items relating to 2022 is given below, with more detail in the Alternative performance measures section, including a breakdown of the exceptional items by operating company.

		Credit/(charge) to the Income statement € million	
Income statement line	Exceptional item description	**2023**	2022
Property, IT and other costs	Reversal of fine	**–**	23
Depreciation, amortisation and impairment	Impairment reversal of fleet and associated assets	**–**	8
Tax	Tax on exceptional items	**–**	(2)

The Operating profit before exceptional items for 2023 of €3,507 million was €2,260 million better than the Operating profit before exceptional items of €1,247 million for 2022, driven by the increased capacity and higher revenues, net of higher operating costs, as explained further below. The Profit after tax and before exceptional items was €2,655 million, €2,253 million higher than the 2022 profit of €402 million.

Alternative performance measures (before exceptional items) € million	**2023**	2022[1]	Higher/ (lower) vly
Operating profit	**3,507**	1,247	2,260
Profit before tax	**3,056**	384	2,672
Profit after tax	**2,655**	402	2,253

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment within Operating profit. Accordingly, for the year to 31 December 2022, the Group has reclassified gains of €22 million from Other non-operating credits to Expenditure on operations. There is no impact on the Profit before or after tax.

Revenue

€ million	**2023**	Higher/ (lower) vly	Higher/ (lower) vly (%)
Passenger revenue	**25,810**	6,352	32.6 %
Cargo revenue	**1,156**	(459)	(28.4)%
Other revenue	**2,487**	494	24.8 %
Total revenue	**29,453**	6,387	27.7 %

Total revenue increased €6,387 million versus 2022, after adverse foreign exchange rate movements of €490 million, mainly due to the translation of British Airways' and IAG Loyalty's results from pound sterling into euro, which resulted in an adverse variance of €379 million versus 2022.

Passenger revenue

The increase in Passenger revenue of €6,352 million, or 32.6%, was ahead of the increase in passenger capacity of 22.6%, driven by higher yields and higher load factors than in 2022. The growth in Passenger revenue was linked to the reopening of markets, strong leisure demand, together with increases in ticket prices to reflect higher fuel prices and supplier price inflation. The recovery in corporate travel was slower than that of leisure travel, with the Group's premium leisure segment continuing to perform strongly.

The passenger load factor for the year of 85.3% was 3.5 points higher than in 2022 and 0.7 points higher than in 2019. Passenger yields, measured as passenger revenue per revenue passenger kilometre (RPK) were 3.8% higher than in 2022 and up 19.0% on 2019. The resulting passenger unit revenue (passenger revenue per ASK) for the year was 8.2% higher than in 2022 and 20.1% higher than in 2019.

Cargo revenue

Cargo revenue, at €1,156 million, was 28.4% lower than in 2022. Cargo volumes, measured in cargo tonne kilometres (CTKs), were 17.2% higher than the previous year, as the Group's airlines further restored their operations, leading to an increase in both passenger and cargo capacity. Cargo yields, measured as cargo revenue per cargo tonne kilometre, were 38.9% lower than in 2022, reflecting the substantial growth in global cargo capacity across the industry, together with softer market demand, reflecting the macro-economic conditions. In 2022, cargo yields had benefited from disruption to global supply chains, and disruption to shipping, particularly in the first half of the year. Cargo yields benefited from a growth in premium products, enabled by the opening of a new premium cargo facility at London Heathrow. At Madrid, IAG Cargo's investment in a perishable goods handling facility was completed, further boosting cargo handling capacity.

Cargo revenue increased by €39 million, or 3.5% versus 2019. The increase was primarily driven by a 23.8% increase in cargo yields compared with 2019, which included the impact of transformation initiatives. The higher cargo yields more than compensated for a decline in volumes, which were 16.4% lower than in 2019, mainly due to weaker market demand and reduced cargo capacity, particularly from the Asia Pacific region.

Other revenue

One of the Group's strategic imperatives is to drive earnings growth through asset-light businesses, with the growth of IAG Loyalty a particular priority. The impact of the growth in IAG Loyalty contributes both to the airlines' Passenger revenue and to Other revenue, through both the issuance and redemption of its loyalty currency, Avios. IAG Loyalty delivered another strong year of growth in the number of members collecting Avios, including through its partnership with American Express. IAG Loyalty's Other revenue was up 61% versus 2022 to €524 million.

The largest Other revenue streams for the Group are BA Holidays and Iberia's maintenance, repair and overhaul (MRO) business. BA Holidays grew revenues in line with the continued increase in flying activity and holiday and hotel services revenue increasing by €133 million to €938 million. Iberia's MRO business saw increased engine maintenance activity for third-party airlines, with revenues from maintenance and overhaul services up €155 million to €683 million. Revenue from ground handling, at €195 million, was flat versus 2022. After a competitive tender process for ground handling contracts, the final resolution in September 2023 resulted in the loss of third-party handling contracts at eight airports for Iberia and as a result Iberia will see a reduction in ground handling activity and revenues in 2024.

Overall for the year, Other revenue was up 24.8% versus 2022 to €2,487 million, 29.5% higher than in 2019.

Operating costs

Total operating expenditure rose from €21,788 million in 2022 to €25,946 million in 2023, linked to the higher volume of flights and passenger numbers and after favourable foreign currency movements of €408 million, of which €351 million were due to the translation of the operating costs of British Airways and IAG Loyalty from pound sterling into euros.

Employee costs

€ million	2023	Higher/ (lower) vly	Higher/ (lower) vly (%)
Employee costs	**5,423**	776	16.7 %

The rise in Employee costs of €776 million or 16.7% versus 2022 reflected the continued restoration of the Group's capacity and the related increase in employee numbers, as well as the investment in British Airways' London hub to improve operational performance. Average headcount for the year was 69,762, up 9,962 or 16.7% versus 2022. The Group agreed pay deals with the substantial majority of its bargaining groups and employees during 2023.

On a unit basis per ASK, Employee costs were down 4.8% versus 2022.

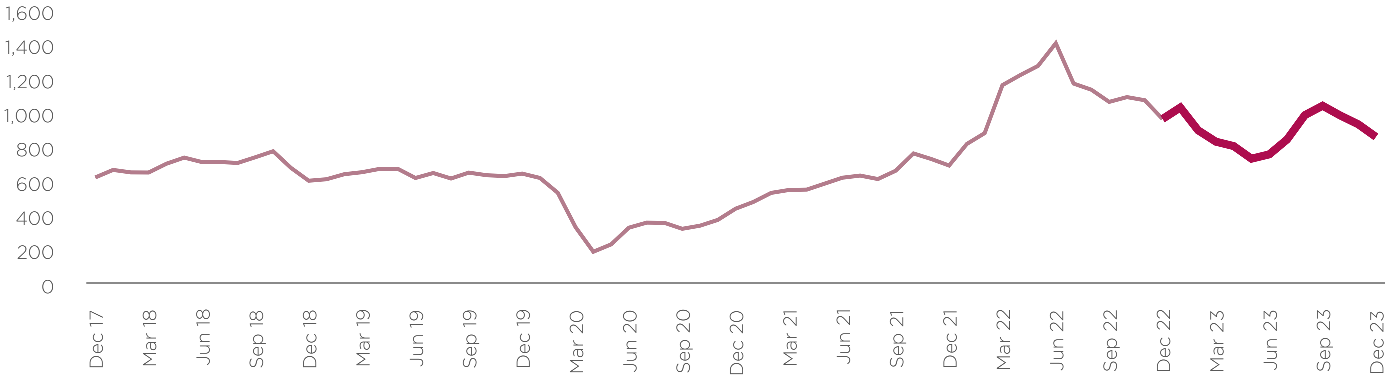
Fuel, oil costs and emissions charges

€ million	2023	Higher/ (lower) vly	Higher/ (lower) vly (%)
Fuel, oil costs and emissions charges	**7,557**	1,437	23.5 %

Fuel, oil costs and emissions charges were up €1,437 million versus 2022, principally reflecting increased flying volumes. In 2022, the impact of the significant increase in commodity fuel prices, following the Russian invasion of Ukraine in February of that year, was mitigated by the Group's fuel hedging programme. In 2023, whilst average spot fuel prices linked to fuel purchase contracts were 17% lower than in 2022, the impact of hedging was neutral, with the result that the Group's effective fuel price after hedging was similar to the previous year. Foreign exchange movements accounted for only €6 million of the increase, with the impact of a weaker US dollar against the euro and pound sterling offset by translation exchange between the pound sterling and euro. Within Fuel, oil costs and emissions charges, the cost of complying with emissions trading schemes was €238 million, up from €134 million in 2022, reflecting both the higher level of capacity flown, market prices under such schemes, and the reduction in free allowances issued across the EU and UK.

On a unit basis per ASK, Fuel, oil costs and emissions charges were up 0.7% versus 2022.

Jet fuel price trend ($ per metric tonne)



Fuel hedging

The Group seeks to reduce the impact of volatile commodity prices by hedging prices in advance. The Group's current fuel hedging policy was approved by the Board in May 2021 (and has been regularly reviewed for appropriateness by the Audit and Compliance Committee subsequently) and is designed to provide flexibility to respond to both significant unexpected reductions in travel demand or capacity and/or material or sudden changes in jet fuel prices. The policy allows for differentiation within the Group, to match the nature of each operating company, and the use of call options for a proportion of the hedging undertaken. The policy operates on a two-year rolling basis, with hedging of up to 60% of anticipated requirements in the first 12 months and up to 30% in the following 12 months, and with flexibility for low-cost airlines within the Group to adopt hedging up to 75% in the first 12 months. For all Group airlines, hedging between 25 and 36 months ahead is only undertaken in exceptional circumstances.

Fuel consumption

The Group continued to benefit from reduced fuel consumption, associated with the investment in new fleet, with 35 newer-generation and more fuel-efficient aircraft entering service in the year. Increased passenger load factors versus 2022 also contributed to reduced carbon intensity, measured as grammes of CO_2 per passenger kilometre, which was down 3.6% versus 2022.

Supplier costs

€ million	2023	Higher/ (lower) vly	Higher/ (lower) vly (%)
Handling, catering and other operating costs	**3,849**	878	29.6 %
Landing fees and en-route charges	**2,308**	418	22.1 %
Engineering and other aircraft costs	**2,509**	408	19.4 %
Property, IT and other costs[1]	**1,058**	108	11.4 %
Selling costs	**1,155**	235	25.5 %
Currency differences	**26**	(115)	(81.6)%
Total Supplier costs	**10,905**	1,932	21.5 %

1 For 2022 includes an exceptional credit of €23 million related to the partial reversal of the historical fine, plus accrued interest, initially issued by the European Commission to British Airways for involvement in cartel activity and recognised as an exceptional charge in 2010. Further information is given in the Alternative performance measures section.

Total Supplier costs rose by €1,932 million, or 21.5% to €10,905 million, slightly below the increase in capacity. Supplier costs were impacted by continued high levels of inflation and disruption costs, although the impact was partially mitigated by the Group's procurement and transformation initiatives.

Supplier costs include a €26 million currency differences charge in 2023 versus a €141 million currency differences charge in the previous year; 2022 had been impacted by a significant strengthening of the US dollar against both the pound sterling and the euro versus 2021. Total foreign currency impacts on Supplier costs, including currency differences, were €298 million favourable versus 2022, including a favourable impact of €163 million related to translating British Airways' and IAG Loyalty's supplier costs from pound sterling into euro and the €141 million favourable currency differences charge outlined above.

On a unit basis per ASK, Supplier costs were down 1.1% versus 2022.

Ownership costs

Ownership costs include Depreciation, amortisation and impairment of tangible and intangible assets, including right of use assets, and the Net gain on sale of property, plant and equipment.

€ million	2023	Higher/ (lower) vly	Higher/ (lower) vly (%)
Depreciation, amortisation and impairment	**2,063**	(7)	(0.3)%
Net gain on sale of property, plant and equipment	**(2)**	20	(90.9)%
Ownership costs[1]	**2,061**	13	0.6 %

1 For 2022, includes an exceptional credit of €8 million related to the partial reversal of an impairment relating to fleet assets that were previously stood down in 2020. Further information is given in the Alternative performance measures section.

The increase in ownership costs versus 2022 is mainly driven by the increase in the Group's fleet of aircraft, linked to the restoration of capacity and 34 deliveries of new aircraft in the year. The Net gain on sale of property, plant and equipment was €2 million, reflecting the disposal of aircraft withdrawn from service and related spare parts. On a unit basis per ASK, Ownership costs were down 18.2% versus 2022, mainly reflecting the restoration of capacity and improvements in aircraft utilisation.

Aircraft fleet

In 2023, the in-service fleet increased by 24 aircraft: 37 aircraft entered service and 13 aircraft were retired. Of the aircraft entering service, five re-entered service having previously been stood down and two were delivered in late 2022. In total, 34 aircraft were delivered in the year, of which four aircraft entered service early in 2024.

Number of fleet

Number of fleet in-service	2023	2022	Higher/ (lower) vly
Short-haul	**389**	381	2.1 %
Long-haul	**193**	177	9.0 %
	582	558	4.3 %

In addition to the in-service fleet, there were a further nine aircraft not in service, made up of five aircraft held by the Group pending disposal or lease return and four aircraft delivered late in 2023 and not in service by 31 December 2023.

Exchange rate impact

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily pound sterling related to British Airways and IAG Loyalty. From a transaction perspective, the Group's performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group typically generates a surplus in most currencies in which it does business, except the US dollar, for which capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. The Group hedges its economic exposure from transacting in foreign currencies but does not hedge the translation impact of reporting in euro.

Overall, in 2023 the Group operating profit before exceptional items was reduced by €82 million due to adverse exchange rate impacts.

Exchange rate impact before exceptional items

€ million Favourable/(adverse)	2023 Translation impact	 Transaction impact	 Total exchange impact
Total exchange impact on revenue	(379)	(111)	**(490)**
Total exchange impact on operating expenditures	351	57	**408**
Total exchange impact on operating profit	(28)	(54)	**(82)**

€ million Favourable/(adverse)	2022 Translation impact	 Transaction impact	 Total exchange impact
Total exchange impact on revenue	97	685	782
Total exchange impact on operating expenditures	(129)	(975)	(1,104)
Total exchange impact on operating profit	(32)	(290)	(322)

The exchange rates of the Group were as follows:

	2023	2022	Higher/ (lower) vly
Translation - Balance sheet			
£ to €	**1.16**	1.14	1.8 %
Translation - Income statement (weighted average)			
£ to €	**1.15**	1.17	(1.7)%
Transaction (weighted average)			
£ to €	**1.15**	1.17	(1.7)%
€ to $	**1.09**	1.05	3.8 %
£ to $	**1.26**	1.23	2.4 %

Total net non-operating costs

Total net non-operating costs for the year were €451 million, versus €863 million in 2022. Finance costs of €1,113 million were €96 million higher than in 2022, although they fell in the fourth quarter by 16.3% or €48 million, linked to the early debt repayments described in 'Early repayment of debt raised in 2020 and 2021' below and in note 3 to the Group financial statements. Finance income was up €334 million, reflecting the Group's strong cash balances and the higher interest rates earned on deposits. The other main movement was for net currency retranslation, with a credit of €176 million in 2023 versus a charge of €115 million in 2022, principally reflecting the weakening of the US dollar.

The Net change in the fair value of financial instruments of €11 million reflects fair value adjustments at 31 December 2023 of IAG's €825 million convertible bond maturing in 2028.

Other non-operating credits of €8 million in 2023 (2022: credit of €110 million) mainly represent net gains or losses on derivative contracts for which hedge accounting is not applied, together with a net gain of €10 million in 2023 on the sale of investments.

Tax

The tax charge on the Profit for the year was €401 million (2022: tax credit of €16 million), and the effective tax rate was 13.1% (2022: negative 3.9%).

The substantial majority of the Group's activities are taxed where the main operations are based: in the UK, Spain and Ireland, which had statutory corporation tax rates of 23.5%, 25.0% and 12.5% respectively for 2023. The expected effective tax rate for the Group is determined by applying the relevant corporation tax rate to the profits or losses of each jurisdiction.

The geographical distribution of profits and losses in the Group results in the expected tax rate being 23.5% for the year to 31 December 2023. The difference between the actual effective tax rate of 13.1% and the expected tax rate of 23.5% is primarily due to the recognition of previously unrecognised tax losses in the Group's Spanish companies.

The Profit after tax for the year was €2,655 million (2022: €431 million).

On 3 March 2021, the UK Chancellor of the Exchequer announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25% from April 2023. On 24 May 2021, the Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a charge of €13 million (2022: €17 million credit) is recorded in the Income statement and a credit of €3 million (2022: €10 million charge) is recorded in Other comprehensive income.

The Group is monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This reform to the international tax system is designed to ensure that multinational enterprises with consolidated worldwide annual turnover exceeding €750 million will be subject to a minimum 15% effective tax rate, and also proposes to address the geographical allocation of profits for the purposes of taxation. On 15 December 2022, the Council of the European Union formally adopted the EU Pillar Two Directive. On 22 December 2022, the EU Minimum Tax Directive was published.

On 11 July 2023, the UK enacted Finance (No. 2) Act 2023 which introduced the Multinational Top-up Tax and the Domestic Top-up Tax with effect for accounting periods beginning on or after 31 December 2023. These taxes are the UK's adoption of the income inclusion rule and domestic minimum top-up tax rule referenced in the OECD's Pillar Two reform.

On 18 December 2023, Ireland enacted Finance (No. 2) Act 2023 which, pursuant to the EU Minimum Tax Directive, provided for the introduction of a new minimum effective rate of tax for certain businesses. These rules provide for a Qualified Domestic Top-Up Tax where an in-scope group's Irish operations have an effective rate of tax of less than 15%. They come into force for accounting periods beginning on or after 31 December 2023.

On 19 December 2023, Spain's Council of Ministers approved a draft law to implement the EU Minimum Tax Directive. This is to be subject to consultation, prior to being sent to Parliament.

For 2023, the predominant jurisdiction in which the Group operates with an effective tax rate of less than 15% is Ireland through Aer Lingus. While the impact on the Group of the adoption of Pillar Two is not yet reasonably possible to estimate, for indicative purposes, in 2023 Aer Lingus recorded a current tax expense of €24 million relating to its Irish operations, representing an effective tax rate of 12.8%. Had the effective tax rate applied by Aer Lingus to its Irish operations been 15%, the current period tax expense would have increased by €4 million to €28 million, which would have increased the overall Group effective tax rate from 13.1% to 13.3%.

On 18 January 2024, the *Tribunal Constitucional* (Constitutional Court) in Spain issued a ruling that the amendments to corporate income tax arising from the introduction of Royal Decree-Law 3/2016 were unconstitutional and accordingly revoked. The Group has not adjusted the financial statements for this revocation, but expects to recognise a tax receivable, excluding interest arising, from the Spanish tax authorities of approximately €191 million and an associated deferred tax charge of approximately €58 million.

Operating profit performance of airline operating companies

	Aer Lingus € million		**British Airways £ million**		**Iberia € million**		**Vueling € million**	
Statutory	**2023**	Higher/ (lower) vly	**2023**	Higher/ (lower) vly	**2023**	Higher/ (lower) vly	**2023**	Higher/ (lower) vly
Passenger revenue	2,209	530	12,668	3,453	5,262	1,220	3,181	597
Cargo revenue	55	(25)	757	(303)	275	(72)	–	–
Other revenue	10	–	898	143	1,421	299	17	3
Total revenue	**2,274**	505	**14,323**	3,293	**6,958**	1,447	**3,198**	600
Fuel, oil costs and emissions charges	639	100	3,825	896	1,496	183	907	168
Employee costs	471	78	2,577	477	1,284	123	399	29
Supplier costs	789	143	5,475	880	2,827	543	1,240	152
Ownership costs[1]	150	16	1,015	(66)	411	47	256	50
Operating profit	**225**	168	**1,431**	1,106	**940**	551	**396**	201
Operating margin	9.9%	6.7 pts	10.0%	7.0 pts	13.5%	6.4 pts	12.4%	4.9 pts
Alternative performance measures[2]								
Passenger revenue	2,209	530	12,668	3,453	5,262	1,220	3,181	597
Cargo revenue	55	(25)	757	(303)	275	(72)	–	–
Other revenue	10	–	898	143	1,421	299	17	3
Total revenue before exceptional items	**2,274**	505	**14,323**	3,293	**6,958**	1,447	**3,198**	600
Fuel, oil costs and emissions charges	639	100	3,825	896	1,496	183	907	168
Employee costs	471	78	2,577	477	1,284	123	399	29
Supplier costs	789	143	5,475	861	2,827	543	1,240	152
Ownership costs[1]	150	16	1,015	(66)	411	47	256	42
Operating profit before exceptional items	**225**	168	**1,431**	1,125	**940**	551	**396**	209
Operating margin before exceptional items	9.9%	6.7 pts	10.0%	7.2 pts	13.5%	6.4 pts	12.4%	5.2 pts

1 Ownership costs reflects Depreciation, amortisation and impairment, and the Net (gain)/loss on the sale of property, plant and equipment.

2 Further detail is provided in the Alternative performance measures section.

The Iberia numbers in the table above are presented on the same basis as in note 5 to the consolidated financial statements and exclude LEVEL Spain.

Review by operating company

All of the airline operating companies saw a significant increase in profitability in 2023, with Iberia and Vueling achieving record levels of operating profit, reflecting strong passenger yields, which were able to offset the impacts of higher effective fuel prices and inflation.

British Airways operated the lowest passenger capacity relative to 2019, with ASKs at 90.1% of 2019, partly linked to the delayed restoration of its capacity to the Asia Pacific region, which saw COVID-19 restrictions continue longer than the rest of IAG's markets. Aer Lingus operated at 104.4% of 2019 capacity, including the impact of its new UK base at Manchester Airport opened in October 2021. Iberia and Vueling both increased capacity versus 2019, operating at 103.2% and 108.5% of 2019 levels respectively.

Operating profit before exceptional items

	2023	2022[1]	2019[1, 2]
Aer Lingus (€ million)	**225**	57	276
British Airways (£ million)	**1,431**	306	1,893
Iberia (€ million)	**940**	389	498
Vueling (€ million)	**396**	187	241
IAG Loyalty (£ million)	**280**	240	176

1 The 2019 and 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment within Operating profit.

2 The 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes.

IAG Loyalty showed significant growth in its non-airline partner revenue streams, together with benefiting from the recovery in the Group's airlines, leading to a second successive year of record operating profits, with operating profit before exceptional items of £280 million (€321 million), up from £240 million (€282 million) in 2022. IAG Loyalty's operating margin for 2023 was 21.7%, with the reduction of 6.7 points from 28.4% in 2022 due to the increased level of Avios redemption activity as well as the mix of Avios issued between the Group's airlines and other partners.

Capital expenditure

In 2023, the Group continued to invest in its aircraft fleets, customer products and services, IT infrastructure and sustainability, as the business continued to recover and restore capacity. Capital expenditure, measured as the Acquisition of property, plant and equipment and intangible assets from the Cash flow statement, was €3,544 million, compared with €3,875 million in 2022, with the reduction of €331 million due to the profile of fleet deliveries and pre-delivery payments, with investment in IT higher than in 2022, as the Group continues to invest in its IT estate and transformation projects. In 2023, the Group took delivery of 34 aircraft: ten for British Airways, 14 for Iberia, six for Vueling, two for Aer Lingus and two for LEVEL. Of these deliveries, 28 were aircraft acquired from Airbus and Boeing and six were leased directly from aircraft lessors (2022: 25 aircraft acquired from Airbus and Boeing and two leased directly from aircraft lessors). One of the aircraft acquired from Airbus in 2023 was novated to a lessor immediately prior to the point of delivery as part of a sale and leaseback arrangement, which resulted in the final delivery payment for the aircraft being made by the lessor, rather than by the Group as capital expenditure; the Group also received a refund of the pre-delivery payments it had made in advance of the delivery date in respect of that aircraft.

Aircraft deliveries	**2023**	2022
Airbus A320ceo	**2**	–
Airbus A320neo family	**19**	12
Airbus A330	**2**	–
Airbus A350	**9**	12
Boeing 787-10	**2**	3
Total	**34**	27

Aircraft orders

During 2023, the Group converted ten A320neo options to firm deliveries in 2028, as replacement aircraft for its short-haul network. A new order was placed for British Airways for six Boeing 787-10 aircraft, and one new Airbus A350-900 aircraft was ordered for Iberia; the aircraft represented by these new orders will be delivered in 2025 and 2026. In addition to these orders from Airbus and Boeing, the Group entered into leases directly with lessors for two Airbus A350-900 aircraft for Iberia, two Airbus A330-200 aircraft for LEVEL and two A320ceo aircraft for Vueling, all of which were delivered during the year. The table below includes three further A320ceo aircraft for Vueling, for which leases were signed prior to 31 December 2023, with the aircraft to be delivered in 2024.

The Group anticipates introducing eight further A320ceo aircraft for Vueling in 2024 through operating leases, to cover aircraft availability linked to additional maintenance requirements for aircraft with Pratt & Whitney 'GTF' engines.

Aircraft future deliveries at 31 December	2023	2022
Airbus A320ceo	**3**	–
Airbus A320neo family	**82**	91
Airbus A321XLR	**14**	14
Airbus A350	**3**	12
Boeing 737	**50**	50
Boeing 777-9	**18**	18
Boeing 787-10	**11**	7
Total	**181**	192

In addition to those committed future deliveries shown above, at 31 December 2023, the Group held options to acquire a further 235 aircraft from Airbus and Boeing.

Capital commitments

Capital expenditure authorised and contracted for at 31 December 2023 amounted to €12,706 million (2022: €13,749 million), with the decrease attributable to the net of the aircraft deliveries and the new orders described above. Most of these commitments are denominated in US dollars.

The Group has certain rights to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at 31 December 2023.

Working capital

The net movement in working capital saw a cash outflow of €142 million in 2023, compared with a significant cash inflow of €1,884 million in 2022. The year 2022 had seen a significant restoration of airline capacity by the end of the year, with significant related increases in bookings for future travel (Deferred revenue), net of trade receivables, together with an increase in Trade and other payables, linked to the increase in the Group's flying programmes and the related increase in operating expenditure. By contrast, in 2023, working capital had returned closer to a steady-state position. Inventories increased by €141 million to €494 million, partially linked to engine purchases to meet maintenance requirements. Trade receivables were up by €229 million to €1,559 million, related to higher passenger numbers and yields, together with some timing differences related to certain receipts due from the Spanish government.

At 31 December 2023, total Deferred revenue, which includes the Group's loyalty schemes, was €8,023 million, an increase of €379 million versus €7,644 million at 31 December 2022. Deferred revenue at 31 December 2023 includes €645 million in respect of unredeemed vouchers, including associated taxes (2022: €911 million). The unredeemed voucher balance includes: flight vouchers issued to customers at their election to provide the flexibility to change their destination and/or date of travel (a policy introduced in 2020 and still in operation) and loyalty-related companion vouchers (referred to as 'non-disrupted vouchers'); vouchers issued due to COVID-19 flight cancellations (referred to as 'disrupted vouchers'); certain other flexible fare options; and other gift vouchers. The outstanding balance of disrupted vouchers at 31 December 2023 was €139 million, with the remaining €506 million relating to ongoing commercial policies, which the Group expects to continue to be offered in the future.

Funding and debt

IAG's long-term objectives when managing capital are: to safeguard the Group's ability to continue as a going concern and its long-term viability; to maintain an optimal capital structure in order to reduce the cost of capital; and to provide sustainable returns to shareholders. In November 2018, S&P and Moody's assigned IAG long-term investment-grade credit ratings with a stable outlook; IAG's credit ratings remained investment-grade up until the outbreak of COVID-19. In 2023, due to the improvement in the Group's profitability, cash generation and balance sheet, both S&P and Moody's raised their credit ratings of IAG in the fourth quarter of the year. The Group's current ratings (at 28 February 2024) are: S&P: BBB- (investment grade), Moody's: Ba1. British Airways has separate credit ratings, which were also increased to BBB- (investment grade) by Fitch and S&P; Moody's rating of British Airways is Ba1.

Early repayment of debt raised in 2020 and 2021

During 2020 and 2021, the Group's airlines required additional liquidity, due to the significant adverse impact of COVID-19, and all entered into special COVID-19-related financing arrangements, partially or fully guaranteed by the governments in their home countries. This debt was based on floating rate arrangements and agreed at margins that reflected the condition of the financial markets and the Group's airlines at the time; this debt was among the most expensive of the Group's debt to service. As a result of the Group's profitability and cash generation in 2022 and 2023, and expected continued strong cash generation over the foreseeable future, in the second half of 2023, the Board agreed that the remainder of this debt should be repaid ahead of its scheduled maturity, which was between 2024 and 2026. The total amount repaid early was €3,271 million: £2,000 million (€2,312 million) for British Airways, partially guaranteed by the UK Export Fund (UKEF); €644 million and €223 million for Iberia and Vueling respectively, partially guaranteed by Spain's *Instituto de Crédito Oficial* (ICO); €42 million of other non-aircraft debt for Iberia; and €50 million to the Ireland Strategic Investment Fund (ISIF) for Aer Lingus. These early debt repayments will result in a reduction in interest costs in future years.

Following these early repayments, and the repayment of IAG's €500 million bond in July 2023, the maturity profile of the Group's debt as of 31 December 2023, aside from aircraft financing payments, includes two €500 million IAG bonds due in 2025 and 2027, respectively, IAG's €825 million 2028 convertible bond and a €700 million IAG bond due in 2029.

Debt and capital

The Group monitors leverage using net debt to EBITDA before exceptional items, in addition to closely following measures used by the credit ratings agencies, including those based on total borrowings (gross debt).

In 2019, the Group set a target of net debt to EBITDA before exceptional items below 1.8 times, which broadly corresponded to investment grade with the credit ratings agencies. At its Capital Markets Day in November 2023, the Group confirmed this target remains appropriate.

As at 31 December 2023, net debt to EBITDA before exceptional items had reduced to 1.7 times, compared with 3.1 times in 2022, reflecting the strong recovery in profitability and the related cash generation, with capital expenditure €331 million lower than the previous year.

Net debt

€ million	2023	2022	Higher / (lower)
Debt	**19,984**	19,610	374
Cash and cash equivalents and interest-bearing deposits	**(9,599)**	(7,943)	(1,656)
Net debt at 1 January	**10,385**	11,667	(1,282)
Decrease/(increase) in cash net of exchange	**2,762**	(1,656)	4,418
Movements in total borrowings			
Net cash outflow repayments of borrowings and lease liabilities	**(5,999)**	(2,505)	(3,494)
Net cash inflow new borrowings	**1,001**	1,436	(435)
Non-cash impact of new leases	**1,315**	1,017	298
Decrease in net debt from regular financing	**(3,683)**	(52)	(3,631)
Exchange and other non-cash movements	**(219)**	426	(645)
Net debt at 31 December	**9,245**	10,385	(1,140)

Net debt reduced by €1,140 million, principally due to the recovery in profitability and operating cash flow generation, partially offset by the capital expenditure of €3,544 million. Gross debt reduced by €3,902 million during the year to €16,082 million. Repayments exceeded new borrowings by €4,998 million, mainly due to the early repayments of non-aircraft debt outlined above, the repayment on maturity of a €500 million IAG bond, and scheduled repayments of aircraft financing exceeding new aircraft financing raised during the year. The Group also raised financing by way of sale and leaseback transactions and extended existing leases, which together added €1,315 million to gross debt. The Group's gross debt is subject to foreign exchange translation movements, as the majority of the Group's aircraft debt is denominated in US dollars. Over the course of 2023, the euro and pound sterling strengthened against the US dollar leading to a decrease in gross debt of €361 million. The remainder of the variance in gross debt versus 2022 is mainly due to the increase in the fair value of IAG's €825 million convertible bond due in 2028.

Cash

Cash, cash equivalents and interest-bearing deposits

€ million	2023	2022	Higher/ (lower)
Aer Lingus[1]	**356**	375	(19)
British Airways	**1,361**	2,877	(1,516)
Iberia	**1,890**	2,389	(499)
Vueling	**452**	766	(314)
IAG Loyalty	**1,374**	993	381
IAG and other Group companies	**1,404**	2,199	(795)
Cash and cash equivalents and interest-bearing deposits	**6,837**	9,599	(2,762)

1 At 31 December 2023 Aer Lingus held €31 million of restricted cash (2022: €33 million) within interest-bearing deposits maturing after more than three months to be used for employee-related obligations.

British Airways, Iberia, Vueling, Aer Lingus and IAG Loyalty all experienced significant positive operating cash flow in the year. The reduction in the balance of cash, cash equivalents and interest-bearing deposits in IAG and other Group companies principally reflects the early repayment of floating rate unsecured debt in all the airlines, and the repayment of the IAG €500 million 2023 bond on maturity.

Debt

Long-term aircraft financing was drawn for 31 aircraft during 2023, including five aircraft that were delivered in 2022 to British Airways and for which funding was committed at 31 December 2022. The Group also secured committed funding of €375 million, to be drawn in 2024, for three British Airways aircraft, including two delivered in 2023; this committed funding is included in committed and undrawn aircraft financing facilities at 31 December 2023. Linked to its strong cash generation, Iberia did not seek financing for three new A321neo aircraft delivered in 2023, with these aircraft held unencumbered at 31 December 2023.

Equity

No equity was raised or repaid during the year, nor in 2022.

Liquidity facilities

During the year, the Group exercised a one-year extension to the availability of its Revolving Credit Facility (RCF), which now has committed availability until March 2026. The available amount will remain at $1,755 million (€1,605 million) until March 2025 and reduce to $1,655 million (€1,513 million) for the final 12 months to March 2026. The facility was originally agreed and executed with a syndicate of banks in 2021, with availability for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. The facility is available to Aer Lingus, British Airways and Iberia, each of which has a separate borrower limit within the overall facility. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and/or take-off and landing rights at London Heathrow or London Gatwick airports. This facility was undrawn at 31 December 2023.

The Group also added a new £1,000 million (€1,159 million) committed credit facility for British Airways, partially guaranteed by the UKEF, which was agreed upon the repayment of British Airways' £2,000 million (€2,312 million) loan in September 2023 and which matures in September 2028. This is in addition to the existing £1,000 million (€1,159 million) committed credit facility for British Airways, partially guaranteed by the UKEF, which was agreed and executed in 2021 and matures in November 2026. Both facilities were undrawn at 31 December 2023.

Aer Lingus has a €350 million credit facility with Ireland's ISIF, which is available until March 2025. This facility was undrawn at 31 December 2023. At 31 December 2022 €50 million was drawn; this €50 million was repaid in the first half of 2023.

The Group also has certain other committed and undrawn general and overdraft facilities, bringing total committed and undrawn general and overdraft facilities at 31 December 2023 to €4,412 million (2022: €3,284 million).

The Group also holds €375 million of committed and undrawn aircraft financing facilities (2022: €1,116 million). The committed amount at 31 December 2023 represents financing for three British Airways aircraft to be drawn in 2024. The committed and undrawn aircraft financing facilities at 31 December 2022 included committed financing for five aircraft for British Airways that was drawn in 2023 and certain backstop financing arrangements, which have now expired. The Group's aircraft deliveries continue to be successfully financed on regular long-term financing arrangements as required, and hence no drawing on these backstop arrangements was necessary.

In total, the Group had €4,787 million of committed and undrawn general and aircraft facilities as at 31 December 2023 (2022: €4,400 million).

The facilities values above do not include the balance of certain shorter-term working capital facilities available to the Group's operating companies.

Dividends

No dividends were proposed or paid in 2023 (2022: nil).

Liquidity and cash flow

Total liquidity, measured as cash, cash equivalents and interest-bearing deposits of €6,837 million and committed and undrawn general and aircraft facilities of €4,787 million, was €11,624 million at 31 December 2023. This represented a decrease of €2,375 million versus total liquidity of €13,999 million at the end of 2022, linked mainly to the Group's decision to repay certain of its debt raised in 2020 and 2021 in advance of its scheduled maturity.

Cash flow

The Group saw strong cash flow generation in 2023, mainly linked to its strong profit performance; the strong cash generation in turn allowed the Group to rebalance the mix of gross debt and cash by undertaking the early debt repayments outlined above.

Free cash flow

In 2023, the Group adopted Free cash flow as an Alternative performance measure, replacing Levered free cash flow. Free cash flow is defined as Net cash flows from operating activities less Acquisition of property, plant and equipment and intangible assets. See Alternative performance measures section for further details.

€ million	**2023**	2022	Variance
Net cash flows from operating activities	**4,864**	4,854	10
Acquisition of property, plant and equipment and intangible assets	**(3,544)**	(3,875)	331
Free cash flow	**1,320**	979	341

In 2023, Free cash flow was €1,320 million, up €341 million versus 2022, driven by similar Net cash flows from operating activities, but lower capital expenditure, as outlined above. In 2022, whilst the Operating profit was significantly lower, Net cash flows from operating activities benefited from the restoration of capacity and the associated positive impact on working capital, mainly from the rebuilding of advanced ticket sales.

Condensed cash flow summary

€ million	**2023**	2022[1]	Variance
Net cash flows from operating activities	**4,864**	4,854	10
Net cash flows from investing activities	**(3,423)**	(3,463)	40
Net cash flows from financing activities	**(5,194)**	(56)	(5,138)
Net (decrease)/increase in cash and cash equivalents	**(3,753)**	1,335	(5,088)
Net foreign exchange differences	**(2)**	(31)	29
Cash and cash equivalents at 1 January	**9,196**	7,892	1,304
Cash and cash equivalents at year end	**5,441**	9,196	(3,755)
Interest-bearing deposits maturing after more than three months	**1,396**	403	993
Cash, cash equivalents and other interest-bearing deposits	**6,837**	9,599	(2,762)

1 The 2022 results include reclassifications to conform with the current year presentation. Further information is given in note 2 and note 37.

Many of the significant cash flow items are already explained above, including in the sections covering operating costs, non-operating costs, capital expenditure, working capital and other initiatives and funding. Further detail of the other main movements is provided below.

Cash flows from operating activities

€ million	2023	2022[1]	Variance
Operating profit	**3,507**	1,278	2,229
Depreciation, amortisation and impairment	**2,063**	2,070	(7)
Net gain on disposal of property, plant and equipment	**(2)**	(22)	20
Pension contributions net of service costs	**(30)**	(5)	(25)
Increase in provisions	**237**	463	(226)
Unrealised currency differences	**51**	19	32
Other movements	**111**	76	35
Interest paid	**(1,005)**	(817)	(188)
Interest received	**365**	42	323
Tax paid	**(291)**	(134)	(157)
Movement in working capital	**(142)**	1,884	(2,026)
Net cash flows from operating activities	**4,864**	4,854	10

1 The 2022 results include reclassifications to conform with the current year presentation. Further information is given in note 2 and note 37.

In December 2022, British Airways agreed the valuation of its main defined benefit pension scheme, the New Airways Pension Scheme (NAPS), with the scheme's Trustee, which resulted in a deficit as at the valuation date of 31 March 2021 of £1,650 million (€1,887 million). As at 31 December 2023, the scheme was over 100% funded on the 2021 valuation basis and an overfunding protection mechanism agreed with the NAPS Trustee had the effect that no contributions were due in 2022 or 2023. Deficit contributions could resume should the funding level fall in the future. The pension cash flows shown above represent payments to various smaller schemes within the Group. The valuation of the main British Airways pension schemes also showed a surplus on the IAS 19 accounting basis, which does not impact contributions due to the schemes. Total Employee benefit assets at 31 December 2023, of which the principal element is the NAPS accounting surplus, were €1,380 million; the reduction of €954 million versus 31 December 2022 was predominately due to the impact of the fall in AA corporate bond yields applied in discounting scheme liabilities, leading to higher liabilities at the same time as the market value of assets fell, mainly due to the increase in UK government bond yields.

Provision and other non-cash movements mainly relate to restoration and handback provisions for leased aircraft and ETS allowances. Provisions for ETS allowances are charged to Fuel, oil costs and emissions charges as they are built up through the year, with the cash payment for ETS credits acquired by the Group's airlines to meet the requirements of the various emissions trading schemes accounted for as capital expenditure. Provision and other non-cash movements also include restructuring payments of €82 million, mainly relating to redundancy programmes in Iberia agreed prior to 2020.

The increase in interest paid in 2023 reflects higher interest rates, partially mitigated in the fourth quarter by the early repayment of €3,271 million of floating rate debt outlined above. After including the impact of hedging, 13% of the Group's total debt at 31 December 2023 was on floating rate arrangements.

Cash flows from investing activities

€ million	2023	2022	Variance
Acquisition of property, plant and equipment and intangible assets	**(3,544)**	(3,875)	331
Sale of PPE, intangible assets and investments	**1,091**	837	254
Increase in other current interest-bearing deposits	**(985)**	(351)	(634)
Payment to Globalia for convertible loan	**-**	(100)	100
Other investing movements	**15**	26	(11)
Net cash flows from investing activities	**(3,423)**	(3,463)	40

The €1,091 million of cash inflow from the Sale of property, plant and equipment, intangible assets and investments is mainly due to the aircraft sale and leaseback transactions discussed in the Funding and debt section above, together with the disposal of assets, principally aircraft being retired from service. The increase from 2022 reflects the number and type of aircraft financed through sale and leaseback transactions in 2023 compared with 2022.

In March 2022, IAG entered into a convertible loan with Globalia for €100 million, convertible into an equity stake in Air Europa Holdings of 20%; the conversion option was exercised in August 2022, with the equity stake treated as an equity investment.

Cash flows from financing activities

€ million	2023	2022	Variance
Proceeds from borrowings	**1,001**	1,436	(435)
Repayment of borrowings	**(4,268)**	(1,050)	(3,218)
Repayment of lease liabilities	**(1,731)**	(1,455)	(276)
Settlement of derivative financial instruments	**(119)**	1,036	(1,155)
Acquisition of treasury shares and other financing movements	**(77)**	(23)	(54)
Net cash flows from financing activities	**(5,194)**	(56)	(5,138)

Proceeds from borrowings reflect the cash inflows from aircraft financing as described in the Funding and debt section above. Aside from the additional liquidity facilities described in 'Liquidity facilities' above, there was no new non-aircraft financing raised in 2023 (2022: nil).

Settlement of derivative financial instruments relates to settlements of foreign exchange instruments taken out to hedge long-term debt payments, including US dollar lease payments. The outflow in 2023 relates to the weakening of the US dollar versus the euro and pound sterling. In 2022, the significant inflow related to the strengthening of the US dollar versus the euro and pound sterling.

The Acquisition of treasury shares and other financing movements includes the purchase of 27 million shares in 2023 related to the Group's intended acquisition of the remaining shares in Air Europa Holdings, as part of the consideration is required to be delivered as IAG shares, together with 15 million shares related to employee incentive schemes. In 2022, 15 million shares were purchased related to employee incentive schemes.

STRATEGIC FRAMEWORK

IAG's purpose is to connect people, businesses and countries, and we hold innovation, commitment, care for people, responsibility, pragmatism, execution, ambition and resilience as key values that enable us to fulfil our purpose.

We create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society – knowing that success in each reinforces the others.

IAG, as the parent company, actively engages and works collaboratively with its portfolio of operating companies, sharing best practices and talent, overseeing intra-Group coordination and managing central functions that drive synergies and value to the Group. Its independence from the operating companies enables IAG to implement a long-term strategy for the Group that is aligned with our purpose and values, as well as set performance targets for the operating companies, track their progress and efficiently allocate capital within the Group.

IAG's three strategic imperatives are:

- Strengthening our core;
- Driving earnings growth through asset-light businesses; and
- Operating under a strengthened financial and sustainability framework.

These imperatives are achieved through a series of strategic priorities:

- Growing our portfolio of global leadership positions and strengthening our portfolio of world-class brands and operations;
- Developing IAG Loyalty and leveraging our strategic airline partnerships; and
- Managing our balance sheet, allocating capital in a disciplined manner, and being an industry leader in sustainability.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has continued to maintain its framework and processes to identify, assess and manage risks. Throughout 2023, the Group has monitored the evolution of the risk landscape, as a result of internal and external changes, particularly considering how risks combine to create increased threats, and re-assessing the potential severity and likelihood of risks accordingly. In assessing its principal risks, the Group has considered Its operational resilience across its businesses, the status of the financial markets, customer mix changes, geopolitical and economic risk and government changes, including upcoming elections, pace of transformation, Artificial Intelligence (AI) adoption, the Group's industrial relations landscape, people engagement, and securing talent and expertise to support operations and deliver cultural change.

No new principal risks were identified through the risk discussions and assessments across the business and the principal risks and uncertainties affecting the Group, detailed in the Risk management and principal risk factors section of the 2022 Annual report and accounts, remain relevant at the date of this report. However, the profile of certain risks has changed. The Group's exposure and ability to directly manage the external risk environment, particularly for aircraft deliveries, engine and component availability remains a challenge, given the fundamental weaknesses in the resilience of the aviation sector's supply chain. Other external threats which remain heightened include: the impact of inflation and interest rates on demand and customer confidence; higher costs in the supply chain; ongoing geopolitical tensions and conflict in various regions impacting our customer and flight operations as well as creating further airspace disruptions; air traffic control (ATC) resilience issues and industrial unrest impacting operations; and policy measures taken by governments to address the economic environment or policy proposals that could impact the Group's airlines' ability to set capacity and/or pricing. One risk has been reconsidered as part of the reviews and has been reframed as 'Transformation, innovation and AI' from 'Transformation and change' to recognise how the Group's change agenda is underpinned by investment which will leverage innovation and AI tools to accelerate the delivery of customer-centric, efficient processes and tools to run our businesses. The risk around 'Critical third parties in the supply chain' is now assessed under Business and Operational risk given the nature of the potential impacts facing the Group (having previously been categorised as a Strategic risk). Management remains focused on mitigating risks at all levels in the business and investing to increase resilience.

The Board reviews and challenges management on the risk landscape and its management in the light of changes that influence the Group and the aviation industry. Where further action has been required, the Board has considered potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks or retain them within the Board's determined Group risk appetite. In addition, the Board and its sub committees have been appraised of regulatory, competitor and governmental responses on an ongoing basis.

From the risks identified in the 2022 Annual report and accounts, given the current environment, the main risks that continue to be a key area of focus, due to their potential implications for the Group and management's responses, are outlined below.

- *Brand and customer trust*. Operational resilience and customer satisfaction underpin customer trust. Reliability, including on-time performance, service and product delivery, are key elements of brand value and of each customer's experience. The Group continues to improve its disruption management capabilities given the extent of external disruption due to ATC and third-party resilience issues, particularly over engine reliability. All of the Group's airlines continue to support their customers through any disruption including schedule adaptions where required. Investment in cabin and service propositions helps ensure that our customers choose to fly with the Group's airlines.
- *Critical third parties in the supply chain*. The aviation sector continues to be affected by global supply chain disruption which has impacted aircraft deliveries, engine and component availability and reliability, resource availability and/or threat of employee industrial action in critical third parties and airport services, the level of resilience of airports, particularly London Heathrow, and ATC capability and restrictions. The Group proactively assesses its schedules for operability and continues to work with all critical suppliers to understand any potential disruption within their supply chains from either a shortage of available resource, strike action or production delays which could impact the availability of new fleet, engines or critical goods or services. Delays in new aircraft, technical performance issues requiring additional maintenance and spare engine availability continue to impact operations and increase turnaround times for aircraft.
- *Cyber attack and data security*. The threat of ransomware attacks on critical infrastructure and services remains high with the Group exposed to threat actors targeting both the Group's operating companies and its suppliers. The Group continues to improve its cyber security posture either through major IT transformational change or additional monitoring through tools as well as better understanding the risk presented by its suppliers.

- *Economic, political and regulatory environment*. The economic impact of geopolitical events, increases in commodity and wage costs from inflation and higher interest rates drive continued significant uncertainty over the economic outlook. The Group is closely reviewing the impacts of wage and supplier inflation on margins and customer demand. Ongoing conflicts, wars and heightened tensions globally further increase airspace restrictions and congestion for flows to Asia. Wider macroeconomic trends are being monitored, with consideration to changes in government in key markets and the implications for trade, respective economic health and how governments view the aviation industry. Recent European governments' proposals to set floor or ceiling caps on pricing, including the scope of ancillaries that airlines may be allowed to charge their customers for, may impact the ability to freely set pricing, sell ancillaries to meet customer needs and/or set capacity.
- *IT systems and IT infrastructure*. The Group is reliant upon the resilience of its systems for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. The Group continues with major programmes and upgrades to modernise, including new commercial capabilities and customer-centric enhancements using agile based models, as well as replacing core IT infrastructure and improving network connectivity and redundancy. Mitigating actions that prioritise operational stability and resilience have been built into all cutover plans for the go-live of IT systems related changes.
- *Operational resilience*. Ongoing labour shortages, industrial unrest and strike action in the aviation sector, shortages in the supply chain and airspace and ATC restrictions can all impact the operational environment and customers of the Group's airlines and increase the costs of running operations. The Group continues with its ambitious IT infrastructure transformation agenda to modernise and digitalise its IT estates. The Group is focused on minimising any unplanned outages or disruption to customers with additional resilience built into the airlines' networks.
- *People, culture and employee relations*. Our people, their engagement and cultural appetite and mindset for change are critical to the Group's current performance and future success. Our leadership recognises the efforts of our staff and their commitment through the continued operational challenges facing our airlines. Our businesses continue to build the knowledge and experience of their new starters and manage the cultural impacts of onboarding at scale to ensure they have the right capabilities to operate. Shortages of technical licensed staff across the aviation sector and in the Group's airlines combined with aircraft, engines and component shortages are significantly impacting maintenance delivery timelines. The Group is investing in apprenticeship programmes and retention initiatives to help secure and train engineers. Across the Group, collective bargaining is in place with various unions. Where agreements are open or there is a threat of, or actual strike action, our operating companies continue to engage in discussions with unions to secure sustainable agreements and address concerns arising within the negotiations. In September AENA announced the result of its competitive tender for ground handling licences at airports across Spain, which resulted in the loss of key airports to another provider, with the ground handling unions for Iberia taking strike action in January 2024. Iberia plans to create a new handling company, which will provide handling services and all airport staff affected by the AENA decision will be moved to the new company, with a new sector collective bargaining agreement and conditions for existing Iberia employees.
- *Sustainable aviation*. Plans implemented by the EU, UK and US governments to decarbonise aviation have resulted in fragmentation of policy measures and support offered by governments for green initiatives across the different regions in which the Group airlines operate. Sustainable Aviation Fuel (SAF) infrastructure and availability lags demand, impacting the ability to achieve the aviation sector's carbon reduction commitments.

The Board and its sub committees have been apprised of regulatory, competitor and governmental responses on an ongoing basis.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Full year Unaudited Consolidated Financial Statements
1 January 2023 – 31 December 2023

CONSOLIDATED INCOME STATEMENT

€ million	Note	Year to 31 December 2023	2022[1]
Passenger revenue		**25,810**	19,458
Cargo revenue		**1,156**	1,615
Other revenue	5	**2,487**	1,993
Total revenue	5	**29,453**	23,066
Employee costs	8	**5,423**	4,647
Fuel, oil costs and emissions charges		**7,557**	6,120
Handling, catering and other operating costs		**3,849**	2,971
Landing fees and en-route charges		**2,308**	1,890
Engineering and other aircraft costs		**2,509**	2,101
Property, IT and other costs	6	**1,058**	950
Selling costs		**1,155**	920
Depreciation, amortisation and impairment	6	**2,063**	2,070
Net gain on sale of property, plant and equipment[1]		**(2)**	(22)
Currency differences		**26**	141
Total expenditure on operations		**25,946**	21,788
Operating profit		**3,507**	1,278
Finance costs	9	**(1,113)**	(1,017)
Finance income	9	**386**	52
Net change in fair value of financial instruments	9	**(11)**	81
Net financing credit relating to pensions	9	**103**	26
Net currency retranslation credits/(charges)		**176**	(115)
Other non-operating credits[1]	9	**8**	110
Total net non-operating costs		**(451)**	(863)
Profit before tax		**3,056**	415
Tax	10	**(401)**	16
Profit after tax for the year		**2,655**	431
Attributable to:			
Equity holders of the parent		**2,655**	431
Non-controlling interest		**–**	–
		2,655	431
Basic earnings per share (€ cents)	11	**53.8**	8.7
Diluted earnings per share (€ cents)	11	**50.6**	6.1

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment. There is no impact on the Profit after tax. Further information is given in note 2.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to 31 December 2023	2022[1]
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity[1]	30d	**(195)**	1,472
Reclassified and reported in net profit	30d	**(142)**	(1,233)
Fair value movements on cost of hedging[1]		**(120)**	(115)
Cost of hedging reclassified and reported in net profit		**82**	38
Currency translation differences	33	**18**	(53)
Items that will not be reclassified to net profit			
Fair value movements on other equity investments	19	**127**	2
Fair value movements on liabilities attributable to credit risk changes		**(119)**	(6)
Remeasurements of post-employment benefit obligations		**(1,076)**	662
Remeasurements of long-term employee-related provisions		**(18)**	52
Total other comprehensive (loss)/income for the year, net of tax		**(1,443)**	819
Profit after tax for the year		**2,655**	431
Total comprehensive income for the year		**1,212**	1,250
Total comprehensive income is attributable to:			
Equity holders of the parent		**1,212**	1,250
Non-controlling interest	33	**-**	-
		1,212	1,250

1 The 2022 results include a reclassification of losses and gains associated with the fair value movements on cash flow hedges and fair value movements on cost of hedging, respectively. There is no impact on Total other comprehensive (loss)/income for the year, net of tax. Further information is given in note 2.

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

CONSOLIDATED BALANCE SHEET

€ million	Note	31 December 2023	31 December 2022
Non-current assets			
Property, plant and equipment	13	**19,776**	18,346
Intangible assets	17	**3,909**	3,556
Investments accounted for using the equity method	18	**47**	43
Other equity investments	19	**188**	55
Employee benefit assets	34	**1,380**	2,334
Derivative financial instruments	30	**42**	81
Deferred tax assets	10	**1,202**	1,282
Other non-current assets	20	**432**	362
		26,976	26,059
Current assets			
Non-current assets held for sale	16	**–**	19
Inventories	21	**494**	353
Trade receivables	20	**1,559**	1,330
Other current assets	20	**1,574**	1,226
Current tax receivable	10	**159**	72
Derivative financial instruments	30	**81**	645
Current interest-bearing deposits	22	**1,396**	403
Cash and cash equivalents	22	**5,441**	9,196
		10,704	13,244
Total assets		**37,680**	39,303
Shareholders' equity			
Issued share capital	31	**497**	497
Share premium	31	**7,770**	7,770
Treasury shares		**(100)**	(28)
Other reserves		**(4,895)**	(6,223)
Total shareholders' equity		**3,272**	2,016
Non-controlling interest	33	**6**	6
Total equity		**3,278**	2,022
Non-current liabilities			
Borrowings	26	**13,831**	17,141
Employee benefit obligations	34	**175**	217
Deferred tax liability	10	**4**	–
Provisions	27	**2,831**	2,652
Deferred revenue	24	**257**	326
Derivative financial instruments	30	**106**	84
Other long-term liabilities	25	**219**	200
		17,423	20,620
Current liabilities			
Borrowings	26	**2,251**	2,843
Trade and other payables	23	**5,590**	5,209
Deferred revenue	24	**7,766**	7,318
Derivative financial instruments	30	**461**	387
Current tax payable	10	**2**	8
Provisions	27	**909**	896
		16,979	16,661
Total liabilities		**34,402**	37,281
Total equity and liabilities		**37,680**	39,303

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to 31 December 2023	2022[1]
Cash flows from operating activities			
Operating profit		**3,507**	1,278
Depreciation, amortisation and impairment	6	**2,063**	2,070
Net gain on disposal of property, plant and equipment		**(2)**	(22)
Employer contributions to pension schemes		**(48)**	(22)
Pension scheme service costs	34	**18**	17
Increase in provisions	35	**237**	463
Unrealised currency differences		**51**	19
Other movements	35	**111**	76
Interest paid		**(1,005)**	(817)
Interest received		**365**	42
Tax paid		**(291)**	(134)
Net cash flows from operating activities before movements in working capital		**5,006**	2,970
Increase in trade receivables		**(272)**	(660)
Increase in inventories		**(140)**	(21)
Increase in other receivables and current assets		**(388)**	(233)
Increase in trade payables		**258**	886
Increase in deferred revenue		**212**	1,236
Increase in other payables and current liabilities		**188**	676
Net movement in working capital		**(142)**	1,884
Net cash flows from operating activities		**4,864**	4,854
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	35	**(3,544)**	(3,875)
Sale of property, plant and equipment and intangible assets		**1,080**	837
Proceeds from sale of investments		**11**	–
Increase in other current interest-bearing deposits		**(985)**	(351)
Payment to Globalia for convertible loan		**–**	(100)
Other investing movements		**15**	26
Net cash flows from investing activities		**(3,423)**	(3,463)
Cash flows from financing activities			
Proceeds from borrowings	35	**1,001**	1,436
Repayment of borrowings	35	**(4,268)**	(1,050)
Repayment of lease liabilities	35	**(1,731)**	(1,455)
Settlement of derivative financial instruments	35	**(119)**	1,036
Acquisition of treasury shares		**(77)**	(23)
Net cash flows from financing activities		**(5,194)**	(56)
Net (decrease)/increase in cash and cash equivalents		**(3,753)**	1,335
Net foreign exchange differences		**(2)**	(31)
Cash and cash equivalents at 1 January		**9,196**	7,892
Cash and cash equivalents at year end	22	**5,441**	9,196

Reconciliation to Total cash, cash equivalents and other interest-bearing deposits		**2023**	2022
Cash and cash equivalents at year end	22	**5,441**	9,196
Interest-bearing deposits maturing after more than three months	22	**1,396**	403
Cash, cash equivalents and other interest-bearing deposits	22	**6,837**	9,599

1 The 2022 results include reclassifications to conform with the current year presentation. Further information is given in note 2 and note 37.

For details on restricted cash balances see note 22 Cash, cash equivalents and other current interest-bearing deposits.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to 31 December 2023

€ million	Issued share capital (note 31)	Share premium (note 31)	Treasury shares (note 31)	Other reserves (note 33)	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 33)	**Total equity**
1 January 2023	497	7,770	(28)	(1,717)	(4,506)	**2,016**	6	**2,022**
Profit for the year	–	–	–	–	2,655	**2,655**	–	**2,655**
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Fuel and oil costs	–	–	–	(81)	–	**(81)**	–	**(81)**
Currency differences	–	–	–	(20)	–	**(20)**	–	**(20)**
Finance costs	–	–	–	(35)	–	**(35)**	–	**(35)**
Ineffectiveness recognised in other non-operating costs	–	–	–	(6)	–	**(6)**	–	**(6)**
Net change in fair value of cash flow hedges	–	–	–	(195)	–	**(195)**	–	**(195)**
Net change in fair value of equity investments	–	–	–	127	–	**127**	–	**127**
Net change in fair value of cost of hedging	–	–	–	(120)	–	**(120)**	–	**(120)**
Cost of hedging reclassified and reported in net profit	–	–	–	82	–	**82**	–	**82**
Fair value movements on liabilities attributable to credit risk changes	–	–	–	(119)	–	**(119)**	–	**(119)**
Currency translation differences	–	–	–	18	–	**18**	–	**18**
Remeasurements of post-employment benefit obligations	–	–	–	–	(1,076)	**(1,076)**	–	**(1,076)**
Remeasurements of long-term employee-related provisions	–	–	–	–	(18)	**(18)**	–	**(18)**
Total comprehensive income for the year	–	–	–	(349)	1,561	**1,212**	–	**1,212**
Hedges transferred and reported in property, plant and equipment	–	–	–	(6)	–	**(6)**	–	**(6)**
Hedges transferred and reported in sales in advance of carriage	–	–	–	85	–	**85**	–	**85**
Hedges transferred and reported in inventory	–	–	–	(9)	–	**(9)**	–	**(9)**
Cost of share-based payments	–	–	–	–	52	**52**	–	**52**
Vesting of share-based payment schemes	–	–	5	–	(6)	**(1)**	–	**(1)**
Acquisition of treasury shares	–	–	(77)	–	–	**(77)**	–	**(77)**
31 December 2023	**497**	**7,770**	**(100)**	**(1,996)**	**(2,899)**	**3,272**	**6**	**3,278**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to 31 December 2022

€ million	Issued share capital (note 31)	Share premium (note 31)	Treasury shares (note 31)	Other reserves (note 33)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 33)	Total equity
1 January 2022	497	7,770	(24)	(1,673)	(5,730)	840	6	846
Profit for the year	–	–	–	–	431	431	–	431
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Fuel and oil costs	–	–	–	(1,115)	–	(1,115)	–	(1,115)
Currency differences	–	–	–	(90)	–	(90)	–	(90)
Finance costs	–	–	–	10	–	10	–	10
Discontinuance of hedge accounting	–	–	–	(22)	–	(22)	–	(22)
Ineffectiveness recognised in other non-operating costs	–	–	–	(16)	–	(16)	–	(16)
Net change in fair value of cash flow hedges	–	–	–	1,472	–	1,472	–	1,472
Net change in fair value of equity investments	–	–	–	2	–	2	–	2
Net change in fair value of cost of hedging	–	–	–	(115)	–	(115)	–	(115)
Cost of hedging reclassified and reported in net profit	–	–	–	38	–	38	–	38
Fair value movements on liabilities attributable to credit risk changes	–	–	–	(6)	–	(6)	–	(6)
Currency translation differences	–	–	–	(53)	–	(53)	–	(53)
Remeasurements of post-employment benefit obligations	–	–	–	–	662	662	–	662
Remeasurements of long-term employee-related provisions	–	–	–	–	52	52	–	52
Total comprehensive income for the year	–	–	–	105	1,145	1,250	–	1,250
Hedges transferred and reported in property, plant and equipment	–	–	–	(65)	–	(65)	–	(65)
Hedges transferred and reported in sales in advance of carriage	–	–	–	36	–	36	–	36
Hedges transferred and reported in inventory	–	–	–	(58)	–	(58)	–	(58)
Cost of share-based payments	–	–	–	–	39	39	–	39
Vesting of share-based payment schemes	–	–	19	–	(22)	(3)	–	(3)
Acquisition of treasury shares	–	–	(23)	–	–	(23)	–	(23)
Redemption of convertible bond	–	–	–	(62)	62	–	–	–
31 December 2022	497	7,770	(28)	(1,717)	(4,506)	2,016	6	2,022

1 Background and general information

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 (hereinafter the 'Company') is a Spanish company registered in Madrid and was incorporated on 17 December 2009. The registered address of IAG is El Caserío, Zona industrial 2, Camino de La Muñoza s/n, 28042, Madrid, Spain. On 21 January 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 26 April 2013, and Aer Lingus Group Plc ('Aer Lingus') on 18 August 2015. A list of the subsidiaries of the Group is included in the Group investments section.

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*).

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements herein are not the Group's statutory accounts and are unaudited. The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including employee benefit assets and liabilities, the €825 million convertible bond due 2028, derivative financial instruments and other equity investments that are measured at fair value. The notes to the financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

The Group's financial statements for the year to 31 December 2023 were authorised for issue, and approved by the Board of Directors on 28 February 2024.

Change in presentation of results

Income statement – Net gain on sale of property, plant and equipment
The prior year Income statement includes a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment within Operating profit. Accordingly, for the year to 31 December 2022, the Group has reclassified €22 million of gains from Other non-operating credits to Net gain on sale of property, plant and equipment within Expenditure on operations. There is no impact on the Profit after tax. The segmental operating profit/(loss) has been updated to reflect the reclassification.

Statement of other comprehensive income
The prior year Statement of other comprehensive income includes a reclassification of €173 million of gains associated with the fair value movements on cash flow hedges and €9 million of losses associated with the fair value movements on cost of hedging, which had been previously presented under the sub-heading Items that will not be reclassified to net profit, to the sub-heading Items that may be reclassified subsequently to net profit, as these may recycle to net profit in future periods. There is no impact on Total other comprehensive (loss)/income for the year, net of tax.

Cash flow statement
The prior year Cash flow statement has been represented and further detailed in note 37. Accordingly, the Group has reclassified the results for the year to 31 December 2022.

Going concern

At 31 December 2023, the Group had total liquidity of €11,624 million (31 December 2022: total liquidity of €13,999 million), comprising cash, cash equivalents and interest-bearing deposits of €6,837 million, €4,412 million of committed and undrawn general facilities and a further €375 million of committed and undrawn aircraft specific facilities. At 31 December 2023, the Group has no financial covenants associated with its loans and borrowings.

The decrease in liquidity during the year to 31 December 2023 was attributable to, amongst other actions: (i) the repayment of borrowings of €4,268 million, which consisted of, amongst others, the €2,330 million (£2.0 billion) early repayment of the UK Export Finance (UKEF) Credit Facility, the €867 million of early repayment of the syndicated financing agreement, partially guaranteed by *Instituto de Crédito Oficial* (ICO) in Spain and the €500 million redemption of the senior unsecured bond at maturity; (ii) securing an additional five-year Export Development Guarantee Facility of €1,159 million (£1.0 billion), offset by a reduction in aircraft specific facilities of €741 million; and (iii) offset by strong operational cash flow generation.

In its assessment of going concern, the Group has modelled two scenarios referred to below as the Base Case and the Downside Case over the period of at least 12 months from the date of the approval of these consolidated financial statements (the 'going concern period'). The Group's three-year business plan, used in the creation of the Base Case, was prepared for and approved by the Board in December 2023. The business plan takes into account the Board's and management's views on capacity, based on the potential impact of the wider economic and geopolitical environments on the Group's businesses across the going concern period. The key inputs and assumptions underlying the Base Case through to 31 March 2025, include:

- capacity recovery modelled by geographical region with total capacity to remain above the levels obtained in 2023 throughout the going concern period;
- passenger unit revenue per ASK is forecast to remain above the levels obtained in 2023 throughout the going concern period;

- the Group has assumed that the committed and undrawn general facilities of €4,412 million will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €3,843 million being available to the Group at 31 March 2025;
- the Group has assumed that the undrawn aircraft facilities of €375 million, relating to specific financing structures, will be utilised over the going concern period;
- the Group has assumed that the €500 million bond that matures in March 2025 will not be refinanced;
- of the capital commitments detailed in note 15, €3,207 million is due to be paid over the period to 31 March 2025;
- while the Group does not expect to finance all expected deliveries over the going concern period, for those it does expect to finance, it has forecast securing between 90 and 100 per cent depending on aircraft type, or €2,235 million, of the aircraft financing that is currently uncommitted, to align with the timing and payments for those aircraft deliveries it expects to finance, including aircraft delivered in 2023 that had not had their financing secured at the reporting date; and
- the Group has assumed that the relevant approvals required in relation to the acquisition of the remaining 80 per cent of the share capital of Air Europa Holdings that it does not currently own are obtained by the end of the going concern period, and that cash outflows of €149 million will be incurred, comprising €100 million of the cash consideration and €49 million for the purchase of ordinary shares in the Company that have not already been purchased at the balance sheet date. The deferred consideration of €100 million to be paid on the first anniversary and the €100 million to be paid on the second anniversary of the completion of the acquisition are assumed to occur outside of the going concern period and accordingly not included in these forecasts.

The Downside Case applies stress to the Base Case to model adverse commercial and operational impacts over the going concern period, represented by: reduced levels of capacity operated in each month, including reductions of 25 per cent for three months over the going concern period; reduced passenger unit revenue per available seat kilometre (ASK); increases in the price of jet fuel by 20 per cent above that assumed in the Base Case; and increased operational costs. In the Downside Case, over the going concern period capacity would be 10 per cent down when compared to the Base Case. The Downside Case assumes that British Airways would be required to draw down, in full, its portion of the available US dollar Revolving Credit Facility (further information given in notes 3 and 29f). The Downside Case also assumes that upon completion of the Air Europa Holdings acquisition, a further €200 million of working capital needs are funded by the Group. The Directors consider the Downside Case to be a severe but plausible scenario.

Having reviewed the Base Case and the Downside Case, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for a period of at least 12 months from the date of approval of these consolidated financial statements and hence continue to adopt the going concern basis in preparing the consolidated financial statements at 31 December 2023.

Consolidation

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

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the Consolidated balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, as at the acquisition date the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intragroup account balances, including intragroup profits, are eliminated in preparing the consolidated financial statements.

Unconsolidated structured entities

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. In certain instances, the Group will undertake several such sale and leaseback transactions at once through Enhanced Equipment Trust Certificates (EETCs). Under each of these financing structures, a company or companies (the EETC Issuer) are established to facilitate such financing on behalf of a number of unrelated investors. In certain of these financing structures, additional special purpose vehicles (the Lessor SPV) are established to provide additional financing from a number of further unrelated investors to the EETC Issuer. The proceeds from the issuance of the EETCs by the EETC Issuer, and where relevant the proceeds obtained from the Lessor SPV, are then used to purchase aircraft solely from the Group. The Group will then enter into fixed rate lease arrangements (which meet the recognition criteria of Asset financed liabilities) with the EETC Issuer, or where relevant the Lessor SPV, with payments made by the Group to the EETC Issuer, or the Lessor SPV, distributed, through a trust, to the aforementioned unrelated investors. The main purpose of the trust structure is to enhance the credit-worthiness of the Group's debt obligations through certain bankruptcy protection provisions and liquidity facilities, and also to lower the Group's total borrowing cost.

The EETC Issuer and the Lessor SPV are established solely with the purpose of providing the asset-backed financing and upon maturity of such financing are expected to have no further activity. The relevant activities of the EETC Issuer and the Lessor SPV are restricted to pre-established financing agreements and the retention of the title of the associated financed aircraft. Accordingly, the Group has determined that each EETC Issuer and the Lessor SPVs are structured entities. Under the contractual terms of the financing structures, the Group has no exposure to losses in these entities, does not own any of the share capital of the EETC Issuer or the Lessor SPV, does not have any representation on the respective boards and has no ability to influence decision-making.

In addition to the above, such financial transactions expose the Group to no further significant financial or economic risks, such as no variability over time in interest rates.

In considering the aforementioned facts, management has concluded that the Group does not have access to variable returns from the EETC Issuers and Lessor SPVs because its involvement is limited to the payment of principal and interest under the arrangement and, therefore, it does not control the EETC Issuers or the Lessor SPVs and as such does not consolidate them.

Further information as to the financial impact of these financial transactions is given in note 26.

Segmental reporting

Operating segments are reported in a manner consistent with how resource allocation decisions are made by the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the IAG Management Committee.

Foreign currency translation

a Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. In particular, British Airways and IAG Loyalty have a functional currency of pound sterling. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within Net currency retranslation credits/(charges) in the Income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

c Group companies

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

Property, plant and equipment

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

a Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits and pre-delivery instalment payments (referred to as progress payments). Fleet assets owned or right of use ('ROU') assets are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and up to 5 per cent residual value for short-haul aircraft and between 23 and 29 years (depending on aircraft) and up to 5 per cent residual value for long-haul aircraft.

Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rates. Where the lease includes a purchase option, at the discretion of the Group, where it is expected that the purchase option will be exercised, the associated right of use asset is depreciated using the aforementioned depreciation rates to reflect the reasonably certain life of the aircraft, irrespective of the lease term.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of 12 years and the remaining economic life of the aircraft, whether owned or leased.

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

b Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from four to 20 years.

c Capitalisation of interest on progress payments

Interest costs attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned. All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

d Liquidated damages

Certain of the Group's contractual arrangements with aircraft and engine manufacturers contain liquidated damage clauses, whereby if the supplier breaches one or more contractual clauses (such as delays in the timing of delivery of an aircraft or engine) then damages are payable to the Group. Liquidated damages are recognised in the Income statement only to the extent that they relate to compensation for loss of income and/or incremental operating costs, when a contractual entitlement exists, the amounts can be reliably measured and the receipt is virtually certain. When liquidated damages do not relate to compensation for loss of income and/or incremental operating costs, the amounts are recorded as a reduction in the cost of the associated aircraft in the Balance sheet and depreciated over the life of the aircraft.

When compensation, not related to the loss of income and/or incremental operating costs, is received in advance of the associated delivery of the aircraft and/or engine, the Group recognises the amount within Other creditors until such time as the aircraft and/or engine is delivered, at which time the amounts are transferred and recorded as a reduction in the cost of the associated asset. Such compensation is recorded in the Cash flow statement within cash flows from investing activities under the caption of Acquisition of property, plant and equipment and intangible assets.

e Leases

The Group leases various aircraft, properties, equipment and other assets. The lease terms of these assets are consistent with the determined useful economic life of similar assets within property, plant and equipment.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified tangible asset for a period in exchange for consideration. The Group has elected not to apply such consideration where the contract relates to an intangible asset, such as for landing rights or IT software, in which case payments associated with the contract are expensed as incurred.

Leases are recognised as a ROU asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

Right of use assets

At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; and any initial direct costs. In addition, at the lease commencement date a ROU asset will incorporate unavoidable restoration costs, such as the removal of airline-specific branding and configuration, to return the asset to its original condition, for which a corresponding amount is recognised within Provisions. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable; variable lease payments that are based on an index or a rate; amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and payments to be made under reasonably certain extension options.

Aircraft lease payments are discounted using the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor. For aircraft leases these inputs are either observable in the contract or readily available from external market data. The initial direct costs of the lessor are considered to be immaterial. If the interest rate implicit in the lease cannot be determined, the Group entity's incremental borrowing rate is used.

Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the Income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The carrying amount of lease liabilities is remeasured if there is a modification of the lease contract, a re-assessment of the lease term (specifically in regard to assumptions regarding extension and termination options) and changes in variable lease payments that are based on an index or a rate.

Amounts excluded from recognition as lease liabilities

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and those leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Income statement. Short-term leases are leases with a lease term of 12 months or less, that do not contain a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is re-assessed and adjusted against the ROU asset. Extension options are included in a number of aircraft, property and equipment leases across the Group and are reflected in the lease payments where the Group is reasonably certain that it will exercise the option. Such variable lease payments are expensed to the Income statement as incurred.

Sale and leaseback transactions

The Group regularly uses sale and lease transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. The principal criterion for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred; and if no such repurchase option exists, then a sale is deemed to have occurred. The following defines the accounting for such transactions:

- if a sale is determined to have occurred, then the associated asset is de-recognised and a ROU asset and lease liability are recognised. The ROU asset recognised is based on the proportion of the previous carrying amount of the asset that is retained. Any gain or loss is restricted to the amount that relates to the rights that have been transferred to the counterparty to the transaction; and
- where a sale is determined to have not occurred, the asset is retained on the Balance sheet within Property, plant and equipment and an Asset financed liability recognised equal to the financing proceeds.

Cash flow presentation – lease liabilities

Lease payments are presented as follows in the Consolidated cash flow statement:

- where the proceeds received from sale and leaseback transactions represent the fair value of the asset being transferred, the total proceeds are presented within cash flows from investing activities. Where the proceeds received from sale and leaseback transactions exceed the fair value of the asset being transferred, the element of the proceeds equivalent to the fair value of the asset being transferred is presented within investing activities and the amount of proceeds in excess of the fair value is presented within financing activities;
- the repayments of the principal element of lease liabilities are presented within cash flows from financing activities;
- the payments of the interest element of lease liabilities are included within cash flows from operating activities; and
- the payments arising from variable elements of a lease, short-term leases and low-value assets are presented within cash flows from operating activities.

Cash flow presentation – asset financed liabilities

Payments associated with asset financed liabilities are presented as follows in the Consolidated cash flow statement:

- the proceeds received from asset financed liabilities are presented within cash flows from financing activities;
- the repayments of the principal element of asset financed liabilities are presented within cash flows from financing activities; and
- the payments of the interest element of asset financed liabilities are included within cash flows from operating activities.

Lessor accounting

From time to time the Group will lease, to third parties, specific assets, including certain property, plant and equipment. On inception of the lease, the Group determines whether each lease is a finance lease or an operating lease.

In order to make this determination, the Group assesses whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. Factors in making this assessment include, but are not limited to, whether the lease term is for the major part of the economic life of the underlying asset and whether the underlying asset transfers to the lessee or the lessee has the option to purchase the underlying asset at the end of the lease. Where substantially all of the risks and rewards of ownership have been transferred, then the lease is recorded as a finance lease, otherwise it is recorded as an operating lease.

f Maintenance, repairs and overhaul

Owned aircraft

Major overhaul expenditure, including replacement spares and labour costs for airframes and engines, is capitalised and amortised over the expected life between major overhauls or to the end of the useful life of the asset.

All other replacement spares and other costs relating to maintenance of owned fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

Leased aircraft

The Group records a provision for major maintenance and overhaul events, including for airframes and engines, that occur through usage or through the passage of time that is recognised as such activity occurs through to the next maintenance event, with a corresponding expense recorded in the Income statement. Any subsequent changes in estimation are recognised in the Income statement. When the maintenance and/or overhaul event occurs, the associated provision is de-recognised.

Restoration and handback obligations that arise on the inception of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any subsequent change in estimation relating to such costs are reflected in the ROU asset.

All other replacement spares and other costs relating to maintenance of leased fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

Intangible assets

a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purpose of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

c Customer loyalty programmes

Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Established customer loyalty programmes that are expected to be used indefinitely are not amortised but assessed annually for impairment.

d Landing rights

Landing rights acquired in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost.

Capitalised landing rights based outside of the UK and the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the UK and the EU are not amortised, as regulations provide that these landing rights are perpetual.

e Contract-based intangibles

Contract-based intangibles acquired in a business combination are recognised initially at fair value at the acquisition date and amortised over the remaining life of the contract.

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to ten years.

In certain instances, the Group enters into cloud computing arrangements with third-party providers, such as software as a service (SaaS), where the Group is provided the right to access and use the application software over the contract term. At inception of the contract, the Group will assess whether such an arrangement gives rise to the recognition of a software intangible asset.

Where the Group determines that no software intangible asset should be recognised, the cloud computing arrangement is determined to be a service contract and the associated fees paid are expensed as incurred. In addition, the costs incurred for both the customisation and configuration of the application software are generally expensed as incurred.

g Emissions allowances

Where an operating company purchases emissions allowances these amounts are recognised at cost and recorded within Intangible assets. As an operating company emits CO_2 equivalent and builds up an obligation to the relevant authorities, a provision is recognised.

Emissions allowances recorded within Intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. For those obligations arising for which the operating company has purchased emission allowances to offset the emissions, the provision is recognised at the weighted average cost of the intangible asset. For those obligations arising for which the operating company has not yet purchased emission allowances to offset the emissions, the provision is recognised at the market price of the allowances required at the reporting date. As the provision is recognised, a corresponding amount is recorded in the Income statement within Fuel, oil costs and emission charges.

The Group's emissions obligation, recognised as a separate liability, is extinguished when the associated emission certificates are surrendered, which is typically within 12 months of the reporting date.

From time to time the Group enters into sale and repurchase transactions for specified emission allowances. Such transactions do not meet the recognition criteria of a sale under IFRS 15 and accordingly the asset is retained on the Balance sheet within Intangible assets and an Other financing liability recognised equal to the proceeds received.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

a Property, plant and equipment, including Right of use assets

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

b Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised. Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments in associates and joint ventures

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associate undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

Financial instruments

a Financial assets and liabilities

Financial assets and financial liabilities are classified, upon initial recognition, as measured at amortised cost, at fair value through other comprehensive income (OCI), or fair value through profit or loss. Financial assets and financial liabilities are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

The classification of financial assets and financial liabilities at initial recognition depends on the financial assets' and financial liabilities' contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset or financial liability to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. A financial asset or financial liability that is not SPPI is classified and measured at fair value through profit or loss. This assessment is performed on an instrument by instrument basis.

The Group's business model for managing financial assets and financial liabilities establishes how it manages its financial assets and financial liabilities in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets and financial liabilities classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets and financial liabilities classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Long-term borrowings

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

Convertible debt

Convertible bonds are classified as either compound financial instruments or hybrid financial instruments depending on the settlement alternatives upon redemption. Where the bondholders exercise their equity conversion options and the Group has no alternative other than to settle the convertible bonds into a fixed number of ordinary shares of the Company, then the bonds are classified as a compound financial instrument. Where the Group has an alternative settlement mechanism to the convertible bonds that permits settlement in cash, then the convertible instrument is classified as a hybrid financial instrument.

Convertible bonds that are classified as compound financial instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded on an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in the equity portion of the convertible bond in Other reserves and is not subsequently remeasured. The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

Convertible bonds that are classified as hybrid financial instruments consist only of a liability component recognised within Borrowings. At the date of issue, the entirety of the convertible bonds is accounted for at fair value with subsequent fair value gains or losses recorded within Borrowings. The fair value of such financial instruments is obtained from their respective quoted prices in active markets, with the portion of the change in fair value attributable to changes in the credit risk of the convertible bonds recognised in Other comprehensive income and the portion of the change in fair value attributable to market conditions recognised in the Income statement within Finance costs.

Issue costs associated with compound financial instruments are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity. Issue costs associated with hybrid financial instruments are expensed immediately to the Income statement.

Other equity investments

Other equity investments are non-derivative financial assets including listed and unlisted investments, excluding interests in associates and joint ventures. On initial recognition, these equity investments are irrevocably designated as measured at fair value through Other comprehensive income. They are subsequently measured at fair value, with changes in fair value recognised in Other comprehensive income with no recycling of these gains and losses to the Income statement when the investment is sold or a change in the structure of transaction changes its classification as an Other equity instrument. Dividends received on other equity investments are recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques.

Financial instruments held for trading

Financial instruments are classified as held for trading if they are incurred for the purpose of selling the associated asset in the near term and not having been purchased for operational purposes.

By entering into short-term forward sales contracts, the Group seeks to optimise capital allocation while minimising the associated economic risk.

Interest-bearing deposits

Interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are SPPI, and held in order to collect contractual cash flows, are carried at amortised cost using the effective interest method.

Impairment of financial assets

At each balance sheet date, the Group recognises provisions for expected credit losses on financial assets measured at amortised cost, based on either 12-month or lifetime losses depending on whether there has been a significant increase in credit risk since initial recognition. The simplified approach, based on the calculation and recognition of lifetime expected credit losses, is applied to contracts that have a maturity of one year or less, including trade receivables.

When determining whether there has been a significant increase in credit risk since initial recognition and when estimating the expected credit loss, the Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. Such forward-looking information takes into consideration the forecast economic conditions expected to impact the outstanding balances at the balance sheet date. A financial asset is written off when there is no reasonable expectation of recovery, such as the customer having filed for liquidation.

b Cash and cash equivalents

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

c Derivative and non-derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap derivatives, foreign exchange derivatives and fuel derivatives (including options, swaps and forward contracts) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. They are classified as financial instruments through the Income statement. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The time value of options is excluded from the designated hedging instrument and accounted for as a cost of hedging. Movements in the time value of options are recognised in Other comprehensive income until the underlying transaction affects the Income statement.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the spot component of the forward contract as the hedging instrument within a hedge relationship. The effective portion of gains or losses arising on the change in fair value of the spot component are recognised within Other comprehensive income in the Cash flow hedge reserve within equity. The forward component of a forward contract is not designated within a hedge relationship, with the associated gains and losses on the forward component recorded within Other comprehensive income in the Cost of hedging reserve within equity until the underlying transaction affects the Income statement.

To manage foreign exchange movements on foreign currency customer cash inflows (denominated in US dollars, euros and Japanese yen), certain non-derivative repayment instalments on foreign currency-denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. The effective portion of gains or losses arising from movements in foreign exchange rates are recognised within Other comprehensive income in the Cash flow hedge reserve within equity. Accumulated gains or losses within the cash flow hedge reserve are transferred to Sales in advance of carriage in the same period as the forecast transaction occurs or when hedge accounting is discontinued when the forecast transaction is no longer expected to occur, at which point amounts are immediately reclassified to the Income statement.

When a derivative is designated as a hedging instrument and that instrument expires, is sold or is restructured, if the initial forecast transaction is still expected to occur, any cumulative gain or loss remains in the cash flow hedge reserve until such time as the hedge item impacts the Income statement. Where there is a change in the risk management objective, then hedge accounting is discontinued and the associated cumulative gain or loss arising prior to the change in risk management objective remains in the cash flow hedge reserve until such time as the underlying hedged item impacts the Income statement had the risk management objective continued to have been met. Where a forecast transaction which was previously determined to be highly probable and for which hedge accounting applied, is no longer expected to occur, hedge accounting is discontinued and the cumulative gain or loss in the cash flow hedge reserve is immediately reclassified to the Income statement.

Each operating company enters into foreign currency derivative contracts, that are not designated in a hedge relationship, in order to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentational currency of each operating company, including but not limited to, lease liabilities. Movements in the fair value of such derivatives are recognised in the Income statement in the period in which they occur and are presented within Net currency retranslation charges.

Exchange gains and losses on monetary investments are taken to the Income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity.

d Cash flow hedges

Changes in the fair value of derivative financial instruments designated as in a cash flow hedge relationship of a highly probable expected future transaction are assessed for effectiveness and accordingly recorded in the Cash flow hedge reserve within equity.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: (i) there is 'an economic relationship' between the hedged item and the hedging instrument; (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and (iii) the hedge ratio is aligned with the requirements of the Group's risk management strategy and in all instances is maintained at a ratio of 1:1.

The Group assesses whether the derivative designated as the hedging instrument in a hedge relationship is expected to be on inception and at each reporting date effective in offsetting the changes in cash flows of the hedged item using the hypothetical derivative model.

Sources of ineffectiveness include the following:

- in hedges of fuel purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty;
- in hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty;
- in hedges of interest rate payments, ineffectiveness may arise if there are differences in the critical terms between the interest rate derivative instrument and the underlying hedged item, or if there are changes in the credit risk of the Group or the derivative counterparty; and
- in all hedges, ineffectiveness may arise if there are differences between the critical terms of the hedging instrument and the hypothetical derivative, such as where on inception of the hedge relationship the fair value of the hedging instrument is not zero.

Ineffectiveness is recorded within the Income statement as Realised/unrealised (losses)/gains on derivatives not qualifying for hedge accounting and presented within Other non-operating credits.

Reclassification and transfer adjustments

Gains and losses accumulated in the Cash flow hedge reserve within equity are either reclassified from the Cash flow hedge reserve when the hedged item affects the Income statement, or transferred from the Cash flow hedge reserve when the hedged item gives rise to recognition in the Balance sheet as follows:

- where the forecast hedged item results in the recognition of expenses within the Income statement (such as the purchase of jet fuel for which both fuel and the associated foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded in both the Cash flow hedge reserve and the Cost of hedging reserve are reclassified and included in the Income statement within the same caption as the hedged item is presented. Such reclassification occurs in the same period as the hedged item is recognised in the Income statement;
- where the forecast hedged item results in the recognition of a non-financial asset (such as the purchase of aircraft for which foreign currency derivatives are designated as the hedging instrument or where the purchase of jet fuel gives rise to the recognition of fuel inventory in storage facilities), or a non-financial liability (such as the sales in advance of carriage for which both foreign currency derivatives and non-financial derivative instruments are designated as the hedging instrument), the accumulated gains and losses recorded within both the Cash flow hedge reserve and the Cost of hedging reserve are transferred and included in the initial cost of the asset and liability, respectively. These gains or losses are recorded in the Income statement as the non-financial asset and the non-financial liability affects the Income statement (which for aircraft is through Depreciation, amortisation and impairment over the expected life of the aircraft, for fuel inventory through Fuel, oil costs and emission charges when it is consumed and for sales in advance of carriage through Passenger revenue when the flight is flown); and
- where the forecast hedged item results in the recognition of a financial asset or liability (such as variable rate debt for which interest rate swaps are designated as the hedging instrument), the accumulated gains and losses recorded within the Cash flow hedge reserve are reclassified to the Income statement to Interest expense within Finance costs at the same time as the interest income or expense arises on the hedged item.

Further information on the risk management activities of the Group is given in note 29.

e Fair value hedges

Changes in the fair value of derivative financial instruments designated in a fair value hedge relationship are recorded within the Income statement as Net change in the fair value associated with fair value hedges within Other non-operating credits. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the overall carrying amount of the hedged item and is recorded within the Income statement as Net change in the fair value associated with fair value hedges within Other non-operating credits.

For fair value hedges associated with financial liabilities measured at amortised cost, any adjustment to the carrying value is amortised to the Income statement from the date of the cessation of the hedge relationship through to the maturity of the hedged item using the effective interest rate method.

If the hedged item is de-recognised, the unamortised fair value is recognised immediately in the Income statement.

Ineffectiveness included in fair value hedges of interest rate payments may arise if there are differences in the critical terms between the interest rate derivative instrument and the underlying hedged item, or if there are changes in the credit risk of the Group or the derivative counterparty.

f Interest rate benchmark reform

In 2020 the Group adopted the amendments to IFRS 9 and IFRS 7 relating to the interest rate benchmark reform Phase 1, ('Phase 1') and in 2021 the Group adopted the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the interest rate benchmark reform Phase 2 ('Phase 2').

The Phase 1 amendments provide temporary relief from applying certain hedge accounting requirements to hedging relationships directly affected by Interbank Offered Rates ('IBOR') reform. The reliefs have the effect that IBOR reform does not cause hedge accounting to terminate prior to contracts being amended. Where transition to an alternative benchmark rate has taken place, the Group ceases to apply the Phase 1 amendments and instead applies the Phase 2 amendments.

Hedge accounting

During the course of 2023, the Group ceased to apply the Phase 1 amendments, as the last of the associated IBORs transitioned to alternative benchmarks. Prior to these transitions and where the Group applied the Phase 1 amendments, the following reliefs were applied:

- when considering the highly probable requirement, the Group assumed that those benchmark rates that needed to be transitioned to an alternative benchmark rate, on which the Group's hedged long-term borrowings were based, did not change as a result of IBOR reform;
- in assessing whether the hedge was expected to be highly effective on a forward-looking basis the Group assumed that those benchmark rates that needed to be transitioned to an alternative benchmark rate, on which the cash flows of the hedged long-term borrowings and the interest rate swaps that hedge them were based, were not altered by IBOR reform; and
- the Group has not reclassified the Cash flow hedge reserve relating to the period after the IBOR reform is expected to take effect.

When the Group ceased to apply the Phase 1 amendments, the Group amended its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of the following changes:

- designating an alternative benchmark rate (contractually or non-contractually specified) as the hedged risk;
- amending the description of the hedged item, including the description of the designated portion of the cash flows being hedged; or
- amending the description of the hedging instrument.

The associated hedge documentation was updated to reflect these changes in designation by the end of the reporting period in which the changes were made. Such amendments did not give rise to the hedge relationship being discontinued.

When the Group transitioned to alternative benchmark rates, the accumulated amounts within the cash flow hedge reserve were determined to be based on the alternative benchmark rates and no reclassification adjustments were made from the cash flow hedge reserve to the Income statement.

Long-term borrowings and lease liabilities

Phase 2 of the amendments required that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate prospectively. No gain or loss was recognised upon transition to the new benchmark. The expedient was only applicable to direct changes that are required by interest rate benchmark reform.

For lease liabilities where there was a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability was remeasured by discounting the revised lease payments using a discount rate that reflected the change in the interest rate where the change was required by IBOR reform.

No amounts have been recorded in the current or prior periods as a result of these amendments.

Employee benefit plans

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to any future refunds, net of the relevant taxes, from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Current service costs are recognised within employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising IAS 19 gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

b Severance obligations

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

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

c Flight crew provisions

The Group's obligations in respect of flight crew provisions are calculated separately for each collective bargaining agreement. In estimating these obligations, the Group makes assumptions regarding the number of employees that will elect to take early retirement under these agreements, and the age at which they make this election (where relevant), using the probability weighted methodology. The Group recognises a provision for service costs from the date of employment of the relevant individual, with the corresponding amount recorded within the Income statement. The provisions recognised are discounted, at the reporting date and the effect of unwinding of these discount rates are recognised as a finance cost in the Income statement.

Remeasurements of the provisions are made for changes in financial assumptions and recorded in Other comprehensive income. The Group records changes through Other comprehensive income, where assumptions regarding the elections to be made by individuals differs to actual elections. These calculations are performed by a qualified actuary using the projected unit credit method.

Taxation

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

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

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

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

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

Inventories

Inventories are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel held in storage facilities.

Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Group for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using a valuation model provided by external specialists. The resulting cost, as adjusted for the expected and actual level of vesting of the plan, is charged to the Income statement over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, and accordingly the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

Treasury shares

When the share capital of the Company is repurchased, the amount of the consideration paid, including directly attributable transaction costs, is recognised as a deduction from equity within the treasury share reserve. When treasury shares are sold or reissued, the amount received is recognised as an increase in equity and the resulting gain or loss on the transaction is presented as an adjustment to Retained earnings with no gain or loss recorded in the Income statement.

Provisions

Provisions are made when all of the following criteria have been met: (i) an obligation exists for a present liability in respect of a past event; (ii) where the amount of the obligation can be reliably estimated; and (iii) where it is considered probable that an outflow of economic resources will be required to settle the obligation. Where it is not considered probable that there will be an outflow of economic resources required to settle the obligation, the Group does not recognise a provision, but discloses the matter as a contingent liability. The Group assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by qualified independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

The method for determining legal claims provisions is determined on a claim by claim basis. Where a claim includes a significant population of items, the weighted average provision is estimated by determining all potential outcomes and the probability of their occurrence. Where a claim relates to a single item, then the Group determines the associated provision by applying the most likely outcome giving consideration to alternative outcomes. Where an individual claim is significant, the disclosure of quantitative information is restricted to the extent that it does not prejudice the outcome of the claim. If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the effect of unwinding the discount rate is recognised as a Finance cost in the Income statement.

Revenue recognition

Passenger revenue

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided.

Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as Deferred revenue and presented within current liabilities until either: (i) the customer has flown; or (ii) where the customer does not fly on the intended date and has purchased a non-flexible fare.

For flexible and semi-flexible tickets, when the customer does not travel on the intended date, a term referred to as 'unused tickets', the customer has a number of options they can elect to apply, depending on the fare type: (i) reschedule the date of intended travel; (ii) request a refund; or (iii) request a voucher.

The Group estimates the amount of these unused tickets for which customers are not expected to exercise their remaining rights prior to expiry based on the terms and conditions of the ticket and analysis of historical experience, a term referred to as 'unused ticket breakage'. This revenue is recognised based on the terms and conditions of the ticket and analysis of historical experience. For unused ticket breakage, revenue is recognised only when the risk of a significant reversal of revenue is remote. The estimation regarding historical experience is updated at each reporting date.

Where a flight is cancelled, the customer has a number of options they can elect to apply to their unused tickets: (i) compensation; (ii) a refund; (iii) changing to an alternative flight; or (iv) the receipt of a voucher.

The presentation in the financial statements of these customer options, to the extent they differ to the recognition criteria stated above, are as follows:

- Compensation for flight cancellation - such payments are presented net within Passenger revenue against the original ticket purchased;
- Refund - deferred revenue is reduced and no amount is recorded within revenue;
- Changing to an alternative flight – amounts are retained within Deferred revenue until such time as the flight is flown, at which time it is recorded within Passenger revenue; and
- Voucher - retained within Deferred revenue until such time as it is redeemed for a flight or it expires, at which time it is recorded within Passenger revenue.

In relation to vouchers, the Group also recognises revenue by estimating the amount of vouchers that customers are not expected to exercise their remaining rights prior to expiry using analysis of historical experience. The estimation regarding historical experience is updated at each reporting date. The amount of such revenue recognised is constrained, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Payments received in relation to certain ancillary services regarding passenger transportation, such as change fees, are not considered to be distinct from the performance obligation to provide the passenger flight. Payments relating to these ancillary services are recognised in Deferred revenue in current liabilities until the customer has flown.

The Group considers whether it is an agent or a principal in relation to passenger transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. The Group acts as an agent where: (i) it collects various taxes, duties and fees assessed on the sale of tickets to passengers and remits these to the relevant taxing authorities; and (ii) where it provides interline services to airline partners outside of the Group. Commissions earned in relation to agency services are recognised as revenue when the underlying goods or services have been transferred to the customer. In all other instances, the Group considers it acts as the principal in relation to passenger transportation services.

Cargo revenue

The Group has identified a single performance obligation in relation to cargo services and the associated revenue is measured at its standalone selling price and recognised on satisfaction of the performance obligation, which occurs on the fulfilment of the transportation service.

Other revenue

The Group has identified several performance obligations in relation to services that give rise to revenue being recognised within Other revenue. These services, their performance obligations and associated revenue recognition include:

- the provision of maintenance services and overhaul services for engines and airframes, where the Group is engaged to enhance an asset while the customer retains control of the asset. Accordingly, the performance obligations are satisfied, and revenue recognised, over time. The Group estimates the proportion of the contract completed at the reporting date and recognises revenue based on the percentage of completion of the contract;
- the provision of ground handling services, where the performance obligations are fulfilled when the services are provided;
- the provision of holiday and hotel services, where the performance obligations are satisfied over time as the customer receives the benefit of the service; and
- brand and marketing activities, where the performance obligations are satisfied as the associated activities occur.

Customer loyalty programmes

The Group operates four principal loyalty programmes: the British Airways Executive Club, Iberia Plus, Vueling Club and the Aer Lingus Aer Club. The customer loyalty programmes award travellers Avios to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. Avios are also sold to commercial partners to use in loyalty activity.

Avios issuance

When issued, the standalone selling price of an Avios is recorded within Deferred revenue in current liabilities until the customer redeems the Avios. The standalone selling price of Avios is based on the value of the awards for which the points could be redeemed. The Group also recognises revenue associated with the proportion of Avios which are not expected to be redeemed, referred to as ‘breakage’, based on the results of modelling using historical experiences and expected future trends in customer behaviour, up until the reporting date. The amount of such revenue recognised is limited, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Where the issuance of Avios arises from travel on the Group’s airlines, the consideration received from the customer may differ to the aggregation of the relative standalone selling prices. In such instances the allocation of the consideration to each performance obligation is undertaken on a proportional basis using the relative standalone selling prices.

The Group has contractual arrangements with non-Group airlines and non-air partners for the issuance and redemption of Avios, for which it has identified the following performance obligations:

Companion vouchers

Certain non-air partners issue their card holders with companion vouchers, which forms part of the variable consideration of the overall contract, depending on the level of expenditure by the card holders, for redemption on the airlines of the Group for the same flight and class of cabin as the underlying fare being purchased. The Group estimates the standalone selling price of the companion voucher performance obligation, using valuation techniques, by reference to the amount that a third party would be prepared to pay in an arm’s length transaction.

Brand and marketing activities

For both air and non-air partners, the Group licenses the Avios and the airline brands for certain activities, such as the creation of co-branded credit cards. In addition, the Group has certain contractual arrangements whereby it commits to provide marketing services to the members of the loyalty schemes on behalf of those partners. For the provision of both brand and marketing services, the partner receives benefits incremental to the issuance of Avios. The Group estimates the standalone selling price of the brand and marketing performance obligations, using valuation techniques, by reference to the amount that a third party would be prepared to pay in an arm's length transaction for access to comparable brands for the period over which they use the brand. For brand services, as the Group considers that the partner has the right to use the brand, revenue is recognised as the brand service is provided and not over time. For marketing performance obligations, revenue is recognised as the marketing activities occur based on when the partner receives the benefit of those services.

Upfront payments

Where a partner makes an upfront payment to the Group which does not relate to any specific performance obligation, then the Group considers such payments as advance payments for future goods and services and the associated revenue is recognised as those goods and services are provided, as detailed above. In such instances the payment is allocated across all of the performance obligations over the contract term. The Group estimates the expected level of Avios to be issued over the contract term using experience, historical and expected future trends, and allocates the payments to the relevant performance obligations accordingly. At each reporting date, the Group updates its estimate of the number of Avios expected to be issued over the total contract term and recognises a cumulative catch-up adjustment where necessary.

When a partner makes an upfront payment to the Group, the Group assesses whether such a payment is representative of a significant financing event. Where a significant financing component is identified, the Group estimates a market rate of interest that an arm's length financial liability of similar size and tenor would yield. The Group recognises the imputed interest within the Income statement as Other finance costs within Finance costs.

Other considerations

The Group considers whether it is an agent or a principal in relation to the loyalty services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. In particular, the Group acts as an agent where customers redeem their Avios on interline partner flights outside of the Group, where the fees payable to the interline partner are presented net against the associated release of the Deferred revenue.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or nature and where such presentation is relevant to an understanding of the Group's financial performance. While management has defined a list of items and a quantitative threshold that would merit categorisation as exceptional that has been established through historical experience, the Group retains the flexibility to add additional items should their size or nature merit such presentation. The accounting policy in respect of exceptional items and classification of an item as exceptional is approved by the Board, through the Audit and Compliance Committee.

The financial performance of the Group is monitored by the Management Committee and the Board on a pre-exceptional basis to enable comparison to prior reporting periods as well as to other selected companies, and also for making strategic, financial and operational decisions.

The exceptional items recorded in the Income statement include, but are not limited to, 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 discontinuance of hedge accounting; legal settlements; individually significant tax transactions; and the impact of the sale, disposal or impairment of an asset or investment in a business. Where exceptional items are separately disclosed, the resultant tax impact is additionally separately disclosed. Certain exceptional items may cover more than a single reporting period, such as significant restructuring events, but not more than two reporting periods.

Further information is given in the Alternative performance measures section.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These judgements, estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from judgements and estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Estimates

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a Employee benefit obligations, employee leaving indemnities, other employee related restructuring

At 31 December 2023 the Group recognised €1,380 million in respect of employee benefit assets (2022: €2,334 million) and €175 million in respect of employee benefit obligations (2022: €217 million). Further information on employee benefit obligations is disclosed in note 34.

The cost of employee benefit obligations, employee leaving indemnities and other employee-related provisions is determined using the valuation requirements of IAS 19. These valuations involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 34. The Group determines the assumptions to be adopted in discussion with qualified actuaries. Any difference between these assumptions and the actual outcome will impact future net assets and total comprehensive income. The sensitivity to changes in pension assumptions is disclosed in note 34.

Under the Group's Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS) defined benefit schemes, increases to pensions are based on the annual Government Pension Increase (Review) Orders, which since 2011 have been based on the Consumer Prices Index (CPI). Additionally, in APS there is provision for the Trustee to pay increases up to the level of the Retail Prices Index (RPI), subject to certain affordability tests. Historically market expectations for RPI could be derived by comparing the prices of UK Government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices.

In November 2020, the UK Government and UK Statistics Authority (UKSA) confirmed alignment of RPI with CPIH (a variant of CPI) from February 2030. In assessing RPI and CPI inflation from investment market data, allowance has been made for alignment of RPI with CPIH from 2030 and, therefore, effectively no gap between RPI and CPI inflation from that date. CPI inflation before 2030 is assumed to be 1 per cent per annum below RPI inflation.

b Revenue recognition

At 31 December 2023 the Group recognised €8,023 million (2022: €7,644 million) in respect of deferred revenue of which €2,712 million (2022: €2,630 million) related to customer loyalty programmes. Further information on deferred revenue is included in note 24.

Passenger revenue

Passenger revenue is recognised when the transportation service is provided. At the time of intended transportation, revenue is also recognised in respect of estimated unused tickets breakage and is estimated based on the terms and conditions of the tickets and historical experience. The Group considers that there is no reasonably possible change to unused ticket assumptions that would have a material impact on passenger revenue recorded in the year. A 2 percentage point increase in the level of unused ticket breakage of the sales in advance of carriage balance (excluding vouchers) at 31 December 2023 would result in an adjustment to Deferred revenue of €93 million, with an offsetting adjustment to increase revenue and operating profit recognised in the year.

For details regarding the voucher liability at 31 December 2023 and the associated sensitivity, see note 24.

Customer loyalty schemes

Revenue associated with the issuance of Avios under customer loyalty programmes is based on the relative standalone selling prices of the related performance obligations (brand, marketing and Avios), determined using estimation techniques. The transaction price of brand and marketing services is determined using specific brand valuation methodologies. The transaction price of an Avios is determined as the price of the rewards against which they can be redeemed and is reduced to take account of the proportion of Avios that are not expected to be redeemed by customers.

During 2022, 2021 and 2020, due to the significant restrictions imposed on the ability of customers to redeem Avios, as a result of the COVID-19 pandemic, coupled with the disruption in the patterns of redemption caused by the COVID-19 pandemic, the Group considered that the trends experienced since the start of the COVID-19 pandemic were not reflective of the long-term expected patterns of redemption and accordingly, the Group was unable to determine with a high degree of probability that there would not be a significant reversal of revenue in the future had it applied the redemption trends that were experienced over the period of the pandemic. Accordingly, for the years to 31 December 2022, 31 December 2021 and 31 December 2020, the Group estimated the level of redemption activity based on pre-COVID-19 pandemic customer behaviour.

During 2023, the Group considers historical redemption activity, including customers' more recent behaviours following the COVID-19 pandemic, representative of long-term behavioural trends, such that the Group considers that the risk of a significant reversal of revenue to be sufficiently low. Accordingly, the Group has updated its estimated level of redemption activity to incorporate current customer behaviour.

The Group estimates the number of Avios not expected to be redeemed using statistical modelling based on historical experience and expected future trends in customer behaviour. A 5 percentage point increase in the assumption of Avios not expected to be redeemed would result in an adjustment to Deferred revenue of €94 million, with an offsetting adjustment to increase revenue and operating profit recognised in the year.

Unredeemed vouchers liability

Historically, where a voucher has been issued to a customer in the event of a flight cancellation, the Group estimated, based on historical experience, the level of such vouchers not expected to be used prior to expiry and recognised revenue accordingly. During 2020 and 2021, due to the significant level of flight cancellations arising from the COVID-19 pandemic, the Group issued a greater volume of vouchers than it would have otherwise done. In addition, given the uncertainty as to the timing of customers redeeming these vouchers, the Group was unable to estimate with a high degree of probability that there would not be a significant reversal of revenue in the future had it applied the historical expiry trends over the period of the pandemic. Accordingly, for the years to 31 December 2022, 31 December 2021 and 31 December 2020, the Group did not recognise revenue arising from those vouchers issued due to COVID-19 pandemic-related cancellations until either the voucher was redeemed or it expired.

During 2023, the Group considers historical redemption activity, including customers' more recent behaviours following the COVID-19 pandemic, representative of the redemption trends expected through to expiry of the vouchers, such that the Group considers that the risk of a significant reversal of revenue to be sufficiently low. Accordingly, the Group has updated its estimated level of redemption activity to incorporate current customer behaviour.

c Income taxes

At 31 December 2023, the Group recognised €1,202 million in respect of deferred tax assets (2022: €1,282 million). Further information on current and deferred tax is disclosed in note 10.

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain because it may be unclear how tax law applies to a particular transaction or circumstance. Where the Group determines that it is more likely than not that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability based on either: the Group's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability-weighted average approach.

The Group recognises deferred tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management uses judgement, including the consideration of past and current operating performance and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability.

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date, which represents the period over which it is probable that future taxable profits will be available.

At 31 December 2023, the Group had unrecognised deferred tax assets of €1,584 million relating to tax losses and other temporary differences the Group does not reasonably expect to utilise. In applying the aforementioned judgement, had the Group extended the period of future cash flow projections indefinitely, then the amount of unrecognised tax losses would have reduced by €575 million. Conversely, if the forecast profit before tax for each operating company was reduced by 2 percentage points over the forecast period, the amount of the unrecognised tax losses would increase by €12 million.

d Impairment of non-financial assets

At 31 December 2023 the Group recognised €2,428 million (2022: €2,423 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 17.

Goodwill and intangible assets with indefinite economic lives are tested, as part of the cash-generating units to which they relate, for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which use a weighted average multi-scenario discounted cash flow model, which are then compared to the carrying amount of the associated cash-generating unit.

In determining the carrying value of each cash generating unit (CGU), the Group allocates all associated operating tangible and intangible assets, including ROU assets. In addition, the Group has allocated certain liabilities to the carrying value of each CGU where those liabilities are critical to the underlying operations of the cash-generating unit and in the event of a disposal of the cash-generating unit would be required to be transferred to the purchaser. Such liabilities include lease liabilities.

The Group has applied judgement in the weighting of each scenario in the discounted cash flow model and these calculations require the use of estimates in the determination of key assumptions and sensitivities as disclosed in notes 4 and 17.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. When such indicators are identified, then non-financial assets are tested for impairment.

e Engineering and other aircraft costs

At 31 December 2023 the Group recognised €2,529 million in respect of maintenance, restoration and handback provisions, principally in respect of leased aircraft (2022: €2,400 million). Information on movements on the provision is disclosed in note 27.

IFRS 16 does not address the accounting for maintenance, restoration and handback provisions that arise through the usage of the underlying asset and accordingly, the Group has applied judgement in applying an accounting policy with regard to the recognition and subsequent measurement of such provisions for leased aircraft. The Group's accounting policy for provisions that arise through usage or through the passage of time, is to recognise the associated estimated costs in the Income statement as the underlying asset is used or through the passage of time. The approach applied by the Group is consistent with the majority of major airlines that prepare their financial statements under IFRS. Were the Group to apply an alternative accounting policy, the financial impact would be materially different at the reporting date. An alternative accounting policy that the Group could have applied was the components approach, where the Group would capitalise the estimated costs of major maintenance events and depreciating them until the subsequent maintenance event (or to the end of lease term) and providing over the lease term for any expected cash compensation for maintenance obligations at the end of the lease. The Group considers that the current accounting policy for maintenance, restoration and handback activities reflects the obligations under its lease arrangements.

The Group has a number of contracts with service providers to replace or repair engine parts and for other maintenance checks. These agreements are complex and generally cover a number of years. Provisions for maintenance, restoration and handback are made based on the best estimate of the likely committed cash outflow. In determining this best estimate, the Group applies significant judgement as to the level of forecast costs expected to be incurred when the major maintenance event occurs. Other assumptions not considered to be significant include aircraft utilisation, expected maintenance intervals and the aircraft's condition. The associated forecast costs are discounted to their present value. While the Group considers that there are no reasonably possible change to any of the individual assumptions that would have a material impact on the provisions, a combination of changes in several assumptions may. The Group considers that a reasonably possible change in the inflation rate and discount rate assumptions of a 100 basis points increase would give rise to an increase of €53 million (2022: €51 million) and a decrease of €59 million (2022: €68 million), respectively, when applied in isolation to one another.

Judgements

a Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans and historical experience regarding the extension of leases. After the commencement date, the Group re-assesses the lease term if there is a significant event or change in circumstances that affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 14.

b Determining whether the Group has significant influence over Air Europa Holdings

The Group applies judgement in the determination as to whether it has the power with which to participate in the decision-making of, and as a result significant influence over, Air Europa Holdings, S.L. (Air Europa Holdings). Such judgement includes the consideration as to the ability of the Group to: have representation on the board of Air Europa Holdings; participate in the policy-making processes, including participation in decisions regarding dividends and other distributions; the existence of material transactions between Air Europa Holdings and the Group; and enable the interchange of management personnel and provide essential technical information.

In forming its judgement, the Group notes that: it does not have the ability to have representation on the board of Air Europa Holdings; it does not have the ability to participate in the policy-making processes; has not entered into material transactions outside of the normal course of business, with those transactions arising in the normal course of business being immaterial in nature; it does not have the ability to enable the interchange of management personnel; and it does not have the ability to provide essential technical information. The Group has therefore concluded that it does not have significant influence over Air Europa Holdings.

Accordingly, the Group accounts for its shareholding in Air Europa Holdings as an Other equity investment and measures it at fair value through Other comprehensive income. Had the Group concluded that it does have significant influence over Air Europa Holdings, then the shareholding would have been classified as an associate, measured at cost on inception and subsequently measured using the equity method.

At 31 December 2023, the fair value of its shareholding in Air Europa Holdings was €129 million. Further information is given in note 19.

c Determining whether the HMRC enquiries into the IAG Loyalty VAT accounting gives rise to a provision or a contingent liability

The Group applies judgement in the determination as to whether it considers the outcome of the enquiries between IAG Loyalty and His Majesty's Revenue and Customs (HMRC), in the UK, on the IAG Loyalty VAT accounting, is more probable than not to result in an adverse outcome to the Group, and accordingly whether to record the matter as a provision or as a contingent liability.

In forming its judgement, the Group, with its legal and tax advisors, have reviewed the emerging view issued by HMRC, as well has having considered the historic tax ruling issued by HMRC to the Group on this matter. As a result, the Group does not consider it probable that an adverse outcome will eventuate and accordingly no provision has been recorded at 31 December 2023 and the matter has been disclosed as a contingent liability.

Had the Group, with its legal and tax advisors, considered that it was more probable than not that an adverse outcome would eventuate, then the Group would have recognised a provision for the best estimate of the potential outflow of economic benefit to the Group, with a corresponding charge recorded within the Income statement. Further information is given in note 10g.

New standards, amendments and interpretations

The following amendments and interpretations apply for the first time in 2023, but do not have a material impact on the consolidated financial statements of the Group:

- IFRS 17 Insurance contracts – effective for periods beginning on or after 1 January 2023;
- definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after 1 January 2023;
- disclosure of accounting policies – amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after 1 January 2023;
- deferred tax related to assets and liabilities arising from a single transaction – amendments to IAS 12 effective for periods beginning on or after 1 January 2023; and
- international tax reform: Pillar Two model reforms – amendments to IAS 12 effective for periods beginning on or after 1 January 2023.

The IASB and IFRIC have issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. The Group has assessed the impact of these standards, amendments and interpretations and it is not expected that these will have a material effect on the reported income or net assets of the Group unless otherwise stated. The Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- disclosures: Supplier Finance Arrangements – amendments to IAS 7 and IFRS 7 effective for periods beginning on or after 1 January 2024;
- lease liability in a sale and leaseback – amendments to IFRS 16 effective for periods beginning on or after 1 January 2024; and
- on 31 October 2022, the IASB issued the amendments to IAS 1 – classification of liabilities as current or non-current (the 'Amendments'), effective for periods beginning on or after 1 January 2024. The Amendments will require the €825 million convertible bond that matures in 2028, which as at 31 December 2023, had a carrying value of €735 million, to be reclassified from a non-current liability to a current liability with the comparative presentation as at 31 December 2022 also reclassified. The Amendments require that where the conversion feature of a convertible instrument does not meet the recognition criteria for separate presentation within equity and where the associated bond holders have the irrevocable right to exercise the conversion feature within 12 months of the balance sheet date, that such convertible instruments be presented as current. Other than this reclassification, the Amendments will not have a material effect on the reported results or net assets of the Group.

3 Significant changes and transactions in the current reporting period

The financial performance and position of the Group was affected by the following significant events and transactions in the year to 31 December 2023 as detailed below:

- on 23 February 2023, the Group entered into an agreement to acquire the remaining 80 per cent of the share capital of Air Europa Holdings that it had not previously owned. On successful completion of the transaction, 54,064,575 ordinary shares of the Company (which represented €100 million at the date of the agreement) will be transferred to and €100 million in cash will be paid to Globalia, with a further €100 million paid on both the first and second anniversary of completion.

  In addition, the Group has agreed to pay a break-fee to Globalia of €50 million should: (i) the relevant approvals, detailed below, not be forthcoming within 24 months of entering into the agreement; or (ii) the Group terminates the agreement at any time prior to completion. Under the agreement, this 24-month period can be extended, by mutual consent. The acquisition is conditional on Globalia receiving approval from the syndicated banks that provide the loan agreements that are partially guaranteed by the *Instituto de Crédito Oficial* (ICO) and *Sociedad Estatal de Participaciones Industriales* (SEPI) in Spain. The acquisition is also subject to approval by relevant competition authorities. Until the completion of these approvals, the acquisition does not meet the recognition criteria under IFRS 3 Business combinations, and no accounting has been made for the transaction in these consolidated financial statements;
- on 4 March 2023, Aer Lingus repaid in full the €50 million of the financial arrangement with the Ireland Strategic Investment Fund (ISIF). At 31 December 2023, €350 million of undrawn facilities remain available for draw down;
- in May 2023, the Group announced its intention to carry out a share purchase programme in order to acquire approximately 50 per cent of the aforementioned ordinary shares required as part of the acquisition of Air Europa Holdings. The programme completed during the year to 31 December 2023, with the Group having purchased 27 million treasury shares amounting to €49 million;
- on 30 June 2023, the Group converted 10 Airbus A320neo options into firm orders. The aircraft will be delivered in 2028 and will be used by any of the Group's airlines to replace A320ceo family aircraft;
- on 4 July 2023, the Group redeemed upon maturity the senior unsecured €500 million fixed rate bond;
- on 27 July 2023, the Group announced that it had converted six Boeing 787-10 options held by British Airways into firm orders and at the same time is adding a further six 787-10 options to its long-haul order book. The Group also converted one Airbus A350-900 option held by Iberia into a firm order. These aircraft will be delivered in 2025 and 2026 and will be used by British Airways and Iberia to restore capacity in the airlines' long-haul fleets;
- on 23 August 2023, the Group extended the terms of $1.655 billion of the $1.755 billion Revolving Credit Facility available to British Airways, Iberia and Aer Lingus by an additional 12 months through to March 2026 with the remaining $100 million available through to March 2025. At 31 December 2023, the Revolving Credit Facility remains undrawn;
- on 28 September 2023, British Airways repaid its syndicated loan of £2.0 billion (€2.3 billion), which was partially guaranteed by the UK Export Finance (UKEF). At the same time, British Airways entered into a new five-year Export Development Guarantee Facility of £1.0 billion (€1.2 billion), with commitments from a syndicate of banks, partially guaranteed by the UKEF, and available through to September 2028. The new facility is in addition to the £1.0 billion Export Development Guarantee Facility, which was entered into in 2021 and which is available through to November 2026. Both facilities were undrawn at 31 December 2023;
- on 31 October 2023 Iberia repaid the remaining outstanding €644 million of the €750 million floating rate syndicated financing agreement, partially guaranteed by the *Instituto de Crédito Oficial* (ICO) in Spain;
- on 15 November 2023, Iberia early repaid other loans and borrowings of €42 million; and
- on 30 November 2023, Vueling repaid the remaining outstanding €223 million of the €260 million floating rate syndicated financing agreement, partially guaranteed by ICO.

4 Impact of climate change on financial reporting

Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of climate change

As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to net zero emissions by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short-, medium- and long-term operations of the Group.

The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to, the following that are within the control of the Group:

- the additional cost of the Group's commitment to increasing the level of Sustainable Aviation Fuels (SAF) to 10 per cent by 2030 and to 70 per cent by 2050;
- the cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and
- the impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.

In addition to these inputs and measures within the control of management, Flightpath Net Zero includes assumptions pertaining to consumers, governments and regulators regarding the following:

- the impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- investment and policy regarding the development of SAF production facilities;
- investment and improvements in air traffic management; and
- the price of carbon through the EU, Swiss and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

The level of uncertainty regarding the impact of these factors increases over time. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of climate change regarding the recognition and measurement of assets and liabilities within the financial statements.

Critical accounting estimates, assumptions and judgements – cash flow forecast estimation

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. For those assets and liabilities, where their recoverability is dependent on long-term cash flows, the following critical accounting estimates, assumptions and judgements, to the extent they can be reliably measured, have been applied:

a Long-term fleet plans and useful economic lives

The Group's Flightpath Net Zero climate strategy has been developed in conjunction with the long-term fleet plans of each operating company. This includes the annual assessment of useful lives and the residual values of each aircraft type.

As a result of the impact of the COVID-19 pandemic, the Group retired 72 aircraft, their associated engines and rotable inventories. These retired aircraft were older generation aircraft, that were less fuel-efficient, more carbon-intensive and more expensive to operate than more modern models.

Subsequent to the retirement of these aircraft, coupled with the future committed delivery of 178 fuel-efficient aircraft as detailed in note 15, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero climate strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise SAF in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year, nor have the useful lives and residual values of aircraft been amended, as a result of the Group's decarbonisation plans.

b Impairment testing of the Group's cash generating units

The Group applies discounted cash flow models, for each cash generating unit, derived from the cash flow forecasts from the approved three-year business plans. The Group's Flightpath Net Zero climate strategy is long term in nature and includes commitments that will occur at differing points over this time horizon. To the extent that certain of those commitments occur over the short term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year (being the third year) of these probability-weighted cash flows to incorporate the impacts of climate change from the Group's Flightpath Net Zero climate strategy that are expected to occur over the medium term, being to 2030. These adjustments are limited to those that: (i) the Group can reliably estimate at the reporting date, with those costs subsequent to 2030 having such a high degree of uncertainty that they cannot be reliably estimated; (ii) only relate to the Group's existing asset base in its current condition; and (iii) incorporate legislation and regulation that is expected to be required to achieve the Group's Flightpath Net Zero climate strategy, and which is sufficiently progressed at the reporting date.

As a result, the Group's impairment modelling incorporates the following aspects of the Group's Flightpath Net Zero climate strategy through to 2030, after which time the level of uncertainty regarding timing and costing becomes insufficiently reliable to estimate: (i) an increase in the level of SAF consumption to 10 per cent of the overall fuel mix; (ii) forecast cost of carbon, including SAF, ETS allowances and CORSIA allowances (all derived from externally sourced or derived information); (iii) the removal of existing free ETS allowances issued by the EU member states, Switzerland and the UK; (iv) forecast kerosene taxes applied to jet fuel for all intra EU flight activity; and (v) assumptions regarding the ability of the Group to recover these incremental costs through increased ticket pricing.

In preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring unless already committed and assets not currently in use by the Group. In addition, for the avoidance of doubt, the Group's impairment modelling excludes the following aspects of the Group's Flightpath Net Zero climate strategy: (i) the expected transition to electric and hydrogen aircraft, as well as future technological developments to jet engines and airframes; (ii) any savings from the transition to more fuel-efficient aircraft other than those either in the Group's fleet or those committed orders due to be delivered over the business plan period; (iii) the benefit of the development of carbon capture technologies and enhanced carbon offsetting mechanisms; (iv) the required beneficial reforms to air traffic management regulation and legislation; and (v) the required government incentives and/or support across the supply chain.

As detailed in note 17, the Group applies a long-term growth rate to these adjusted probability weighted cash flows, per CGU, and each of the long-term growth rates include a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand and elasticity impact arising from climate change. These impacts are derived with reference to external market data, industry publications and internal analysis.

Given the inherent uncertainty associated with the impact of climate change, the Group has applied additional sensitivities in note 17 to reflect a more adverse impact of climate change than currently expected. This has been captured through both the downward sensitivities of the long-term growth rates, ASKs and operating margins and the increased fuel price sensitivity.

c Valuation of employee benefit scheme assets

The Group's employee benefit schemes are principally represented by the British Airways APS and NAPS schemes in the UK. The schemes are structured to make post-employment payments to members over the long term, with the Trustee having established both return-seeking assets and liability-matching assets that mature over the long term to align with the forecast benefit payments.

The assets of these schemes are invested predominantly in a diversified range of equities, bonds and property. The valuation of these assets ranges from those with quoted prices in active markets, where prices are readily and regularly available, through to those where the valuations are not based on observable market data, often requiring complex valuation models. The trustees of the schemes have integrated climate change considerations into their long-term decision-making and reporting processes across all classes of assets, actively engaging with all fund and portfolio managers to ensure that where unobservable inputs are required into valuation models, that such valuation models incorporate long-term expectations regarding the impact of climate change.

d Recoverability of deferred tax assets

In determining the recoverable amounts of the Group's deferred tax assets, the Group applies the future cash flow projections for a period of up to ten years derived from the approved three-year business plans. The Group applies a medium-term growth rate subsequent to the three-year business plans, specific to each operating company. In considering the impact of the Group's Flightpath Net Zero climate strategy, management adjusts this medium-term growth rate, where applicable, to incorporate the assumed impacts on both revenue and costs to the Group.

e The price of carbon through the EU, Swiss and UK Emissions Trading Schemes

The EU, Swiss and the UK's ETS were established to reduce greenhouse gas emissions cost effectively. Under these schemes, companies, including the Group's companies, are required to buy emission allowances, or are issued them under existing quotas. The Group is required to surrender these allowances to the relevant authorities annually dependent on the level of CO_2 equivalent emitted within a 12-month period. Over time, the level of available emission allowances decreases in order to reduce total emissions, which has the effect of increasing the price of such allowances. The Group expects that the future price of such allowances will continue to increase and that the free allocation of emission allowances will cease. Given the relative illiquid nature of the emission allowance market there is uncertainty as to the future pricing of such allowances.

As detailed in note 2, the Group accounts for the purchase of allowances as an addition to Intangible assets, which are measured at amortised cost. In addition, as the Group emits CO_2 equivalent as part of its flight operations, a provision is recorded to settle the obligation. As the provision is recognised, a corresponding amount is recorded in the Income statement within Fuel, oil costs and emission charges. For emissions for which the Group has already purchased allowances, the provision is valued at the weighted cost of those allowances. Where the level of emissions exceeds the amounts of allowances held, this deficit is measured at the market price of such allowances at the reporting date.

For the year to, and as at, 31 December 2023, the Group has recorded the following within the financial statements:

- additions to the ETS allowance provision and accordingly an expense within Fuel, oil costs and emission charges, of €238 million (see note 27);
- purchases of ETS allowances recorded as additions to intangible assets of €264 million (see note 17);
- total ETS allowances at the reporting date recorded within intangible assets of €577 million (see note 17); and
- commitments for forward purchase agreements for ETS allowances of €216 million (see note 15).

At 31 December 2023, the Group has acquired and committed to acquire at fixed prices, the following percentages of its total emissions allowances forecast to be purchased over the business plan period to 31 December 2026:

Percentage of forecast emission allowances required	
Within 12 months	100 %
1-2 years	62 %
2-3 years	24 %

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, loyalty and platform functions. Each operating company 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 operating companies based on 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, Aer Lingus and IAG Loyalty have been identified for financial reporting purposes as reportable operating segments. LEVEL is also an operating segment but does not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why LEVEL should be separately disclosed.

There are varying levels of transactions between operating segments, which principally relate to the provision of maintenance services from the Iberia operating segment to the other operating segments, the provision of flight services by the airlines to the IAG Loyalty segment and the provision of loyalty services from IAG Loyalty to the airline operating segments.

The platform functions of the business primarily support the airline and loyalty 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.

For the year to 31 December 2023

	2023						
€ million	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty	Other Group companies[1]	**Total**
Revenue							
Passenger revenue	14,204	5,215	3,180	2,194	679	338	**25,810**
Cargo revenue	862	233	–	55	–	6	**1,156**
Other revenue	962	986	17	10	512	–	**2,487**
External revenue	16,028	6,434	3,197	2,259	1,191	344	**29,453**
Inter-segment revenue	431	524	1	15	294	392	**1,657**
Segment revenue	16,459	6,958	3,198	2,274	1,485	736	**31,110**
Depreciation and amortisation charge	(1,168)	(409)	(259)	(150)	(11)	(66)	**(2,063)**
Operating profit/(loss)	**1,650**	**940**	**396**	**225**	**321**	**(25)**	**3,507**
Net non-operating costs							**(451)**
Profit before tax							**3,056**
Total assets	22,255	9,454	3,049	1,999	3,786	(2,863)	**37,680**
Total liabilities	(19,295)	(8,390)	(3,461)	(1,856)	(3,115)	1,715	**(34,402)**

1 Includes eliminations on total assets of €16,268 million and total liabilities of €5,417 million.

For the year to 31 December 2022

€ million	2022 British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty	Other Group companies[2]	Total
Revenue							
Passenger revenue	10,523	4,002	2,584	1,665	451	233	19,458
Cargo revenue	1,239	284	–	80	–	12	1,615
Other revenue	848	799	14	10	322	–	1,993
External revenue	12,610	5,085	2,598	1,755	773	245	23,066
Inter-segment revenue	311	426	–	14	228	378	1,357
Segment revenue	12,921	5,511	2,598	1,769	1,001	623	24,423
Depreciation and amortisation charge	(1,272)	(371)	(222)	(146)	(8)	(59)	(2,078)
Impairment reversal	–	–	8	–	–	–	8
Operating profit/(loss)[1]	366	389	195	57	282	(11)	1,278
Exceptional items[3]	23	–	8	–	–	–	31
Operating profit/(loss) before exceptional items	343	389	187	57	282	(11)	1,247
Net non-operating costs[1]							(863)
Profit before tax							415
Total assets	23,788	9,200	3,177	1,946	3,303	(2,111)	39,303
Total liabilities	(20,975)	(9,005)	(3,774)	(1,942)	(2,914)	1,329	(37,281)

1 Segment information for 2022 has been restated for the reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment. Further information is given in note 2.

2 Includes eliminations on total assets of €16,159 million and total liabilities of €5,755 million.

3 For details on exceptional items refer to the Alternative performance measures section.

b Other revenue

€ million	Year to 31 December 2023	2022[1]
Holiday and hotel services	**938**	805
Maintenance and overhaul services	**683**	528
Brand and marketing	**347**	267
Ground handling services	**195**	193
Other	**324**	200
	2,487	1,993

1 For the year to 31 December 2023, the Group has elected to provide a disaggregated breakdown of the Income statement caption 'Other revenue' and has accordingly provided figures for the comparative year to 31 December 2022.

c Geographical analysis

Revenue by area of original sale

€ million	Year to 31 December 2023	2022
UK	**10,177**	7,923
Spain	**5,234**	4,313
USA	**5,069**	3,735
Rest of world	**8,973**	7,095
	29,453	23,066

Assets by area
31 December 2023

€ million	**Property, plant and equipment**	**Intangible assets**
UK	**12,764**	**1,685**
Spain	**5,644**	**1,569**
USA	**100**	**18**
Rest of world	**1,268**	**637**
	19,776	**3,909**

31 December 2022

€ million	Property, plant and equipment	Intangible assets
UK	12,026	1,490
Spain	5,082	1,462
USA	47	9
Rest of world	1,191	595
	18,346	3,556

6 Operating expenses

a Expenses by nature – Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	**2023**	2022
Depreciation charge on right of use assets	**1,077**	1,092
Depreciation charge on owned assets	**768**	748
Gain arising on de-designation of foreign exchange hedges recorded in Depreciation[1]	**–**	(29)
Amortisation and impairment of intangible assets	**193**	218
Impairment reversal on right of use assets	**–**	(8)
Depreciation charge on other leasehold assets	**25**	49
	2,063	2,070

1 Included in the depreciation charge for 2022, not included within note 13 is a credit of €29 million relating to the de-designation of hedge accounting that had been applied to mitigate the foreign currency exposure on aircraft purchases.

Cost of inventories:

€ million	**2023**	2022
Cost of inventories recognised as an expense	**1,165**	749
	1,165	749

b Property, IT and other costs

€ million	2023	2022[1]
IT costs	**365**	340
Property costs	**296**	293
Insurance costs, professional fees and other costs	**397**	317
	1,058	950

1 For the year to 31 December 2023, the Group has elected to provide a disaggregated breakdown of the Income statement caption 'Property, IT and other costs' and has accordingly provided figures for the comparative year to 31 December 2022.

7 Auditor's remuneration

The fees for the years to 31 December 2023 and 31 December 2022, for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, KPMG Auditores S.L., and by companies belonging to KPMG's network, were as follows:

€'000	2023	2022
Fees payable for the audit of the Group and individual accounts	**6,929**	6,378
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	**1,284**	985
Other services pursuant to legislation	**218**	195
Other audit and assurance services	**1,589**	1,644
Services relating to working capital review	**–**	1,022
	10,020	10,224

Fees payable to the Group's auditor for the audit of the Group's pension scheme during the year total €251 thousand (2022: €236 thousand).

8 Employee costs and numbers

€ million	2023	2022
Wages and salaries	**3,711**	3,207
Social security costs	**604**	519
Costs related to pension scheme benefits	**297**	272
Share-based payment charge	**52**	39
Other employee costs[1]	**759**	610
Total employee costs	**5,423**	4,647

1 Other employee costs include allowances and accommodation for crew.

The number of employees during the year and at 31 December was as follows:

	2023			2022		
		31 December 2023			31 December 2022	
	Average number of employees	**Number of employees[2]**	**Percentage of women**	Average number of employees[1]	Number of employees[2]	Percentage of women
In the air:						
Cabin crew	**23,473**	**24,004**	**70 %**	19,801	22,278	70 %
Pilots	**8,085**	**8,223**	**7 %**	7,340	7,864	7 %
On the ground:						
Airports	**16,395**	**16,784**	**37 %**	13,798	15,087	38 %
Corporate	**14,774**	**15,586**	**48 %**	11,741	13,819	49 %
Maintenance	**6,813**	**6,972**	**8 %**	6,908	6,775	8 %
Senior leaders	**222**	**225**	**36 %**	212	221	34 %
	69,762	**71,794**	**44 %**	59,800	66,044	44 %

1 In 2022, the average number of employees excludes those employees who were on furlough, wage support and equivalent schemes, including the Temporary Redundancy Plan arrangements in Spain; the total average number of employees including these schemes was 61,192.

2 The number of employees is based on actual headcount at 31 December.

9 Finance costs, income and other non-operating credits

a Finance costs

€ million	2023	2022
Interest expense on:		
Bank borrowings	**(237)**	(191)
Asset financed liabilities	**(170)**	(107)
Lease liabilities	**(508)**	(464)
Bonds	**(63)**	(83)
Provisions unwinding of discount	**(103)**	(43)
Other borrowings	**(42)**	(102)
Capitalised interest on progress payments	**28**	11
Other finance costs	**(18)**	(38)
	(1,113)	(1,017)

b Finance income

€ million	2023	2022
Interest on other interest-bearing deposits, cash and cash equivalents	**386**	51
Other finance income	**–**	1
	386	52

c Net change in fair value of financial instruments

€ million	2023	2022
Net change in the fair value of convertible bond (note 26b)	**(11)**	159
Net fair value losses on financial assets at fair value through profit or loss	**–**	(35)
Net fair value losses on de-recognition of financial assets and recognition of other equity investment	**–**	(43)
	(11)	81

d Net financing credit relating to pensions

€ million	2023	2022
Net financing credit relating to pensions	**103**	26

e Other non-operating credits

€ million	2023	2022[1]
Gain on sale of investments	**10**	–
Credit/(charge) related to equity investments (note 19)	**3**	(3)
Share of profits in investments accounted for using the equity method (note 18)	**6**	5
Realised (losses)/gains on derivatives not qualifying for hedge accounting	**(23)**	190
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	**13**	(82)
Net change in the fair value associated with fair value hedges (note 30)	**(1)**	–
	8	110

1 The 2022 Other non-operating credits include a reclassification to conform with the current year presentation of the Income statement. See note 2 for further details.

10 Tax

a Tax (charges)/credits

Tax (charges)/credits recognised in the Income statement, Other comprehensive income and directly in equity:

€ million	2023 Income statement	2023 Other comprehensive income	2023 Recognised directly in equity	2023 Total	2022 Income statement	2022 Other comprehensive income	2022 Recognised directly in equity	2022 Total
Current tax								
Movement in respect of prior years	(1)	–	–	**(1)**	(6)	–	–	(6)
Movement in respect of current year	(206)	8	–	**(198)**	(64)	3	–	(61)
Total current tax	(207)	8	–	**(199)**	(70)	3	–	(67)
Deferred tax								
Movement in respect of prior years	(10)	(2)	12	**-**	(36)	(2)	–	(38)
Movement in respect of current year	(171)	106	(17)	**(82)**	105	(60)	5	50
Rate change/rate differences	(13)	3	–	**(10)**	17	(10)	–	7
Total deferred tax	(194)	107	(5)	**(92)**	86	(72)	5	19
Total tax	(401)	115	(5)	**(291)**	16	(69)	5	(48)

The current tax credit in Other comprehensive income relates to movements relating to employee benefit plans of €8 million (2022: €1 million) and to the fair value movements on the IAG €825 million convertible bond maturing in 2028 of €nil (2022: €2 million).

Tax recognised directly in equity of a €5 million charge (2022: €5 million credit) relates to cash flow hedges.

Within tax in Other comprehensive income is a tax credit of €114 million (2022: tax credit of €8 million) that may be reclassified to the Income statement and a tax credit of €1 million (2022: tax charge of €77 million) that will not.

b Current tax asset

€ million	**2023**	2022
Balance at 1 January	64	(5)
Income statement	(207)	(70)
Other comprehensive income	8	3
Cash	291	134
Exchange movements and other	1	2
Balance at 31 December	**157**	**64**
Current tax asset	159	72
Current tax liability	(2)	(8)
Balance at 31 December	**157**	**64**

c Deferred tax (liability)/asset

€ million	Fixed assets	Right of use assets	Lease liabilities	Employee leaving indemnities and others	Employee benefit plans	Fair value gains/ losses[1]	Share-based payment schemes	Tax loss carried forward and tax credits	Other temporary differences	Total
Balance at 1 January 2023	(680)	(44)	9	197	54	(3)	17	1,636	96	**1,282**
Income statement	(325)	68	(2)	11	(1)	–	9	78	(32)	**(194)**
Other comprehensive income	–	–	–	6	(8)	114	–	(3)	(2)	**107**
Recognised directly in equity	–	–	–	–	–	(5)	–	–	–	**(5)**
Exchange movements and other	(8)	–	–	–	–	15	–	10	(9)	**8**
Balance at 31 December 2023	**(1,013)**	**24**	**7**	**214**	**45**	**121**	**26**	**1,721**	**53**	**1,198**
Balance at 1 January 2022	(477)	(220)	19	196	62	57	11	1,573	61	1,282
Income statement	(194)	169	(9)	19	1	–	6	87	7	86
Other comprehensive income	–	–	–	(17)	(12)	(46)	–	3	–	(72)
Recognised directly in equity	–	–	–	–	–	5	–	–	–	5
Exchange movements and other	(9)	7	(1)	(1)	3	(19)	–	(27)	28	(19)
Balance at 31 December 2022	(680)	(44)	9	197	54	(3)	17	1,636	96	1,282

1 Fair value gains/losses include both the Cash flow hedge reserve and the Cost of hedging reserve, of which the movement in relation to Other comprehensive income recognised in the Cash flow hedge reserve for 2023 was €104 million (2022: €68 million, see note 30d).

€ million	**2023**	2022
Deferred tax asset	**1,202**	1,282
Deferred tax liability	**(4)**	–
Balance at 31 December	**1,198**	1,282

The deferred tax assets mainly arise in Spain and the UK and are expected to reverse in full beyond one year. Recognition of the deferred tax assets is supported by the expected reversal of deferred tax liabilities in corresponding periods, and projections of operating performance laid out in the management approved business plans.

d Reconciliation of the total tax charge in the Income statement

The tax (charge)/credit is calculated at the domestic rates applicable to profits/(losses) in the country in which the profits/(losses) arise. The differences between the expected tax charge (2022: charge) and the actual tax charge (2022: credit) on the profit for the year to 31 December 2023 (2022: profit) are explained below:

€ million	**2023**	2022
Accounting profit before tax	**3,056**	415
Weighted average tax charge of the Group[1]	**(718)**	(102)
Unrecognised losses and deductible temporary differences arising in the year	**11**	(2)
Fair value movement on convertible bond	**30**	–
Effect of tax rate changes	**(13)**	17
Prior year tax assets recognised	**289**	153
Effect of lower tax rate in the Canary Islands	**3**	5
Movement in respect of prior years	**(11)**	(42)
Employee benefit plans accounted for net of withholding tax	**22**	3
Non-deductible expenses	**(21)**	(22)
Other items	**7**	6
Tax (charge)/credit in the Income statement	**(401)**	16

1 The expected tax charge is calculated by aggregating the expected tax (charges)/credits arising in each company in the Group and changes each year as tax rates and profit mix change. The 2023 corporate tax rates for the Group's main countries of operation are Spain 25% (2022: 25%), the UK 23.5% (2022: 19%) and Ireland 12.5% (2022: 12.5%).

e Payroll related taxes and UK Air Passenger Duty

The Group was also subject to other taxes paid during the year which are as follows:

€ million	**2023**	2022
Payroll related taxes	**604**	522
UK Air Passenger Duty	**936**	722
	1,540	1,244

f Factors that may affect future tax charges

Unrecognised deductible temporary differences and losses

€ million	**2023**	2022
Income tax losses		
Spanish corporate income tax losses	**569**	1,596
Openskies SASU trading losses	**406**	405
UK trading losses	**-**	72
Other trading losses	**13**	11
	988	2,084
Other losses and temporary differences		
Spanish deductible temporary differences	**238**	481
UK capital losses	**341**	343
Irish capital losses	**17**	17
	596	841

None of the unrecognised temporary differences have an expiry date. Further information with regard to the sensitivity of the recoverability of deferred tax assets is given in note 2.

Revocation of Royal Decree-Law 3/2016 in Spain

On 18 January 2024, the *Tribunal Constitucional* (Constitutional Court) in Spain issued a ruling that the amendments to corporate income tax introduced by Royal Decree Law 3/2016 were unconstitutional. Further details are given in note 38.

Unrecognised temporary differences – investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €1,910 million (2022: €823 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal to a material extent.

Tax rate changes

On 3 March 2021 the UK Chancellor of the Exchequer announced that legislation would be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On 24 May 2021 the Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a charge of €13 million (2022: €17 million credit) is recorded in the Income statement and a credit of €3 million (2022: €10 million charge) is recorded in Other comprehensive income.

Engagement with tax authorities

The Group is subject to audit and enquiry by tax authorities in the territories in which it operates, and engages with those tax authorities in a cooperative manner.

During the course of 2023, the Directorate General of GST Intelligence (DGGI) in India has been enquiring into the quantum and nature of any services provided by the corporate head offices of a number of international airlines, including British Airways, to their Indian branches. As at 31 December 2023 and through to the date of these financial statements, the DGGI's enquiries are ongoing.

Pillar Two minimum effective tax rate reform

In 2021 the OECD released the Two Pillar solution to address the tax challenges arising from the digitalisation of the economy. This reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation, and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate.

On 15 December 2022, the Council of the European Union formally adopted the EU Pillar Two Directive. On 22 December 2022 the EU Minimum Tax Directive was published.

On 11 July 2023, the UK enacted Finance (No. 2) Act 2023 which introduced the Multinational Top-up Tax and the Domestic Top-up Tax with effect for accounting periods beginning on or after 31 December 2023. These taxes are the UK's adoption of the income inclusion rule and domestic minimum top-up tax rule referenced in the OECD's Pillar Two reform.

On 18 December 2023, Ireland enacted Finance (No. 2) Act 2023 which, pursuant to the EU Minimum Tax Directive, provided for the introduction of a new minimum effective rate of tax for certain businesses. These rules provide for a Qualified Domestic Top-Up Tax where an in-scope group's Irish operations have an effective rate of tax of less than 15%. They come into force for accounting periods beginning on or after 31 December 2023.

On 19 December 2023, Spain's Council of Ministers approved a draft law to implement the EU Minimum Tax Directive. This is to be subject to consultation, prior to being sent to Parliament.

Under the legislation, the Group is liable to pay a top-up tax for the difference between the effective rate per jurisdiction and the 15 per cent minimum rate. Such legislation applies prospectively for accounting periods beginning on or after 31 December 2023.

For 2023, the predominant jurisdiction in which the Group operates with an effective tax rate of less than 15 per cent is Ireland through Aer Lingus. While the impact of Pillar Two is not yet reasonably possible to estimate, for indicative purposes, in 2023 Aer Lingus recorded a current tax expense of €24 million relating to its Irish operations, representing an effective tax rate of 13 per cent. Had the effective tax rate applied by Aer Lingus to its Irish operations been 15 per cent, the current tax expense would have increased by €4 million to €28 million, which would not have had a significant impact on the overall Group effective tax rate of 13 per cent.

On 23 May 2023, the IASB issued the amendments to IAS 12 – international tax reform: Pillar Two model reforms, effective for periods beginning on or after 1 January 2023. The amendments to IAS 12 provide temporary mandatory relief from the recognition of deferred tax balances arising from the implementation of the Pillar Two legislation. Accordingly, the Group has developed an accounting policy with regard to the recognition of deferred taxes arising from the Pillar Two model rules, where no adjustments to deferred tax assets and liabilities are recognised that arise from the introduction of the minimum 15 per cent effective tax rate.

g Tax-related contingent liabilities

The Group has certain contingent liabilities that could be reliably estimated, across all taxes, but excluding the IAG Loyalty VAT matter detailed below, at 31 December 2023 amounting to €110 million (31 December 2022: €110 million). While the Group does not consider it more likely than not that there will be material losses on these matters, given the inherent uncertainty associated with tax litigation and tax audits, there can be no guarantee that material losses will not eventuate. As the Group considers that its chances of success in each of these matters is more probable than not, it is not appropriate to make a provision for these amounts. Included in the tax-related contingent liabilities are 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 'Merger'). The maximum exposure in this case is €100 million (31 December 2022: €98 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to 31 December 2023.

The Company appealed the assessment to the *Tribunal Económico-Administrativo Central* or 'TEAC' (Central Administrative Tax Tribunal). On 23 October 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 20 December 2019, and on 24 July 2020 filed submissions in support of its case. To assist it in its deliberations as to whether a gain arose from the Merger, on 15 September 2023, the *Audiencia Nacional* commissioned an independent accounting expert to provide a report on the appropriate basis of accounting. As at 31 December 2023 and through to the date of these financial statements, the *Audiencia Nacional* has not ruled on whether a gain arose from the Merger. The Company does not expect a hearing at the *Audiencia Nacional* on this case until mid to late 2024 at the earliest.

The Company disputes the technical merits of the assessment and ruling of the TEAC. Based on legal advice and an external accounting expert's opinion, the Company believes that it has strong arguments to support its appeal. The Company does not consider it appropriate to make a provision for these amounts and accordingly has classified this matter as a contingent liability.

Should the Company be unsuccessful in its appeal to the *Audiencia Nacional*, it would re-assess its position and the associated accounting treatment accordingly.

Within the context of the aforementioned tax audits, the Spanish tax authorities concluded on the value of Iberia's business within the Merger. This valuation was contested by the Company in a separate case, where no tax liability is due. The Company believes there are technical merits for a higher value, something that would indirectly reduce the quantum of the merger gain assessed in the dispute described above. On 18 January 2024, the *Audiencia Nacional* served notice on its judgment issued on 13 December 2023, whereby it ruled in favour of the Spanish tax authorities. The Company believes there are grounds to appeal the judgement to the Supreme Court in Spain. If an appeal on this matter was ultimately successful, it would reduce the exposure of the merger gain described above.

IAG Loyalty VAT

At 31 December 2023, and through to the date of this report, His Majesty's Revenue and Customs (HMRC) has issued protective notices of VAT assessments for the 24 months ended March 2020 to Avios Group (AGL) Limited, a controlled undertaking of the Group trading as IAG Loyalty. At the date of this report none of these protective notices of assessment are due for payment.

During the second quarter of 2023, and while its enquiries are ongoing at the date of this report, HMRC shared with the Group its emerging view on the appropriate VAT accounting, which differs to the current approach by IAG Loyalty. HMRC's emerging view asserts that the charges made by IAG Loyalty are for participating/membership in the Avios scheme and the associated charges and are subject to VAT. IAG Loyalty accounts for VAT depending on the nature of the goods or services for which Avios are redeemed, the vast majority of which are flights, and zero-rated. IAG Loyalty's VAT accounting has and continues to be based on a ruling issued by HMRC.

As at the date of this report, this emerging view did not consider the validity of the rulings HMRC has previously issued with regard to IAG Loyalty's VAT accounting. Accordingly, and while having issued the protective notices, HMRC has not confirmed whether it considers its emerging view to be retroactive or only prospective in nature. The Group expects further developments in this matter during 2024, which may include HMRC issuing an update to its emerging view.

While the Group has continued to engage with HMRC on the underlying facts, circumstances and technical analysis of the matter, as at the date of this report there remain a number of possible scenarios that could eventuate. The Group has reviewed HMRC's emerging view with its legal and tax advisors and considers it has strong arguments to support its VAT accounting, including having received a ruling previously from HMRC on the matter, and therefore does not consider it probable that an adverse outcome will eventuate. Accordingly, the Group does not consider it appropriate to record any provision for this case at 31 December 2023. The Group, in conjunction with its advisors, considers the disclosure of a potential range of exposures, associated with the aforementioned possible scenarios that could eventuate, could prejudice seriously the position of the Group in its ongoing engagement with HMRC.

Should the Group and HMRC be unable to reach agreement on the appropriate VAT accounting, then the Group will have the ability to advance the case by initiating legal proceedings. To enable the Group to advance to initiate legal proceedings, it will need to pay, without admission of liability, to HMRC the total amount of assessments issued at the relevant time, which will be recoverable, in part or in full, should the Group be successful in the case. Until HMRC further progresses its enquiries, it is not possible to determine the payment required, if any, but any potential payment may result in a material cash outflow from the Group.

11 Earnings per share

€ million	**2023**	2022
Earnings attributable to equity holders of the parent for basic earnings per share	**2,655**	431
Income statement impact of convertible bonds	**15**	(104)
Diluted earnings attributable to equity holders of the parent for diluted earnings per share	**2,670**	327

	2023 Number '000	2022 Number '000
Weighted average number of ordinary shares in issue used for basic earnings per share	**4,932,631**	4,958,420
Assumed conversion on convertible bonds	**244,851**	299,557
Dilutive employee share schemes outstanding	**99,093**	86,175
Weighted average number of ordinary shares used for diluted earnings per share	**5,276,575**	5,344,152

€ cents	**2023**	2022
Basic earnings per share	**53.8**	8.7
Diluted earnings per share	**50.6**	6.1

The assumed conversion of the €825 million convertible bond 2028 and outstanding employee share schemes have a dilutive impact on the earnings per share for the years to 31 December 2023 and 31 December 2022 due to the reported profit after tax for the respective years.

For information relating to Adjusted earnings per share refer to the Alternative performance measures section.

12 Dividends

The Directors propose that no dividend be paid for the year to 31 December 2023 (2022: €nil).

The future dividend capacity of the Group is dependent on the liquidity requirements and the distributable reserves of the Group's main operating companies and their capacity to pay dividends to the Company, together with the Company's distributable reserves and liquidity.

As at 31 December 2022, certain debt obligations placed restrictions or conditions on the payment of dividends from the Group's main operating companies to the Company, including a loan to British Airways partially guaranteed by the UKEF and loans to Iberia and Vueling partially guaranteed by the *Instituto de Crédito Oficial* (ICO) in Spain.

As at 31 December 2023, the Group had no restrictions on the payment of dividends from the Group's main operating companies to the Company, other than for British Airways, which has several undrawn committed credit facilities for which the commitments available are subject to certain conditions depending on the scale of any dividend from British Airways to the Company.

In addition, British Airways agreed with the Trustee of its main UK defined benefit pension scheme (NAPS) as part of the triennial valuation as at 31 March 2021 that, subject to the scheme being in technical deficit, any dividends paid to IAG from 1 January 2024 through to 31 December 2024, will trigger a pension contribution of 50 per cent of the amount of the dividend. For the period of 1 January 2025 to 30 September 2025, any dividend in excess of 50 per cent of British Airways' profit after tax will trigger a pension contribution of 50 per cent of the amount of the dividend in excess of the 50 per cent of profit after tax. At 31 December 2023, NAPS was in technical surplus, and any dividend that British Airways were to pay to IAG, would not trigger a payment into NAPS unless NAPS were to move back into technical deficit. Further details on the British Airways dividend restrictions agreed with NAPS are given in note 34a.

13 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at 1 January 2022	25,996	3,125	1,450	30,571
Additions	3,765	61	101	3,927
Modification of leases	241	129	–	370
Disposals	(1,700)	(406)	(120)	(2,226)
Reclassifications	(4)	–	–	(4)
Transfers to Non-current assets held for sale (note 16)	(44)	–	–	(44)
Exchange movements	(552)	(73)	(31)	(656)
Balance at 31 December 2022	27,702	2,836	1,400	31,938
Additions	3,543	47	163	**3,753**
Modification of leases	224	204	1	**429**
Disposals	(1,360)	(35)	(40)	**(1,435)**
Reclassifications	(2)	(1)	(7)	**(10)**
Exchange movements	264	35	15	**314**
Balance at 31 December 2023	**30,371**	**3,086**	**1,532**	**34,989**
Depreciation and impairment				
Balance at 1 January 2022	10,880	1,473	1,057	13,410
Depreciation charge for the year	1,642	168	79	1,889
Impairment reversal for the year[1]	(8)	–	–	(8)
Disposals	(857)	(403)	(107)	(1,367)
Transfers to Non-current assets held for sale (note 16)	(25)	–	–	(25)
Exchange movements	(247)	(32)	(28)	(307)
Balance at 31 December 2022	11,385	1,206	1,001	13,592
Depreciation charge for the year	1,676	122	72	**1,870**
Disposals	(331)	(34)	(34)	**(399)**
Exchange movements	121	16	13	**150**
Balance at 31 December 2023	**12,851**	**1,310**	**1,052**	**15,213**

1 For details regarding the 2022 impairment reversal on fleet assets refer to the Alternative performance measures section. For details regarding the operating segment in which the 2022 impairment reversal arose, see note 5.

Net book values				
31 December 2023	**17,520**	**1,776**	**480**	**19,776**
31 December 2022	16,317	1,630	399	18,346

€ million	Fleet	Property	Equipment	Total
Analysis at 31 December 2023				
Owned	8,828	907	384	**10,119**
Right of use assets (note 14)	7,681	838	15	**8,534**
Progress payments	914	31	79	**1,024**
Assets not in current use	97	–	2	**99**
Property, plant and equipment	**17,520**	**1,776**	**480**	**19,776**
Analysis at 31 December 2022				
Owned	7,242	833	338	8,413
Right of use assets (note 14)	7,993	684	20	8,697
Progress payments	1,071	113	40	1,224
Assets not in current use	11	–	1	12
Property, plant and equipment	16,317	1,630	399	18,346

The net book value of property comprises:

€ million	2023	2022
Freehold	**482**	469
Right of use assets (note 14)	**838**	684
Long leasehold improvements with a contractual life in excess of 50 years	**308**	301
Short leasehold improvements with a contractual life of less than 50 years	**148**	176
Property	**1,776**	1,630

At 31 December 2023, bank and other loans of the Group are secured on owned fleet assets with a net book value of €4,736 million (2022: €3,931 million).

14 Leases

a Amounts recognised in the Consolidated balance sheet

Property, plant and equipment includes the following amounts relating to right of use assets:

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2022	14,218	949	74	15,241
Additions	586	28	1	615
Modifications of leases	241	129	–	370
Disposals	(214)	(171)	(2)	(387)
Reclassifications[1]	(849)	–	(24)	(873)
Exchange movements	(232)	(24)	–	(256)
31 December 2022	13,750	911	49	14,710
Additions	853	17	–	**870**
Modification of leases	224	204	1	**429**
Disposals	(117)	(5)	(6)	**(128)**
Reclassifications[1]	(831)	–	(1)	**(832)**
Exchange movements	104	13	–	**117**
31 December 2023	**13,983**	**1,140**	**43**	**15,166**
Depreciation and impairment				
Balance at 1 January 2022	5,592	309	37	5,938
Depreciation charge for the year	991	93	8	1,092
Impairment reversal for the year[2]	(8)	–	–	(8)
Disposals	(191)	(170)	(1)	(362)
Reclassifications[1]	(528)	–	(14)	(542)
Exchange movements	(99)	(5)	(1)	(105)
31 December 2022	5,757	227	29	6,013
Depreciation charge for the year	996	76	5	**1,077**
Disposals	(117)	(4)	(6)	**(127)**
Reclassifications[1]	(380)	–	–	**(380)**
Exchange movements	46	3	–	**49**
31 December 2023	**6,302**	**302**	**28**	**6,632**
Net book value				
31 December 2023	**7,681**	**838**	**15**	**8,534**
31 December 2022	7,993	684	20	8,697

1 Amounts with a net book value of €452 million (2022: €331 million) were reclassified from ROU assets to owned Property, plant and equipment at the cessation of the respective leases. The assets reclassified relate to leases with purchase options that were grandfathered as ROU assets upon transition to IFRS 16, for which the Group had been depreciating over the expected useful life of the aircraft, incorporating the purchase option.

2 For details regarding the 2022 impairment reversal on fleet assets refer to the Alternative performance measures section.

Interest-bearing long-term borrowings includes the following amount relating to lease liabilities:

€ million	2023	2022
1 January	**9,619**	9,637
Additions	**876**	639
Modifications of leases	**439**	378
Repayments	**(2,216)**	(1,886)
Interest expense	**508**	464
Disposals	**-**	(28)
Exchange movements	**(259)**	415
31 December	**8,967**	9,619
Current	**1,826**	1,766
Non-current	**7,141**	7,853

b Amounts recognised in the Income statement

€ million	2023	2022
Amounts not included in the measurement of lease liabilities		
Variable lease payments	**1**	2
Expenses relating to short-term leases	**24**	39
Amounts expensed as a result of the recognition of ROU assets and lease liabilities		
Interest expense on lease liabilities	**508**	464
(Gains)/losses arising from sale and leaseback transactions	**(7)**	1
Depreciation charge for the year	**1,077**	1,092
Impairment reversal for the year	**-**	(8)

c Amounts recognised in the Cash flow statement

See note 35 for details of the amounts recognised in the Cash flow statement for the years to 31 December 2023 and 31 December 2022.

The Group is exposed to future cash outflows (on an undiscounted basis) at 31 December 2023, for which an amount of €36 million (2022: nil) has been recognised in relation to leases not yet commenced to which the Group is committed.

d Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 29f.

e Extension options

The Group has certain leases which contain extension options exercisable by the Group prior to the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options.

The Group is exposed to future cash outflows (on an undiscounted basis) at 31 December 2023, for which no amount has been recognised, for potential extension options of €979 million (2022: €945 million) due to it not being reasonably certain that these leases will be extended.

f Lessor accounting

The Group leases out certain of its property, plant and equipment. The Group has classified those leases that transfer substantially all of the risks and rewards of ownership to the lessee as finance leases and those leases that do not transfer substantially all of the risks and rewards of ownership to the lessee as operating leases.

Finance leases

Rental income from finance leases recognised by the Group in 2023 was €2 million (2022: €4 million). Rental income is recorded within Property, IT and other within the Income statement.

The following table sets out a maturity analysis of finance lease receipts, showing the undiscounted lease receipts to be received after the reporting date:

€ million	2023	2022
Within one year	6	2
One to two years	5	6
Two to five years	3	–
More than five years	–	–
Total undiscounted lease receipts	14	8
Less finance income	(1)	(1)
Net investment in finance leases	13	7

15 Capital expenditure commitments

Capital expenditure authorised and contracted but not provided for in the accounts, including outstanding aircraft commitments, at 31 December 2023 amounted to €12,706 million (31 December 2022: €13,749 million). The outstanding aircraft commitments including the expected delivery timeframes, totalling €11,966 million (2022: €13,484 million), are as follows:

Aircraft future deliveries at 31 December	2023[1]	2022[1]
Airbus A320 (from 2024 to 2028)	49	45
Airbus A321 (from 2024 to 2028)	33	46
Airbus A321 XLR (from 2024 to 2026)	14	14
Airbus A350-900 (from 2024 to 2025)	2	7
Airbus A350-1000 (in 2024)	1	5
Boeing 777-9 (from 2026 to 2028)	18	18
Boeing 787-10 (from 2024 to 2026)	11	7
Boeing 737-8200 (from 2025 to 2027)	25	25
Boeing 737-10 (from 2027 to 2028)	25	25
Total[2]	178	192

1 Capital commitments exclude options to purchase additional aircraft.

2 Total deliveries excludes three Airbus A320 aircraft committed for delivery under lease agreements in 2024. For further information see note 14.

On 30 June 2023 the Group converted 10 Airbus A320neo options into firm orders. The aircraft will be delivered in 2028 and will be used by any of the Group's current airlines to replace A320ceo family aircraft.

On 27 July 2023, the Group converted six Boeing 787-10 options held by British Airways into firm orders and at the same time added a further six 787-10 options to its long-haul order book. The Group also converted one Airbus A350-900 option held by Iberia into a firm order. These aircraft will be delivered in 2025 and 2026 and will be used by British Airways and Iberia to restore capacity in the airlines' long-haul fleets.

The majority of these commitments are denominated in US dollars translated at the closing exchange rate at the reporting date and include escalation clauses dependent on the timing of aircraft deliveries. Under the terms of the committed purchase agreements, the Group is required to make periodic progress payments towards the purchase price, with the commitments above stated net of progress payments that have been made at the reporting date.

The Group has certain rights to defer aircraft deliveries and to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at 31 December 2023.

16 Non-current assets held for sale

As at 31 December 2023, there were no non-current assets held for sale.

As at 31 December 2022, the non-current assets held for sale of €19 million represented two Airbus A321 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft were presented within the British Airways segment and exited the business during the first half of 2023.

17 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Software	ETS assets	Other	Total
Cost								
Balance at 1 January 2022	596	451	253	1,605	1,674	62	87	4,728
Additions	–	–	–	14	218	360	1	593
Disposals	–	–	–	(6)	(52)	(9)	–	(67)
Exchange movements	(1)	–	–	(25)	(34)	(6)	–	(66)
Balance at 31 December 2022	595	451	253	1,588	1,806	407	88	5,188
Additions	–	–	–	–	365	264	1	630
Disposals	–	–	–	(6)	(49)	(96)	–	(151)
Reclassifications	–	–	–	–	23	–	(15)	8
Exchange movements	1	–	–	11	18	2	–	32
31 December 2023	**596**	**451**	**253**	**1,593**	**2,163**	**577**	**74**	**5,707**
Amortisation and impairment								
Balance at 1 January 2022	249	–	–	142	1,032	–	66	1,489
Amortisation charge for the year	–	–	–	6	210	–	2	218
Disposals	–	–	–	–	(50)	–	–	(50)
Exchange movements	–	–	–	(2)	(23)	–	–	(25)
Balance at 31 December 2022	249	–	–	146	1,169	–	68	1,632
Amortisation charge for the year	–	–	–	6	185	–	2	193
Disposals	–	–	–	–	(39)	–	–	(39)
Exchange movements	–	–	–	1	11	–	–	12
31 December 2023	**249**	**–**	**–**	**153**	**1,326**	**–**	**70**	**1,798**
Net book values								
31 December 2023	**347**	**451**	**253**	**1,440**	**837**	**577**	**4**	**3,909**
31 December 2022	346	451	253	1,442	637	407	20	3,556

1 The net book value includes non-UK and non-EU based landing rights of €63 million (2022: €69 million) that have a definite life. The remaining average life of these landing rights is 12 years.

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill allocated to cash generating units (CGUs) of the Group are:

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	**Total**
2023					
Iberia					
1 January and 31 December 2023	–	306	–	423	**729**
British Airways					
1 January 2023	46	–	–	794	**840**
Disposals	–	–	–	(6)	**(6)**
Exchange movements	1	–	–	10	**11**
31 December 2023	47	–	–	798	**845**
Vueling					
1 January and 31 December 2023	28	35	–	94	**157**
Aer Lingus					
1 January and 31 December 2023	272	110	–	62	**444**
IAG Loyalty					
1 January and 31 December 2023	–	–	253	–	**253**
31 December 2023	**347**	**451**	**253**	**1,377**	**2,428**

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Total
2022					
Iberia					
1 January and 31 December 2022	–	306	–	423	729
British Airways					
1 January 2022	47	–	–	809	856
Additions	–	–	–	14	14
Disposals	–	–	–	(6)	(6)
Exchange movements	(1)	–	–	(23)	(24)
31 December 2022	46	–	–	794	840
Vueling					
1 January and 31 December 2022	28	35	–	94	157
Aer Lingus					
1 January and 31 December 2022	272	110	–	62	444
IAG Loyalty					
1 January and 31 December 2022	–	–	253	–	253
31 December 2022	346	451	253	1,373	2,423

1 Landing rights excludes non-UK and non-EU based landing rights of €63 million (2022: €69 million) that have a definite life.

Basis for calculating recoverable amount

The recoverable amounts of the Group's CGUs have been measured based on their value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 2, with a weighting of 70 per cent to the Base Case and 30 per cent to the Downside Case. Cash flow projections are based on the business plans approved by the relevant operating companies covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using each CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and their respective boards approve three-year business plans, and the IAG Board approves the Group three-year business plan in the fourth quarter of the year. Adjustments have been made to the final year of the business plan cash flows to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations (see note 4). The business plan cash flows used in the value-in-use calculations also reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by management under existing labour agreements.

Key assumptions

The value-in-use calculations for each CGU reflect the wider economic and geopolitical environments, including updated projected cash flows for activity from 2024 through to the end of 2026. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

	2023				
Per cent	**British Airways**	**Iberia**	**Vueling**	**Aer Lingus**	**IAG Loyalty**
Operating margin[1]	**7-14**	**7-14**	**4-12**	**6-14**	**23**
Average ASK growth per annum[1]	**3-9**	**4-10**	**1-6**	**2-16**	**n/a**
Long-term growth rate	**1.7**	**1.5**	**0.9**	**1.3**	**1.5**
Pre-tax discount rate	**11.2**	**12.2**	**14.3**	**10.9**	**14.8**

	2022				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin[1]	5-13	5-10	0-10	4-12	23-25
ASKs as a proportion of 2019[1, 2]	90-105	92-107	113-123	102-127	n/a
Long-term growth rate	1.7	1.5	1.4	1.6	1.7
Pre-tax discount rate	10.4	11.2	12.8	10.1	13.4

1 Average ASK growth per annum, ASKs as a proportion of 2019 and operating margin are stated as the weighted average derived from the multi-scenario discounted cash flow model.

2 Given the impact of the COVID-19 pandemic, in 2022 the Group presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation.

Jet fuel price ($ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
2023	**895**	**829**	**800**	**800**
2022	867	809	780	780

Forecast ASKs in the current year modelling represent the range of average annual increases in capacity 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, considering a number of data points: (i) industry publications; (ii) forecast weighted average exposure in each primary market using gross domestic product (GDP); and (iii) internal analysis regarding the long-term changes in consumer preferences and the effects on demand from the increased costs to the Group of climate change. The calculation of the long-term growth rate utilises a Base Case and a Downside Case growth rate, which is then weighted on the same basis as the cash flows detailed above of 70 per cent to the Base Case and 30 per cent to the Downside Case. The terminal value cash flows and long-term growth rate incorporate the impacts of climate change insofar as they can be determined (see note 4). The airlines' network plans and the IAG Loyalty forecasts are reviewed annually as part of the three-year business plan preparation and reflect management's plans in response to specific market risk or opportunity.

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 calculations are based on the circumstances of the airline industry, the loyalty scheme industry, the Group and the CGU. These rates are derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines and loyalty schemes. The cost of equity is derived from the expected return on investment by airline and loyalty scheme investors and the cost of debt is derived from both market data and industry gearing levels derived from comparable companies. 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. The Group engages an external valuation expert as at the valuation date to assist in the determination of the post-tax discount rate.

Jet fuel price assumptions are derived from forward price curves in the fourth quarter of each year and sourced externally from readily available market data at the valuation date. The cash flow forecasts reflect these price increases after taking into consideration the level of fuel derivatives and their associated prices that the Group has in place and the incremental price differentials expected for the purchase of SAF.

As detailed above, the Group adjusts the final year of the three-year business plans to incorporate the medium-term impacts of climate change from the Group's Flightpath Net Zero climate strategy through to 2030. These adjustments include the following key assumptions: (i) a 10 per cent level of SAF consumption out of the overall fuel mix with an assumed price of €3,412 per metric tonne; (ii) a kerosene tax of €526 per metric tonne on all intra-EU flights; (iii) for costs of carbon, prices of €173, €173, €110 and €19 for EU ETS allowances, Swiss ETS allowances, UK ETS allowances and CORSIA allowances, respectively, per tonne of CO_2 equivalents emitted; and (iv) the removal of all free ETS and CORSIA allowances.

Summary of results

At 31 December 2023 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, both individually and in combination, have been considered for each CGU, where applicable, which include reducing the operating margin by 2 percentage points in each year, reducing ASKs by 5 percentage points in each year, reducing long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points and increasing the fuel price (both jet fuel and SAF) by 40 per cent, both with cost recovery consistent with that experienced historically and with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible impact of climate change on the CGUs greater than that included in the impairment models.

For the British Airways, Iberia, Vueling and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €15,752 million, €4,736 million, €1,271 million and €1,884 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible but not probable changes, over the forecast period, in assumptions in each of the following scenarios:

- *British Airways:* (i) if ASKs had been 5 per cent lower combined with a fuel price increase without cost recovery of 24 per cent; and (ii) if the fuel price had been 29 per cent higher without cost recovery;
- *Iberia:* (i) if ASKs had been 5 per cent lower combined with a fuel price increase without cost recovery of 21 per cent; and (ii) if the fuel price had been 24 per cent higher without cost recovery;
- *Vueling:* (i) if ASKs had been 5 per cent lower combined with a fuel price increase without cost recovery of 12 per cent; and (ii) if the fuel price had been 18 per cent higher without cost recovery; and
- *Aer Lingus:* (i) if ASKs had been 5 per cent lower combined with a fuel price increase without cost recovery of 16 per cent; and (ii) if the fuel price had been 23 per cent higher without cost recovery.

For the remainder of the reasonably possible changes in key assumptions applied to the British Airways, Iberia, Vueling and Aer Lingus CGUs and for all the reasonably possible changes in key assumptions applied to the IAG Loyalty CGU, no impairment arises.

18 Investments

a Investments in subsidiaries

The Group's subsidiaries at 31 December 2023 are listed in the Group investments section.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly do not differ from the proportion of ordinary shares held. There have been no significant changes in ownership interests of subsidiaries during the year.

The total non-controlling interest at 31 December 2023 is €6 million (2022: €6 million).

b Investments in associates and joint ventures

The share of assets, liabilities, revenue and profit of the Group's associates and joint ventures, which are included in the Group's financial statements, are as follows:

€ million	**2023**	2022
Total assets	**166**	148
Total liabilities	**(119)**	(104)
Revenue	**107**	89
Profit for the year	**6**	5

The detail of the movement in investment in associates and joint ventures is shown as follows:

€ million	**2023**	2022
At beginning of year	**43**	40
Share of retained profits	**6**	5
Dividends received	**(2)**	(2)
	47	43

At 31 December 2023 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At both 31 December 2023 and 31 December 2022 the investment in Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

19 Other equity investments

Other equity investments include the following:

€ million	**2023**	2022
Unlisted securities	**188**	55
	188	55

The credit relating to Other equity investments was €3 million (2022: charge of €3 million).

Investment in Air Europa Holdings

On 15 June 2022, the Group entered into a financing arrangement with Globalia Corporación Empresarial, S,A, ('Globalia'), whereby, the Group provided a €100 million seven-year unsecured loan, which was convertible for a period of two years from inception into a fixed number of the shares of Air Europa Holdings, S.L. ('Air Europa Holdings'), a wholly owned subsidiary of Globalia. Subsequently, on 16 August 2022, the Group exercised its exchange option with Globalia and converted the aforementioned loan into an investment in 20 per cent of the share capital of Air Europa Holdings, which is recorded as an Other equity investment.

On 23 February 2023, the Group entered into an agreement to acquire the remaining 80 per cent of the share capital of Air Europa Holdings that it had not previously owned. The acquisition is conditional on Globalia receiving approval from the syndicated banks that provide the loan agreements that are partially guaranteed by the *Instituto de Crédito Oficial* (ICO) and *Sociedad Estatal de Participaciones Industriales* (SEPI) in Spain. The acquisition is also subject to approval by relevant competition authorities. Until the completion of these approvals, the acquisition does not meet the recognition criteria under IFRS 3 Business combinations, and accordingly the Group continues to recognise the 20 per cent share capital ownership of Air Europa Holdings as an Other equity investment (see note 2 for critical judgement applied in this classification).

At 31 December 2023, the fair value of the investment in Air Europa Holdings was €129 million, representing an increase of €105 million from the €24 million recorded at 31 December 2022, with the fair value movement having been recorded within Other comprehensive income.

The Group, with its external valuation advisors, determined the fair value of the investment in Air Europa Holdings at 31 December 2023 and 31 December 2022, using both the market approach and the income approach, whereby the Group used both observable market data and unobservable inputs. The fair value was determined on the stand-alone basis of Air Europa Holdings without consideration of potential synergies that could be obtained if the Group were able to obtain control over the operations of Air Europa Holdings.

In determining the fair value of the investment in Air Europa Holdings at 31 December 2023, the Group used the following significant unobservable inputs: (i) revenue compound annual growth rate of 4.0 per cent; (ii) an EBITDA range of 3.6 to 6.5 per cent; and (iii) a risk-adjusted pre-tax discount rate of 13.9 per cent.

20 Trade and other receivables

€ million	2023	2022
Amounts falling due within one year		
Trade receivables	**1,673**	1,444
Provision for expected credit loss	**(114)**	(114)
Net trade receivables	**1,559**	1,330
Prepayments[1]	**750**	639
Accrued income[1, 2]	**495**	231
Other non-trade receivables	**329**	356
Other current receivables	**1,574**	1,226
Amounts falling due after one year		
Prepayments	**401**	337
Accrued income	**9**	–
Other non-trade receivables	**22**	25
Other receivables due after one year	**432**	362

1 For the year ended 31 December 2023, the Group has elected to disaggregate prepayments and accrued income, which had previously been aggregated into a single line item. Accordingly figures for the comparative year to 31 December 2022 have been reclassified to conform with the current year presentation.

2 The accrued income balance (representing contract assets) predominantly relates to revenue earned from ongoing maintenance and overhaul services, where the balances vary depending on the number of ongoing activities at the reporting date.

Movements in the provision for expected credit loss were as follows:

€ million	2023	2022
At beginning of year	**114**	115
Provided during the year	**4**	10
Released during the year	**(3)**	(1)
Receivables written off during the year	**(1)**	(9)
Exchange movements	**–**	(1)
	114	114

Trade receivables are generally non-interest-bearing and on 30 days terms (2022: 30 days).

The credit risk exposure on the Group's trade receivables is set out below:

31 December 2023

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	**959**	**296**	**241**	**53**	**124**
Expected credit loss rate	**0.1%**	**0.1%**	**1.7%**	**7.5%**	**85.2%**
Provision for expected credit loss	**–**	**–**	**4**	**4**	**106**

31 December 2022

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	719	509	91	25	100
Expected credit loss rate	0.3%	0.1%	1.1%	44.0%	100.0%
Provision for expected credit loss	2	–	1	11	100

21 Inventories

€ million	2023	2022[1]
Engineering expendables	**417**	296
Catering consumables	**43**	36
Other inventories	**34**	21
	494	353

1 For the year to 31 December 2023, the Group has elected to provide a disaggregated breakdown of the Balance sheet caption 'Inventories' and has accordingly provided figures for the comparative year at 31 December 2022.

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

a Cash

€ million	2023	2022
Cash at bank and in hand	**1,531**	3,286
Short-term deposits maturing within three months	**3,910**	5,910
Cash and cash equivalents	**5,441**	9,196
Current interest-bearing deposits maturing after three months	**1,396**	403
Cash, cash equivalents and other interest-bearing deposits	**6,837**	9,599

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are for periods up to three months and earn interest based on the floating deposit rates.

At 31 December 2023, the Group had no outstanding bank overdrafts (2022: €nil).

Current interest-bearing deposits have maturities in excess of three months and typically within 12 months of the reporting date and earn interest based on the market rates available at the time the deposit was made.

At 31 December 2023, Aer Lingus held €31 million of restricted cash (2022: €33 million) within interest-bearing deposits maturing after more than three months to be used for employee-related obligations.

b Net debt

Movements in net debt were as follows:

€ million	Balance at 1 January 2023	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at 31 December 2023
Bank, other loans, convertible bond and asset financed liabilities	10,365	(3,267)	(102)	–	119	**7,115**
Lease liabilities	9,619	(1,731)	(259)	1,315	23	**8,967**
Cash and cash equivalents	(9,196)	3,753	2	–	–	**(5,441)**
Current interest-bearing deposits	(403)	(985)	(8)	–	–	**(1,396)**
	10,385	**(2,230)**	**(367)**	**1,315**	**142**	**9,245**

€ million	Balance at 1 January 2022	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at 31 December 2022
Bank, other loans, convertible bond and asset financed liabilities	9,973	386	103	–	(97)	10,365
Lease liabilities	9,637	(1,455)	415	1,017	5	9,619
Cash and cash equivalents	(7,892)	(1,316)	12	–	–	(9,196)
Current interest-bearing deposits	(51)	(351)	(1)	–	–	(403)
	11,667	(2,736)	529	1,017	(92)	10,385

23 Trade and other payables

€ million	2023	2022
Trade creditors[1]	**3,177**	2,969
Other creditors	**1,244**	1,244
Other taxation and social security	**262**	228
Accruals[1]	**683**	665
Deferred income relating to non-flight activity[2]	**224**	103
	5,590	5,209

1 Trade creditors includes €nil (2022: €48 million) due to suppliers that have signed up to supply chain financing programmes offered by a number of partner financial institutions. While the Group no longer provides such a service to its suppliers, in 2022, these programmes either or both: (i) the suppliers could elect on an invoice-by-invoice basis to receive a discounted early payment from the partner financial institutions rather than being paid in line with the agreed payment terms; and/or (ii) the Group could have elected on an invoice-by-invoice basis for the partner financial institution to pay the supplier in line with the agreed payment terms and the Group enter into payment terms with the partner financial institution of up to 150 days with interest incurred at 2.5 per cent.

The Group, in 2022, assessed the arrangement against indicators to assess if liabilities which suppliers had transferred to the partner financial institutions under the supplier financing programmes continued to meet the definition of trade creditors or should have been classified as borrowings. The cash flows arising from such arrangements were reported within cash flows from operating activities or within cash flows from financing activities, in the Consolidated cash flow statement, depending on whether the associated liabilities met the definition of trade creditors or as borrowings.

At 31 December 2023 and 31 December 2022, these liabilities met the criteria of Trade creditors and are excluded from the Net debt table in note 22b.

2 For the year ended 31 December 2023, the Group has elected to disaggregate accruals and deferred income, which had previously been aggregated into a single line item. Accordingly figures for the comparative year to 31 December 2022 have been reclassified to conform with the current year presentation.

Average payment days to suppliers – Spanish Group companies

Days	2023	2022
Average payment days for payment to suppliers	**25**	34
Ratio of transactions paid	**25**	33
Ratio of transactions outstanding for payment	**17**	53

€ million	2023	2022
Total payments made	**10,966**	6,676
Total payments outstanding	**158**	264

Information on invoices paid in a period shorter than the maximum period established in the late payment regulations – Spanish Group companies

	2023	2022
Total payments made (€ million)	**10,002**	5,111
Percentage share of total payments to suppliers	**91%**	77%
Number of invoices paid (thousand)	**213**	110
Percentage share of total number of invoices paid	**76%**	48%

24 Deferred revenue

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at 1 January 2023	2,630	5,014	**7,644**
Cash received from customers[1]	–	21,107	**21,107**
Revenue recognised in the Income statement[2, 3]	(1,052)	(21,015)	**(22,067)**
Financing charge recognised in the Income statement	15	–	**15**
Loyalty points issued to customers[4]	1,085	161	**1,246**
Exchange movements	34	44	**78**
Balance at 31 December 2023	**2,712**	**5,311**	**8,023**
Analysis:			
Current	2,455	5,311	**7,766**
Non-current	257	–	**257**
	2,712	**5,311**	**8,023**

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at 1 January 2022	2,820	3,732	6,552
Cash received from customers[1]	–	21,000	21,000
Revenue recognised in the Income statement[2, 3, 5]	(801)	(19,708)	(20,509)
Financing charge recognised in the Income statement	21	–	21
Loyalty points issued to customers[4]	662	82	744
Exchange movements	(72)	(92)	(164)
Balance at 31 December 2022	2,630	5,014	7,644
Analysis:			
Current	2,304	5,014	7,318
Non-current	326	–	326
	2,630	5,014	7,644

1 Cash received from customers is net of refunds.

2 Where the Group acts as an agent in the provision of redemption products and services to customers through loyalty programmes, or in the provision of interline flights to passengers, revenue is recognised in the Income statement net of the related costs.

3 Included within revenue recognised in the Income statement during 2023 is an amount of €3,914 million previously held as deferred revenue at 1 January 2023 (recognised during 2022 and previously held as deferred revenue at 1 January 2022: €2,183 million).

4 Included within loyalty points issued to customers at 31 December 2023 is an amount of €161 million (31 December 2022: €82 million) classified within Sales in advance of carriage representing the cash component of the consideration paid by customers, where such consideration comprises both cash and the redemption of Avios.

5 The 2022 results include an aggregation to conform with the current basis of preparation, where the changes in estimates have been amalgamated with revenue recognised in the Income statement.

The unsatisfied performance obligation under the Group's customer loyalty programmes that is classified as non-current was €241 million at 31 December 2023, all of which is expected to be recognised as revenue within one to five years from the reporting date.

Deferred revenue relating to customer loyalty programmes consists primarily of consideration allocated to performance obligations associated with Avios. Avios are issued by the Group's airlines through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programmes. While Avios do not have an expiry date and can be redeemed at any time in the future, a customer's membership account is closed if there is a period of 36 months of inactivity in terms of both issuances and redemptions. Revenue may therefore be recognised at any time in the future.

Unredeemed vouchers liability

At 31 December 2023 the Group recognised €645 million in respect of unredeemed vouchers, including associated taxes (2022: €911 million) within Deferred revenue. Of the €645 million, €139 million relates to vouchers issued due to COVID-19 pandemic flight cancellations, referred to as 'disrupted flights' and €506 million relates to non-disrupted voucher issuance, such as the British Airways 'Book with Confidence' policy (where customers were provided the flexibility to change their destination and/or date of travel on non-disrupted flights), certain other flexible fare options, non-air partner companion vouchers and gift vouchers.

The jurisdiction in which a voucher is issued, dictates the period over which a customer can redeem the voucher, which ranges up to six years from the point of issuance. This period of time is also influenced by whether the voucher was issued for disrupted flights or non-disrupted issuance and whether statutory or commercial expiry policies prevail. The Group expects the majority of the total voucher liability to mature within 12 months of the reporting date.

During, and subsequent to, the recovery from the COVID-19 pandemic, the Group, across each of its operating companies, has engaged in marketing campaigns and direct customer engagement in an attempt to maximise redemption of these vouchers. Despite these efforts, the Group expects some of these vouchers to expire unredeemed. The Group estimates the number of these vouchers, both for disrupted flights and non-disrupted issuance, not expected to be redeemed prior to expiry using statistical modelling based on historical experience and expected future redemptions, recognising this estimated value as passenger revenue when it can be reasonably determined that there will not be a significant reversal of this revenue in future accounting periods.

A 5 percentage point increase in the assumption of the number of vouchers outstanding at 31 December 2023 and not expected to be redeemed prior to expiry would result in a reduction to Deferred revenue of €32 million, with an offsetting adjustment to increase Passenger revenue and Operating profit recognised in the year.

25 Other long-term liabilities

€ million	**2023**	2022
Non-current trade creditors	**164**	147
Accruals and deferred income	**55**	53
	219	200

26 Long-term borrowings

a Total borrowings

€ million	2023 Current	2023 Non-current	2023 Total	2022 Current	2022 Non-current	2022 Total
Bank and other loans[1]	**113**	**1,840**	**1,953**	813	5,128	5,941
Convertible bond[1]	**9**	**726**	**735**	9	596	605
Asset financed liabilities	**303**	**4,124**	**4,427**	255	3,564	3,819
Lease liabilities	**1,826**	**7,141**	**8,967**	1,766	7,853	9,619
Interest-bearing long-term borrowings	**2,251**	**13,831**	**16,082**	2,843	17,141	19,984

1 The 2022 total borrowings include a reclassification to conform with the current basis of presentation, where the 2028 convertible bond, amounting to €605 million at 31 December 2022 and accounted for at fair value, has been separated from Bank and other loans. There is no change to total borrowings.

Long-term borrowings of the Group amounting to €4,516 million (31 December 2022: €3,962 million) are secured on owned fleet assets with a net book value of €4,736 million (31 December 2022: €3,931 million). All asset financed liabilities, included within long-term borrowings, are all secured on the associated aircraft or other property, plant and equipment.

b Bank, other loans and convertible bond

€ million	2023	2022
€825 million fixed rate 1.125 per cent convertible bond 2028[1]	**735**	605
€700 million fixed rate 3.75 per cent unsecured bond 2029[2]	**717**	717
€500 million fixed rate 2.75 per cent unsecured bond 2025[2]	**510**	509
€500 million fixed rate 1.50 per cent bond 2027[3]	**500**	499
Floating rate euro mortgage loans secured on aircraft[4]	**114**	143
Fixed rate secured bonds[5]	**56**	56
Fixed rate unsecured US dollar mortgage loan[6]	**46**	71
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[7]	**10**	10
Floating rate pound sterling term loan guaranteed by the UK Export Finance (UKEF)[8]	**–**	2,315
Floating rate *Instituto de Crédito Oficial* (ICO) guaranteed loans[9]	**–**	1,070
€500 million fixed rate 0.50 per cent bond 2023[3]	**–**	501
Ireland Strategic Investment Fund (ISIF) facility[10]	**–**	50
Total bank, other loans and convertible bond	**2,688**	6,546
Less: current instalments due on bank, other loans and convertible bond	**(122)**	(822)
Total non-current bank, other loans and convertible bond	**2,566**	5,724

1 See details of the 2028 convertible bond below.

2 On 25 March 2021, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1.2 billion, €500 million due 25 March 2025 and €700 million due 25 March 2029. The bonds bear a fixed rate of interest of 2.75 per cent and 3.75 per cent per annum, payable in arrears, respectively. The bonds were issued at 100 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.

3 In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due 4 July 2023 and €500 million due 4 July 2027. The 2023 bond bore a fixed rate of interest of 0.5 per cent per annum and was redeemed in full at maturity on 4 July 2023. The 2027 bond bears a fixed rate of interest of 1.5 per cent per annum annually payable in arrears. The 2027 bond was issued at 98.803 per cent of its principal amount, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of its principal amount on its maturity date.

4 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 4.45 and 5.46 per cent. The loans are repayable between 2024 and 2027.

5 Total of €55 million fixed rate secured bonds with 3.75 per cent coupon repayable between 2024 and 2027.

6 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.38 to 2.86 per cent. The loan is repayable between 2025 and 2026.

7 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear nil interest and are repayable in 2031.

8 On 22 February 2021, British Airways entered into a floating rate five-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by the UKEF. On 1 November 2021, British Airways entered into a further five-year term loan Export Development Guarantee Facility of €1.1 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by the UKEF. On 28 September 2023, British Airways repaid the £2.0 billion term loan in full, while concurrently entering into a further five-year term loan Export Development Guarantee Facility of €1.2 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by the UKEF. The terms and maturity of the Export Development Guarantee Facility entered into in November 2021 remain unchanged. These two remaining UKEF guaranteed facilities had not been drawn as at 31 December 2023.

9 On 30 April 2020, Iberia and Vueling entered into floating rate syndicated financing agreements of €750 million and €260 million respectively. On 31 October 2023, Iberia repaid its loan in full. On 30 November 2023, Vueling repaid its loan in full.

10 On 23 December 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. On 27 March 2021, Aer Lingus entered into a further floating rate financing agreement with the ISIF for an additional €75 million. On 4 March 2022, Aer Lingus entered into a financing arrangement with ISIF, which subsequently extinguished the existing €150 million of facilities and replaced them with a €350 million facility that matures in March 2025. On 13 December 2022 and 4 March 2023, Aer Lingus early repaid €100 million and €50 million, respectively, of the ISIF facility, with these amounts being available to draw again over the tenor of the facility. The facility is secured on specific landing rights. At 31 December 2023, €350 million of this facility remained undrawn.

In addition, on 23 March 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility of $1.755 billion accessible by British Airways, Iberia and Aer Lingus. On 23 August 2022, the Group extended the term of the Revolving Credit Facility by an additional 12 months through to March 2025. On 23 August 2023, of the $1.755 billion facility, the Group further extended the terms of the $1.655 billion Revolving Credit Facility by an additional 12 months through to March 2026 with the remaining $100 million available through to March 2025. As at 31 December 2023 no amounts had been drawn under the facility (2022: nil). While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be secured, in the respective operating companies, against: (i) specific landing rights; or (ii) aircraft; or (iii) or a combination of both.

Details of the 2028 convertible bond

On 11 May 2021, the Group issued the €825 million fixed rate 1.125 per cent senior unsecured bond convertible into ordinary shares of IAG. The convertible bond raised net proceeds of €818 million and matures in 2028. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date.

The convertible bond provides bondholders with dividend protection and includes a total of 244,850,715 options at inception and at 31 December 2023 to convert into ordinary shares of IAG. The Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG. The bondholders conversion right is currently exercisable.

The convertible bond is recorded at its fair value, which at 31 December 2023 was €735 million (2022: €605 million), representing an increase of €130 million since 1 January 2023. Of this increase, the charge recorded in Other comprehensive income arising from credit risk of the convertible bonds was €119 million and a charge recorded within Finance costs in the Income statement attributable to changes in market conditions of €11 million.

Transactions with unconsolidated entities

The Group has entered into asset financing transactions with unconsolidated entities as follows:

- The British Airways Pass Through Certificates, Series 2019-1 were entered into in the third quarter of 2019, recognising Asset financed liabilities of €725 million for eight aircraft that mature between 2029 and 2034;
- The British Airways Pass Through Certificates, Series 2020-1 were entered into in the fourth quarter of 2020, recognising Asset financed liabilities of €472 million for nine aircraft that mature between 2028 and 2032;
- The British Airways Pass Through Certificates, Series 2021-1 were entered into in the third quarter of 2021, recognising Asset financed liabilities of €204 million for seven aircraft that mature between 2031 and 2035;
- The Iberia Pass Through Certificates, Series 2022-1 were entered into in April 2022, recognising Asset financed liabilities of €680 million for five aircraft that mature between 2032 and 2036;
- The British Airways Pass Through Certificates, Series 2022-1 were entered into in October 2022, recognising Asset financed liabilities of €159 million for four aircraft that mature between 2032 and 2036; and
- There have been no asset financing transactions with unconsolidated entities during the year to 31 December 2023.

As at 31 December 2023, Asset financed liabilities include cumulative amounts of €2,948 million (2022: €2,983 million) and the associated assets recorded within Property, plant and equipment include cumulative amounts of €2,757 million (2022: €3,400 million) associated with transactions with unconsolidated structured entities having issued EETCs.

c Total loans, convertible bond, asset financed liabilities and lease liabilities

Million	2023	2022
Loans		
Bank:		
US dollar	**$50**	$75
Euro	**€124**	€1,273
Pound sterling	**–**	£2,026
	€170	€3,659
Fixed rate bonds:		
Euro	**€1,783**	€2,282
	€1,783	€2,282
Convertible bond		
Euro	**€735**	€605
	€735	€605
Asset financed liabilities		
US dollar	**$3,849**	$3,285
Euro	**€746**	€542
Japanese yen	**¥28,432**	¥25,748
	€4,427	€3,819
Lease liabilities		
US dollar	**$7,399**	$7,621
Euro	**€1,008**	€1,239
Japanese yen	**¥68,998**	¥71,994
Pound sterling	**£690**	£620
	€8,967	€9,619
Total interest-bearing borrowings	**€16,082**	€19,984

27 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims and contractual disputes provisions	ETS provisions	Other provisions	Total
Net book value 1 January 2023	2,400	194	673	89	132	60	**3,548**
Provisions recorded during the year	520	1	53	15	238	32	**859**
Reclassifications	4	–	–	(1)	–	(6)	**(3)**
Utilised during the year	(338)	(82)	(35)	(9)	–	(32)	**(496)**
Extinguished during the year	–	–	–	–	(98)	–	**(98)**
Release of unused amounts	(68)	(21)	(2)	(15)	(26)	(1)	**(133)**
Unwinding of discount	78	2	23	–	–	–	**103**
Remeasurements	4	–	24	–	–	–	**28**
Exchange differences	(71)	–	(1)	3	1	–	**(68)**
Net book value 31 December 2023	**2,529**	**94**	**735**	**82**	**247**	**53**	**3,740**
Analysis:							
Current	467	59	73	56	247	7	**909**
Non-current	2,062	35	662	26	–	46	**2,831**
	2,529	94	735	82	247	53	**3,740**

Restoration and handback provisions

Provisions for restoration and handback costs are maintained to meet the contractual maintenance and return conditions on aircraft held under lease. For those obligations arising on inception of an aircraft lease, the associated estimated cost is capitalised within the ROU asset. For those obligations that arise through usage or through the passage of time, the associated estimated costs are recognised in the Income statement as the associated asset is used or through the passage of time. The provision is long term in nature, typically covering the leased asset term, which for aircraft is up to 12 years.

The provisions also include an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Such costs are capitalised within ROU assets.

The provisions are determined by discounting the future cash flows using pre-tax risk-free rates specific to the tenor of the provision and the currency in which it arises. The unwinding of the discounting of the provisions is recorded as a finance cost in the Income statement (see note 9a).

Remeasurements arising from changes in estimates relating to the effects of both discounting and inflation are recorded in the Income statement to the extent they relate to avoidable provisions or recorded as an adjustment to the right of use asset (see note 14) for those unavoidable provisions.

Where amounts are finalised and the uncertainty relating to these provisions removed, the associated liability is reclassified to either current or non-current Other creditors, dependent on the expecting timing of settlement.

Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan implemented prior to 2023, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 3.2 per cent. The payments related to this provision will continue over the next six years.

At 31 December 2023, €88 million of this provision related to collective redundancy programmes (2022: €185 million).

Employee leaving indemnities and other employee related provisions

This provision includes employee leaving indemnities relating to staff under various contractual arrangements. As part of these provisions, the Group recognises provisions relating to the Iberia flight crew (both pilots and cabin crew):

- *Pilots* – under the relevant collective bargaining agreement, pilots have the option at the age of 60 to elect to: continue in full-time employment; being placed on reserve and retaining their employment relationship until reaching the statutory retirement age (referred to as 'active'); or alternatively taking early retirement (referred to as 'inactive'). Additionally, and in certain cases, those pilots from the age of 55, may apply for retaining their employment relationship, but with reduced activity (referred to as 'special leave'); and
- *Cabin crew* – under the relevant collective bargaining agreement, cabin crew have the option at the age of 62 to elect to: continue in full-time employment; being transferred to active status; or being transferred to inactive status. Additionally, and in certain cases, those cabin crew employees from the age of 57, may apply for 'special leave'.

The Group is required to remunerate these employees until they reach the statutory retirement age. In determining the provision to be recognised for the proportion of employees that will elect either special leave or to be inactive, the Group estimates a number of financial assumptions, including, but not limited to: (i) medium to long-term salary growth and inflation; (ii) the discount rate to apply; (iii) the rate of public social security growth; (iv) mortality rates; and (v) staff turnover.

The provision was re-assessed at 31 December 2023 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 3.17 per cent for active employees and 2.98 per cent for inactive employees (2022: iBoxx index of 3.72 per cent and 3.50 per cent, respectively), the PER_Col_2020.1er.orden. mortality tables, and assuming contractual salary increases of up to 3.8 per cent in 2024 and 3.3 per cent in 2025 and then 2.0 per cent per annum thereafter derived from increases in the Consumer Price Index (CPI). At 31 December 2023, there were a total of 5,179 flight crew (31 December 2022: 4,827) eligible for making such elections when they reach the age of 60. At 31 December 2023, there were 479 employees who had not reached the age of retirement, and eligible to elect for early retirement ('special leave') who had elected to become inactive (31 December 2022: 426). In addition, at 31 December 2023, there were 25 employees having reached the age of retirement, who had elected to become inactive (31 December 2022: 15).

At 31 December 2023, the average length of employment of the eligible flight crew was 17 years (31 December 2022: 18 years). This is mainly a long-term provision. Remeasurements in the valuation of this provision are recorded in Other comprehensive income. The amount relating to this provision was €677 million at 31 December 2023 (2022: €611 million).

Legal claims and contractual disputes provisions

Legal claims and contractual disputes provisions include:

- amounts for multi-party claims from groups of employees on a number of matters related to their employment, including claims for additional holiday pay and for age discrimination;
- amounts related to ongoing contractual disputes arising from the Group's operations; and
- amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

The final amount required to settle the remaining claims and fines is subject to uncertainty.

ETS provisions

ETS provisions relate to the Emissions Trading Scheme for CO_2 equivalent emitted on flights within the EU, Switzerland and the UK and due to be extinguished in the year subsequent to the reporting date through settlement with the relevant authorities. See notes 2 and 4 for further information.

28 Contingent liabilities

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at 31 December 2023, where they could be reliably estimated, but excluding the Vueling hand luggage matter detailed below, amounted to €58 million (31 December 2022: €11 million). The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provisions have been recorded.

Contingent liabilities associated with income taxes, deferred taxes and indirect taxes are presented in note 10.

Included in contingent liabilities is the following:

Air Europa Holdings acquisition break-fee
On 23 February 2023, the Group entered into an agreement to acquire the remaining 80 per cent of the share capital of Air Europa Holdings from Globalia that it had not previously owned. The acquisition is conditional on Globalia receiving approval from the syndicated banks that provide the loan agreements that are partially guaranteed by the *Instituto de Crédito Oficial* (ICO) and *Sociedad Estatal de Participaciones Industriales* (SEPI) in Spain. The acquisition is also subject to approval by relevant competition authorities.

In the event that the relevant approvals, detailed above, are not forthcoming within 24 months of entering into the agreement or the Group terminates the agreement at any time prior to completion, then the Group is required to pay a break-fee to Globalia of €50 million. Under the agreement, this 24-month period can be extended, by mutual consent.

At 31 December 2023 and through to the date of the consolidated financial statements, the Group considers that it is probable that the acquisition will successfully complete and accordingly does not consider it probable that the break-fee shall be paid. Given the above the Group does not consider it appropriate to record a provision for the break-fee.

Vueling commercial hand luggage policy
In the year ended 31 December 2023, Vueling received a number of information requests from the *Ministerio de Consumo* (Ministry of Consumer Affairs) in Spain, with regard to its commercial hand luggage policy, for which Vueling complied with. On 12 January 2024, the *Ministerio de Consumo* issued Vueling with a List of Charges asserting that the Vueling commercial hand luggage policy infringes consumers rights under Article 47.1 of Royal Legislative Decree 1/2007. While the List of Charges notifies Vueling of its intention to sanction the company for such infringements, it stipulates that the basis for determining such penalties is subject to the provision of further information by the company. Accordingly, it is not possible to estimate reliably any exposure that may arise from this matter until ongoing proceedings with the *Ministerio de Consumo* are further progressed. The Group, with its advisors, has reviewed the correspondence and List of Charges from the *Ministerio de Consumo* and considers it has strong arguments to support its commercial hand luggage policy and does not consider it probable that an adverse outcome will result in the future. As such, the Group does not consider it appropriate to record any provision. The Group expects further developments on this matter during the remainder of 2024.

29 Financial risk management objectives and policies

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 impacts of these on the financial statements are discussed below:

a Fuel price risk

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

The following table demonstrates the sensitivity of the Group's principal exposure to a reasonable possible change in the fuel price, based on current market volatility, with all other variables held constant on the profit before tax and equity[1]. The sensitivity analysis has been performed on fuel derivatives (both those designated in hedge relationships and those not designated in hedge relationships) at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to 31 December 2023 and 2022.

2023			2022		
Increase/(decrease) in fuel price per cent	**Effect on profit before tax € million**	**Effect on equity € million**	Increase/(decrease) in fuel price per cent	Effect on profit before tax € million	Effect on equity € million
40	**–**	**1,497**	45	–	1,402
(40)	**–**	**(1,526)**	(45)	–	(1,200)

1 The sensitivity analysis on equity excludes the sensitivity amounts recognised in the profit before tax.

During 2023, following a substantial recovery in the global price of crude oil and jet fuel, which continues to be impacted by geopolitical events, the fair value of such net liability derivative instruments was €115 million at 31 December 2023 (2022: net asset of €87 million), representing a decrease of €202 million since 1 January 2023. Of the carrying amount of the net liability at 31 December 2023, all (2022: all) of the associated derivatives were designated within hedge relationships.

b 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 each of the Group's operating companies, being pound sterling and the euro. The currencies in which these transactions are denominated are primarily US dollar, pound sterling and the euro. The Group has a number of strategies to hedge foreign currency risk including hedging a proportion of its foreign currency sales and purchases for up to three years.

The following table demonstrates the sensitivity of the Group's principal foreign exchange exposure to a reasonable possible change in the US dollar, pound sterling and Japanese yen exchange rates, based on current market volatility, with all other variables held constant on the profit before tax and equity[1]. The sensitivity analysis has been performed on interest-bearing liabilities, lease liabilities and derivatives (both those designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to 31 December 2023 and 2022.

	Strengthening/ (weakening) in US dollar rate per cent	Effect on profit before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling rate per cent	Effect on profit before tax € million	Effect on equity € million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on profit before tax € million	Effect on equity € million
2023	**20**	**343**	**1,005**	**20**	**6**	**262**	**20**	**(50)**	**(64)**
	(20)	**(346)**	**(1,159)**	**(20)**	**(8)**	**(262)**	**(20)**	**50**	**64**
2022	20	904	1,299	20	(20)	241	20	(58)	(70)
	(20)	(922)	(1,161)	(20)	18	(241)	(20)	58	70

1 The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the profit before tax.

At 31 December 2023, the fair value of foreign currency net liability derivative instruments was €357 million (2022: net asset of €108 million), representing a decrease of €465 million since 1 January 2023. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated in a hedge relationship at inception. Of the carrying amount of the net liability at 31 December 2023, €151 million (2022: net asset of €96 million) of the associated derivatives were designated within hedge relationships. Those derivatives not designated in a hedge relationship on inception have their mark-to-market movements recorded directly in the Income statement and recognised within Net currency retranslation credits/(charges).

c Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits. In order to mitigate the interest rate risk, the Group's policies allow a variety of over the counter derivative instruments to be entered into.

The following table demonstrates the sensitivity of the Group's interest rate exposure to a reasonable possible change in the US dollar, euro and sterling interest rates, based on expectations regarding forward rate movements, on the profit before tax and equity[1]. The sensitivity analysis has been performed on interest rate derivatives (both those designated in hedge relationships and those not designated in hedge relationships) at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to 31 December 2023 and 2022.

	Strengthening/ (weakening) in US interest rate Basis points	Effect on profit before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on profit before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on profit before tax € million	Effect on equity € million
2023	**100**	**–**	**–**	**100**	**(12)**	**16**	**100**	**–**	**–**
	(100)	**–**	**–**	**(100)**	**12**	**(16)**	**(100)**	**–**	**–**
2022	150	–	6	150	5	17	150	(35)	–
	(150)	–	(7)	(150)	(4)	(17)	(150)	35	–

1 The sensitivity analysis on equity excludes the sensitivity amounts recognised in the profit before tax.

At 31 December 2023, the fair value of interest rate net asset derivative instruments was €28 million (2022: net asset of €60 million), representing a decrease of €32 million since 1 January 2023. Of the carrying amount of net asset at 31 December 2023, all (2022: all) of the associated derivatives were designated within hedge relationships.

d 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 credits.

e Counterparty risk

The Group is exposed to the non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company. The underlying exposures are monitored on a daily basis and the overall exposure limit by counterparty is periodically reviewed by using available market information.

The financial assets recognised in the financial statements, net of impairment losses (if any), represent the Group's maximum exposure to credit risk, without taking into account any guarantees in place or other credit enhancements.

At 31 December 2023 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2023**	2022
United Kingdom	**55 %**	51 %
Spain	**– %**	1 %
Ireland	**16 %**	20 %
Rest of eurozone	**24 %**	27 %
Rest of world	**5 %**	1 %

f Liquidity risk

The Group invests cash in interest-bearing accounts, time deposits and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom to readily generate cash inflows required to manage liquidity risk. The Group has also committed revolving credit facilities.

At 31 December 2023, the Group had undrawn overdraft facilities of €53 million (2022: €53 million).

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

	2023	
Million	**Currency**	**€ equivalent**
General facilities[1]		
Euro facilities expiring between March and May 2024	**€87**	**87**
Euro facility expiring March 2025[2]	**€350**	**350**
US dollar facilities expiring March 2025 and March 2026[2]	**$1,755**	**1,605**
Pound sterling facilities expiring November 2026 and September 2028[2]	**£2,000**	**2,317**
		4,359
Committed aircraft facilities		
US dollar facilities expiring between June and July 2024[4]	**$410**	**375**
		375

	2022	
Million	Currency	€ equivalent
General facilities[1]		
Euro facilities expiring between January and March 2023	€87	87
US dollar facility expiring November 2023	$50	47
Euro facility expiring March 2025[2]	€300	300
US dollar facility expiring March 2025[2]	$1,755	1,654
Pound sterling facility expiring November 2026[2]	£1,000	1,143
		3,231
Committed aircraft facilities		
US dollar facilities expiring between February and September 2023[3]	$386	364
US dollar facility expiring April 2023[3]	$273	257
US dollar facilities expiring between October 2023 and March 2024[4]	$525	495
		1,116

1 The general facilities can be drawn at any time at the discretion of the Group subject to the provision of up to three days' notice of the intended utilisation, depending on the facility.

2 Further information regarding these facilities is given in note 26b.

3 The aircraft facilities that matured in 2023 were available for specific committed aircraft deliveries.

4 The aircraft facilities maturing between June 2024 and July 2024 (2022: maturing between October 2023 and March 2024) are available for specific committed aircraft deliveries.

The following table analyses the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at 31 December to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total 2023**
Interest-bearing loans and borrowings:						
Asset financing liabilities	(241)	(230)	(448)	(1,317)	(3,195)	**(5,431)**
Lease liabilities	(1,303)	(864)	(1,546)	(3,798)	(5,017)	**(12,528)**
Fixed rate borrowings	(59)	(16)	(588)	(1,513)	(726)	**(2,902)**
Floating rate borrowings	(15)	(38)	(27)	(42)	–	**(122)**
Trade and other payables	(5,590)	–	(219)	–	–	**(5,809)**
Derivative financial instruments (assets):						
Interest rate derivatives	12	9	8	4	1	**34**
Foreign exchange contracts	35	17	6	–	–	**58**
Fuel derivatives	5	4	26	–	–	**35**
Derivative financial instruments (liabilities):						
Interest rate derivatives	(1)	(1)	(1)	(1)	–	**(4)**
Foreign exchange contracts	(206)	(179)	(38)	–	–	**(423)**
Fuel derivatives	(42)	(43)	(35)	(39)	–	**(159)**
31 December 2023	**(7,405)**	**(1,341)**	**(2,862)**	**(6,706)**	**(8,937)**	**(27,251)**

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2022
Interest-bearing loans and borrowings:						
Asset financing liabilities	(196)	(190)	(374)	(1,081)	(2,823)	(4,664)
Lease liabilities	(955)	(1,050)	(2,120)	(3,374)	(5,295)	(12,794)
Fixed rate borrowings	(64)	(523)	(78)	(1,242)	(757)	(2,664)
Floating rate borrowings	(227)	(146)	(455)	(3,191)	–	(4,019)
Trade and other payables	(5,209)	–	(200)	–	–	(5,409)
Derivative financial instruments (assets):						
Interest rate derivatives	42	9	12	9	–	72
Foreign exchange contracts	245	195	46	–	–	486
Fuel derivatives	122	62	13	–	–	197
Derivative financial instruments (liabilities):						
Interest rate derivatives	(4)	(1)	(1)	(3)	–	(9)
Foreign exchange contracts	(185)	(121)	(68)	–	–	(374)
Fuel derivatives	(42)	(59)	(10)	–	–	(111)
31 December 2022	(6,473)	(1,824)	(3,235)	(8,882)	(8,875)	(29,289)

g Offsetting financial assets and liabilities

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

31 December 2023

€ million	Gross value of financial instruments	Gross amounts set off in the Balance sheet[1]	Net amounts of financial instruments in the Balance sheet	Related amounts not offset in the Balance sheet[1]	**Net amount**
Financial assets					
Derivative financial assets	151	(28)	123	(2)	**121**
Financial liabilities					
Derivative financial liabilities	595	(28)	567	(2)	**565**

1 The Group has pledged cash and cash equivalents as collateral against certain of its derivative financial liabilities. As 31 December 2023, the Group recognised €nil of collateral (2022: €nil) offset in the balance sheet and €2 million (2022: €5 million) not offset in the Balance sheet.

31 December 2022

€ million	Gross value of financial instruments	Gross amounts set off in the Balance sheet	Net amounts of financial instruments in the Balance sheet	Related amounts not offset in the Balance sheet	Net amount
Financial assets					
Derivative financial assets	760	(34)	726	(5)	721
Financial liabilities					
Derivative financial liabilities	505	(34)	471	(5)	466

h Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure, to reduce the cost of capital and to provide returns to shareholders.

The Group monitors capital on the basis of the net debt to EBITDA before exceptional items ratio. For the year to 31 December 2023, the net debt to EBITDA before exceptional items was 1.7 times (2022: 3.1 times). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the going concern section in note 2.

30 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at 31 December 2023 and 31 December 2022 by nature and classification for measurement purposes is as follows:

31 December 2023

	Financial assets				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets					
Other equity investments	–	188	–	–	**188**
Derivative financial instruments	–	–	42	–	**42**
Other non-current assets	211	–	–	221	**432**
Current assets					
Trade receivables	1,559	–	–	–	**1,559**
Other current assets	545	–	–	1,029	**1,574**
Derivative financial instruments	–	–	81	–	**81**
Other current interest-bearing deposits	1,396	–	–	–	**1,396**
Cash and cash equivalents	5,441	–	–	–	**5,441**

	Financial liabilities			
€ million	Amortised cost	Fair value through Income statement	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities				
Lease liabilities	7,141	–	–	**7,141**
Interest-bearing long-term borrowings	5,964	726	–	**6,690**
Derivative financial instruments	–	106	–	**106**
Other long-term liabilities	151	–	68	**219**
Current liabilities				
Lease liabilities	1,826	–	–	**1,826**
Current portion of long-term borrowings	416	9	–	**425**
Trade and other payables	5,198	–	392	**5,590**
Derivative financial instruments	–	461	–	**461**

31 December 2022

	Financial assets				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets					
Other equity investments	–	55	–	–	55
Derivative financial instruments	–	–	81	–	81
Other non-current assets	180	–	–	182	362
Current assets					
Trade receivables	1,330	–	–	–	1,330
Other current assets	308	–	–	918	1,226
Derivative financial instruments	–	–	645	–	645
Other current interest-bearing deposits	403	–	–	–	403
Cash and cash equivalents	9,196	–	–	–	9,196

€ million	Financial liabilities: Amortised cost	Financial liabilities: Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities				
Lease liabilities	7,853	–	–	7,853
Interest-bearing long-term borrowings	8,692	596	–	9,288
Derivative financial instruments	–	84	–	84
Other long-term liabilities	131	–	69	200
Current liabilities				
Lease liabilities	1,766	–	–	1,766
Current portion of long-term borrowings	1,068	9	–	1,077
Trade and other payables	4,898	–	311	5,209
Derivative financial instruments	–	387	–	387

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. The fair value of financial liabilities and financial assets incorporates own credit risk and counterparty credit risk, respectively.

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 using forward pricing models, which include forward exchange rates, forward interest rates, forward fuel curves and corresponding volatility surface data at the reporting date. The fair value of the principal derivative financial assets and liabilities are determined as follows, incorporating adjustments for own credit risk and counterparty credit risk:

- commodity reference contracts including swaps and options transactions, referenced to: (i) CIF NWE cargoes jet fuel; (ii) ICE Gasoil; (iii) ICE Brent; (iv) ICE Gasoil Brent crack; (v) Jet Differential and (vi) Jet fuel Brent crack - the mark-to-market valuation prices are determined by reference to current forward curve and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate;
- currency forward and option contracts – by reference to current forward prices and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate; and
- interest rate swap contracts – by discounting the future cash flows of the swap contracts at market interest rate valued with the current forward curve.

The fair value of the Group's interest-bearing borrowings, excluding lease liabilities, is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date. The fair value of the Group's interest-bearing borrowings is adjusted for own credit risk.

Level 3: Inputs for the asset or liability that are not based on observable market data. The principal method of such valuation is performed using a valuation model that considers the present value of the dividend cash flows expected to be generated by the associated assets. For other equity investments where cash flow information is not available, an adjusted net asset method is applied. For the methodology in the determination of the fair value of the investment in Air Europa Holdings, see note 19.

The fair value of cash and cash equivalents, other current interest-bearing deposits, trade receivables, other current assets and trade and other payables approximate their carrying 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 31 December 2023 are as follows:

	Fair value				**Carrying value**
€ million	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Other equity investments	1	–	187	188	**188**
Other non-current financial assets	–	12	–	12	**25**
Derivative financial assets:					
Interest rate swaps[1]	–	32	–	32	**32**
Foreign exchange contracts[1]	–	58	–	58	**58**
Fuel derivatives[1]	–	33	–	33	**33**
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	3,900	–	3,900	**4,427**
Fixed rate borrowings	2,429	53	–	2,482	**2,574**
Floating rate borrowings	–	111	–	111	**114**
Derivative financial liabilities:					
Interest rate derivatives[2]	–	4	–	4	**4**
Foreign exchange contracts[2]	–	415	–	415	**415**
Fuel derivatives[2]	–	148	–	148	**148**

1 Current portion of derivative financial assets is €81 million.

2 Current portion of derivative financial liabilities is €461 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at 31 December 2022 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	–	–	55	55	55
Other non-current financial assets	–	20	–	20	31
Derivative financial assets:					
Interest rate swaps[1]	–	66	–	66	66
Foreign exchange contracts[1]	–	467	–	467	467
Fuel derivatives[1]	–	193	–	193	193
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	2,925	–	2,925	3,819
Fixed rate borrowings	2,538	72	–	2,610	2,967
Floating rate borrowings	–	3,419	–	3,419	3,579
Derivative financial liabilities:					
Interest rate derivatives[2]	–	6	–	6	6
Foreign exchange contracts[2]	–	359	–	359	359
Fuel derivatives[2]	–	106	–	106	106

1 Current portion of derivative financial assets is €645 million.

2 Current portion of derivative financial liabilities is €387 million.

Financial assets, other equity instruments, financial liabilities and derivative financial assets and liabilities are all measured at fair value in the consolidated financial statements. Interest-bearing borrowings, with the exception of the €825 million convertible bond due 2028 which is measured at fair value, are measured at amortised cost.

c Level 3 financial assets reconciliation

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

€ million	2023	2022
Opening balance for the year	55	31
Additions - other	5	2
Addition of Air Europa Holdings	–	22
Transfers to Level 1 financial assets	(1)	–
Net gains recognised in Other comprehensive income	128	2
Net losses recognised in the Income statement	–	(2)
Closing balance for the year	**187**	55

For details regarding the valuation of Air Europa Holdings, see note 19.

During the year to 31 December 2023, the Group recorded a transfer of an Other equity instrument of €1 million from Level 3 to Level 1 following the public listing of the associated investment. There have been no other transfers between levels of the fair value hierarchy during the year.

d Hedges

Cash flow hedges

At 31 December 2023, the Group's principal risk management activities that were hedging future forecast transactions were:

- foreign exchange contracts, hedging foreign currency exchange risk on cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement, where the hedged item is recorded directly in the Income statement, to the same caption as the underlying hedged item is classified; (ii) recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability, are recorded to the Balance sheet to the same caption as the hedged item is recognised; and (iii) recognised in equity and transferred to the Income statement, where the hedged item is a financial asset or liability, at the same time as the financial asset or liability is recorded in the Income statement. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement when the future transaction is no longer expected to occur and recorded in the relevant Income statement caption to which the hedged item is classified;
- crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel expenditure. Remeasurement gains and losses on the derivatives are: (i) recognised in equity and transferred to the Income statement within Fuel, oil costs and emissions charges to match against the related fuel cash outflow, where the underlying hedged item does not give rise to the recognition of fuel inventory; and (ii) recognised in equity and transferred to the Balance sheet within Inventory, where the underlying hedged item is fuel inventory. Gains and losses recorded within Inventory are recognised in the Income statement when the underlying fuel inventory is consumed, within Fuel, oil costs and emission charges. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement within Fuel, oil costs and emissions charges when the future transaction is no longer expected to occur;
- interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Interest expense; and
- future loan repayments denominated in foreign currency are designated in a hedge relationship hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the associated loans are recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability when the loan repayments are made (generally in instalments over the life of the loan).

The amounts included in equity are summarised below:

Losses/(gains) in respect of cash flow hedges included within equity

€ million	2023	2022
Loan repayments to hedge future revenue	22	87
Foreign exchange contracts to hedge future revenue and expenditure[1]	94	(178)
Crude, gas oil and jet kerosene derivative contracts[1]	67	(127)
Derivatives used to hedge interest rates[1]	(1)	(46)
Instruments for which hedge accounting no longer applies[1, 2]	123	213
	305	(51)
Related deferred tax (credit)/charge	(75)	20
Total amount included within equity	**230**	(31)

1 The carrying value of derivative instruments recognised in assets and liabilities is analysed in parts a and b above.

2 Relates to previously terminated hedge relationships for which the underlying forecast transactions remain expected to occur.

Notional amounts of significant financial instruments used as cash flow hedging instruments:

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	**Total 31 December 2023**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.21	1.05 to 1.35	3,147	1,239	–	–	**4,386**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.00	0.86 to 1.24	2,458	939	305	–	**3,702**
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling[1]	1.21	1.07 to 1.42	479	375	357	124	**1,335**
Fuel commodity price contracts to hedge future US dollar fuel expenditure[2]	722	489 to 1,200	5,425	1,948	980	–	**8,353**
Interest rate contracts to hedge future interest expenditure[3, 4]	1.83	(0.06) to 3.90	2,127	912	493	2	

1 Expenditure includes both operating and capital expenditure.

2 Notional amounts of fuel commodity price hedging instruments represent 10.0 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.

3 The hedge range for interest rate contracts is expressed as a percentage.

4 The notional amounts of interest rate contracts at 31 December 2023 were €1,354 million. Amounts included reflect the notional amortising amounts outstanding at the end of each period and align with the profiles of the underlying hedged items.

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	Total 31 December 2022
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.23	1.05 to 1.45	3,582	1,355	–	–	4,937
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.08	0.91 to 1.26	2,578	1,318	–	–	3,896
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling[1]	1.23	1.00 to 1.42	371	406	458	14	1,249
Fuel commodity price contracts to hedge future US dollar fuel expenditure[2]	718	416 to 2,200	2,935	331	–	–	3,266
Interest rate contracts to hedge future interest expenditure[3, 4]	1.04	(0.03) to 3.13	2,360	504	238	9	

1 Expenditure includes both operating and capital expenditure.

2 Notional amounts of fuel commodity price hedging instruments represent 5.4 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.

3 The hedge range for interest rate contracts is expressed as a percentage.

4 The notional amounts of interest rate contracts at 31 December 2022 were €1,703 million. Amounts included reflect the notional amortising amounts outstanding at the end of each period and align with the profiles of the underlying hedged items.

Movements recorded in the cash flow hedge reserve

For the year to 31 December 2023 (€ million)	Amounts recognised in the Income statement: Ineffectiveness[1]	Discontinuance of hedge accounting	Reclassified to the Income statement	Total recognised movements	Fair value movements recognised in Other comprehensive income[2]	Amounts transferred to the Balance sheet
Foreign exchange contracts to hedge future revenue and expenditure	**(1)**	**–**	**31**	**30**	**234**	**3**
Crude, gas oil and jet kerosene derivative contracts	**9**	**–**	**99**	**108**	**71**	**13**
Derivatives used to hedge interest rates	**–**	**–**	**48**	**48**	**(3)**	**–**
Loan repayments to hedge future revenue	**–**	**–**	**–**	**–**	**(47)**	**(18)**
Instruments for which hedge accounting no longer applies	**–**	**–**	**–**	**–**	**–**	**(92)**
	8	**–**	**178**	**186**	**255**	**(94)**
Related deferred tax				**(44)**	**(60)**	**10**
Total movements recorded in the cash flow hedge reserve				**142**	**195**	**(84)**

For the year to 31 December 2022 (€ million)	Amounts recognised in the Income statement: Ineffectiveness[1]	Discontinuance of hedge accounting	Reclassified to the Income statement	Total recognised movements	Fair value movements recognised in Other comprehensive income[2]	Amounts transferred to the Balance sheet
Foreign exchange contracts to hedge future revenue and expenditure	–	29	228	257	(525)	43
Crude, gas oil and jet kerosene derivative contracts	19	–	1,299	1,318	(1,249)	66
Derivatives used to hedge interest rates	–	–	(12)	(12)	(95)	–
Loan repayments to hedge future revenue	–	–	–	–	(1)	(7)
Instruments for which hedge accounting no longer applies	–	–	–	–	–	(27)
	19	29	1,515	1,563	(1,870)	75
Related deferred tax				(330)	398	(1)
Total movements recorded in the cash flow hedge reserve				1,233	(1,472)	74

1 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within non-operating items.

2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

Discontinuance of hedge accounting

The losses associated with the discontinuance of hedge accounting recognised in the Income statement and the subsequent fair value movements of those derivative instruments recorded in the Income statement through to the earlier of the reporting date and the maturity date of the derivative are set out below:

€ million	**2023**	2022
Losses associated with the discontinuance of hedge accounting recognised in the Income statement	**–**	(29)
Fair value movements subsequently recorded in the Income statement	**–**	–
Total effect of discontinuance of hedge accounting in the Income statement	**–**	(29)

Fair value hedges

At 31 December 2023, the Group's principal risk management activities associated with fair value hedging were related to interest rate contracts hedging the fair value risk on fixed rate lease liabilities. Remeasurement gains and losses on both the derivatives and the host financial liability are recognised in Income statement within Other non-operating credits.

The carrying values of the hedged items and hedging instruments of the Group's fair value hedges at 31 December 2023 are as follows:

€ million	2023	2022
Carrying value of lease liabilities to which fair value hedging has been applied (hedged items)[1]	(65)	–
Carrying amount of the interest rate derivatives (hedging instruments)	(4)	–
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	(2)	–
Change in value used for calculating hedge ineffectiveness	3	–

1 Hedged items included in the fair value hedges are presented within Borrowings in the Balance sheet and in note 26.

31 Share capital, share premium and treasury shares

Allotted, called up and fully paid	Number of shares '000s	Ordinary share capital € million	Share premium € million
31 December 2022: Ordinary shares of €0.10 each	4,971,476	497	7,770
31 December 2023: Ordinary shares of €0.10 each	**4,971,476**	**497**	**7,770**

a Treasury shares

During the year to 31 December 2023, the Group purchased 42.0 million shares at a weighted average share price of €1.83 per share totalling €77 million, which are held as Treasury shares. A total of 3.3 million shares (2022: 8.1 million) were issued to employees during the year as a result of vesting of employee share schemes. At 31 December 2023 the Group held 55.8 million shares (2022: 17.1 million) which represented 1.12 per cent (2022: 0.34 per cent) of the issued share capital of the Company.

32 Share-based payments

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

a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) was granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. Awards made from 2015 to 2020 were nil-cost options, with a two-year holding period following the three-year performance period, before options can be exercised. All awards had three independent performance measures with equal weighting: Total Shareholder Return (TSR) relative to the STOXX Europe 600 Travel and Leisure Index (2020 awards) or MSCI European Transportation Index (prior to 2020 awards), earnings per share, and Return on Invested Capital.

b IAG Restricted Share Plan

The IAG Restricted Share Plan (RSP) was introduced in 2021 to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Group. Awards have been made as conditional awards, with a two-year holding period following the three-year vesting period. There are no performance measures associated with the awards. Vesting will be contingent on the satisfaction of a discretionary underpin, normally assessed over three financial years commencing from the financial year in which the award was granted. Approval at the end of the vesting period will be at the discretion of the Remuneration Committee, considering the Group's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified.

c IAG Full Potential Incentive Plan

In 2021, the Group launched the Full Potential Incentive Plan (FPIP), which was granted to key individuals involved in the delivery of a series of transformation projects that will enable the Group to deliver business success over the medium to long term. The awards have been made as conditional awards, vesting in 2025 and dependent on stretch performance targets for 2024 and the approval of the Board.

d IAG Incentive Award Deferral Plan

The IAG Incentive Award Deferral Plan (IADP) is granted to qualifying employees based on performance and service tests. It will be awarded when an annual incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

e Share-based payment schemes summary

Number of awards '000s	Outstanding at 1 January 2023	Granted number	Lapsed number	Vested number	**Outstanding at 31 December 2023**	Exercisable 31 December 2023
Performance Share Plan	16,339	–	6,263	944	**9,132**	4,166
Restricted Share Plan	40,334	24,462	5,152	431	**59,213**	–
Full Potential Incentive Plan	27,705	5,681	3,786	–	**29,600**	–
Incentive Award Deferral Plan	2,411	1,007	173	2,387	**858**	–
	86,789	**31,150**	**15,374**	**3,762**	**98,803**	**4,166**

The weighted average share price at the date of exercise of options exercised during the year to 31 December 2023 was £1.52 (2022: £1.35).

The Group recognised a share-based payment charge of €52 million for the year to 31 December 2023 (2022: €39 million).

33 Other reserves and non-controlling interests

For the year to 31 December 2023

	Other reserves						
€ million	Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Merger reserve[5]	Capital reserves[6]	**Total other reserves**	Non-controlling interest
1 January 2023	67	(66)	(118)	(2,467)	867	**(1,717)**	6
Other comprehensive (loss)/income for the year							
Cash flow hedges reclassified and reported in net profit:							
Fuel and oil costs	(81)	–	–	–	–	**(81)**	–
Currency differences	(20)	–	–	–	–	**(20)**	–
Finance costs	(35)	–	–	–	–	**(35)**	–
Ineffectiveness recognised in other non-operating costs	(6)	–	–	–	–	**(6)**	–
Net change in fair value of cash flow hedges	(195)	–	–	–	–	**(195)**	–
Net change in fair value of other equity investments	127	–	–	–	–	**127**	–
Net change in fair value of cost of hedging	–	(120)	–	–	–	**(120)**	–
Cost of hedging reclassified and reported in net profit	–	82	–	–	–	**82**	–
Fair value movements on liabilities attributable to credit risk changes	(119)	–	–	–	–	**(119)**	–
Currency translation differences	–	–	18	–	–	**18**	–
Hedges transferred and reported in property, plant and equipment	9	(15)	–	–	–	**(6)**	–
Hedges transferred and reported in sales in advance of carriage	84	1	–	–	–	**85**	–
Hedges transferred and reported in inventory	(9)	–	–	–	–	**(9)**	–
31 December 2023	(178)	(118)	(100)	(2,467)	867	**(1,996)**	6

€ million	Other reserves: Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Redeemed capital reserve[6]	Total other reserves	Non-controlling interest
1 January 2022	(94)	24	(65)	62	(2,467)	867	(1,673)	6
Other comprehensive income/(loss) for the year								
Cash flow hedges reclassified and reported in net profit:								
Fuel and oil costs	(1,115)	–	–	–	–	–	(1,115)	–
Currency differences	(90)	–	–	–	–	–	(90)	–
Finance costs	10	–	–	–	–	–	10	–
Discontinuance of hedge accounting	(22)	–	–	–	–	–	(22)	–
Ineffectiveness recognised in other non-operating costs	(16)	–	–	–	–	–	(16)	–
Net change in fair value of cash flow hedges	1,472	–	–	–	–	–	1,472	–
Net change in fair value of other equity investments	2	–	–	–	–	–	2	–
Net change in fair value of cost of hedging	–	(115)	–	–	–	–	(115)	–
Cost of hedging reclassified and reported in net profit	–	38	–	–	–	–	38	–
Fair value movements on liabilities attributable to credit risk changes	(6)	–	–	–	–	–	(6)	–
Currency translation differences	–	–	(53)	–	–	–	(53)	–
Hedges transferred and reported in property, plant and equipment	(51)	(14)	–	–	–	–	(65)	–
Hedges transferred and reported in sales in advance of carriage	35	1	–	–	–	–	36	–
Hedges transferred and reported in inventory	(58)	–	–	–	–	–	(58)	–
Redemption of convertible bond	–	–	–	(62)	–	–	(62)	–
31 December 2022	67	(66)	(118)	–	(2,467)	867	(1,717)	6

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the amounts on hedging instruments in cash flow hedges that are determined to be effective hedges. The amounts at 31 December 2023 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €138 million credit and €305 million charge, respectively.

2 The cost of hedging reserve records, amongst others, changes on the time value of options.

3 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.

4 During 2022, the Group redeemed the €500 million convertible bond with no conversion into ordinary shares. On redemption, an amount of €62 million was transferred to Retained earnings.

5 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).

6 Capital reserves include a Redeemed capital reserve of €70 million (2022: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2022: €797 million) associated with a historical reduction in the nominal value of the Company's share capital.

34 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (see note 27).

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to 31 December 2023 were €279 million (2022: €251 million).

Defined benefit schemes

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.

APS has been closed to new members since 1984, but remains open to future accrual. 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.

NAPS has been closed to new members since 2003 and closed to future accrual since 2018. Following closure, members' deferred pensions are increased annually by inflation up to 5 per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI).

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, certain aspects of the business of the two schemes are common. APS and NAPS have developed certain joint working groups that are attended by the Trustee Board members of each scheme although each Trustee Board reaches its decisions independently. There are sub-committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Triennially, the Trustees of APS and NAPS undertake actuarial valuations, which are subsequently agreed with British Airways to determine the cash contributions and any deficit payment plans through to the next valuation date, as well as ensuring that the schemes have sufficient funds available to meet future benefit payments to members. These actuarial valuations are prepared using the principles set out in UK Pension legislation. This differs from the IAS 19 'Employee benefits' valuation, which is used for deriving the Income statement and Balance sheet positions and uses a best-estimate approach overall. The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and funding levels.

During 2022, the triennial valuations, as at 31 March 2021, were finalised for APS and NAPS which resulted in a technical surplus of €343 million (£295 million) for APS and a technical deficit of €1,887 million (£1,650 million) for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at 31 December 2023 under IAS 19 'Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation performed as at 31 March 2021 compared with IAS 19 requirements used in the accounting valuation assumptions as at the reporting date. The actuarial valuation of neither APS and NAPS is updated outside of the triennial valuations, making comparability between the scheme liabilities applying the principles set out in the UK Pension legislation and the requirements of IAS 19 not possible. The principal difference relates to the discount rate applied, which under the triennial actuarial valuation, aligns with a prudent estimate of the future investment returns on the assets of the respective schemes, whereas, under IAS 19, the rates are based on high-quality corporate bond yields, regardless of how the assets are invested.

The triennial valuation as at 31 March 2021 for NAPS supersedes the previous agreements reached in 2020 and 2021 between British Airways and the Trustee of NAPS relating to the deferral of deficit contributions. The deferred deficit contributions have been incorporated into the deficit payment plan agreed as part of the triennial valuation as at 31 March 2021.

As part of the triennial valuation as at 31 March 2021 for NAPS, British Airways has agreed to provide certain property assets as security, which will remain in place until 30 September 2028.

Other plans

British Airways also operates post-retirement schemes in a number of jurisdictions outside of the UK. The principal scheme is the British Airways Plc Pension Plan (USA) based in the United States and referred to as the 'US Plan'. The US Plan is considered to be a defined benefit scheme and is closed to new members and to future accrual.

The majority of British Airways' other plans are fully funded, but there are also a number of unfunded plans, for which the Group meets the benefit payment obligations as they fall due.

In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

Risk associated with the defined benefit schemes

The defined benefit schemes expose the Group to a range of risks, with the following being the most significant:

- asset volatility risk - the scheme obligations are calculated using a discount rate set with reference to high-quality corporate bond yields. If scheme assets underperform this yield, this will reduce the surplus / increase the deficit, depending on the scheme. Certain of the schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while creating volatility and risk in the short term;
- longevity risk – the majority of the scheme obligations are to provide benefits over the life of the scheme members. An increase in life expectancy will result in a corresponding increase in the defined benefit obligation;
- interest rate risk – a decrease in interest rates will increase plan liabilities, although this will be partially offset by an increase in the value of certain of the scheme assets;
- inflation risk – a significant proportion of the scheme obligations are linked to inflation, such that any increase in inflation will cause an increase in the obligations. While certain of the scheme assets are indexed to inflation, any expected increase in the scheme assets from inflation would be disproportionately lower than the increase in the scheme obligations; and
- currency risk – a number of scheme assets are denominated in currencies other than the pound sterling. Weakening of those currencies, or strengthening of the pound sterling, in the long term, will have the effect of reducing the value of scheme assets.

a Cash payments and funding arrangements

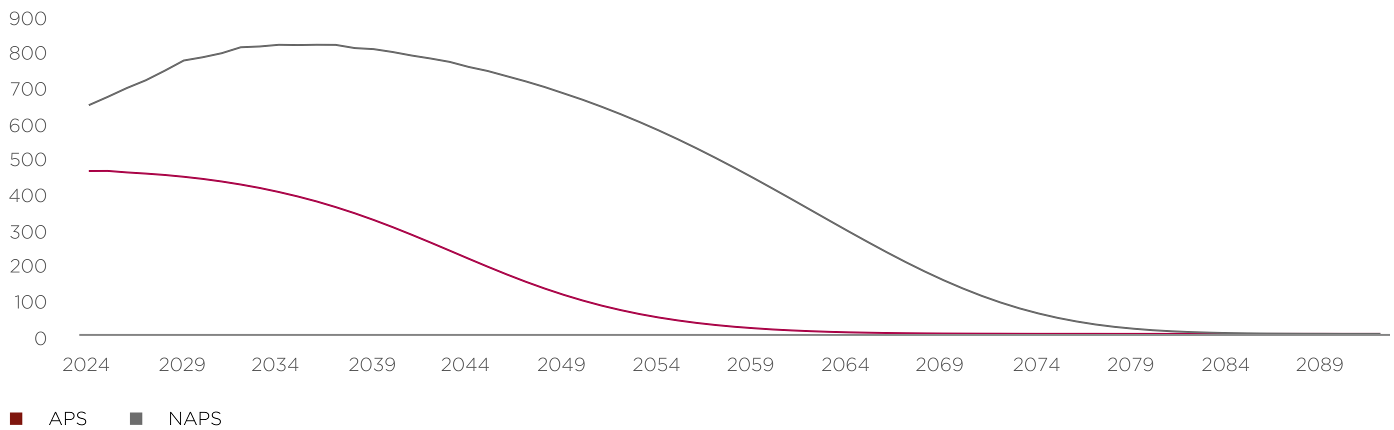
Cash payments in respect to pension obligations comprise normal employer contributions by the Group and deficit contributions based on the agreed deficit payment plan with NAPS. Total payments for the year to 31 December 2023 net of service costs made by the Group were €48 million (2022: €20 million) being the employer contributions of €49 million (2022: €22 million) less the current service cost of €1 million (2022: €2 million) (note 34b,c).

Future funding arrangements
Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2021, using assumptions and methodologies agreed between the Group and Trustee of each scheme.

In total, the Group expects to pay €1 million in employer contributions to APS and NAPS in 2024.

The following graph provides the undiscounted benefit payments to be made by the Trustees of APS and NAPS over the remaining expected duration of the schemes:

Projected benefit payments from the reporting date (€ million, unaudited)



The amounts and timing of these projected benefit payments are subject to the aforementioned risks to the schemes.

Deficit contributions
At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €1,887 million. In order to address the deficit in the scheme, the Group committed to deficit contribution payments through to 30 June 2023, amounting to approximately €58 million per year, increasing by €58 million each year up to 30 June 2026 and subsequently capped at €257 million per year through to 31 May 2032. The deficit contribution plan includes an over-funding protection mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are suspended if the funding position reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, or until such point as the scheme funding level reaches 100 per cent.

During the year ended and as at 31 December 2023, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At 31 December 2023, the valuation of the funding level incorporates significant forward-looking assumptions, such that the Group currently does not expect to make further deficit contributions. Given the long-term nature of the NAPS scheme, these assumptions are subject to uncertainty and there can be no guarantee that deficit contributions will not resume in the future or that additional deficit contributions will not need to be incorporated into future triennial actuarial valuations.

At 31 December 2023, had the over-funding protection mechanism not been applied, then the asset ceiling adjustment (as detailed in note 34c) would have been €638 million higher, reducing the surplus accordingly.

At 31 December 2023, the Group is committed to the following undiscounted deficit payments, which are deductible for tax purposes at the statutory rate of tax:

€ million	NAPS[1]	Other schemes
Within 12 months	–	36
1-2 years	–	37
2-5 years	–	38
Greater than 5 years	–	–
Total expected deficit payments	–	111

1 Committed deficit contributions, agreed as part of the 31 March 2021 actuarial valuation, were suspended at 31 December 2023 as an effect of the over-funding protection mechanism.

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

Under the triennial valuation of NAPS as at 31 March 2021, in the period up to 31 December 2023, no dividend payment was permitted from British Airways to IAG. In the period from 1 January to 31 December 2024, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. In the period from 1 January to 30 September 2025, any dividend payment from British Airways to IAG that exceeds 50 per cent of the pre-exceptional profit after tax in each financial year will require additional payments to be made to NAPS if the scheme is not at least 100 per cent funded. All dividend restrictions cease from 1 October 2025, onwards. British Airways must maintain a minimum cash level of €1,854 million (£1,600 million) as at the date of the declaration of any dividends as well as immediately following the payment of any dividends to IAG and the associated matching contributions to NAPS. The amount of any deficit contributions and dividend matching contributions in a single financial year is limited to €348 million (£300 million).

b Employee benefit scheme amounts recognised in the financial statements

i Amounts recognised on the Balance sheet

	2023			
€ million	**APS**	**NAPS**	**Other**	**Total**
Scheme assets at fair value[1]	6,070	16,724	393	**23,187**
Present value of scheme liabilities[1]	(6,048)	(14,644)	(547)	**(21,239)**
Net pension asset/(liability)	22	2,080	(154)	**1,948**
Effect of the asset ceiling[2]	(7)	(728)	–	**(735)**
Other employee benefit obligations	–	–	(8)	**(8)**
31 December 2023	15	1,352	(162)	**1,205**
Represented by:				
Employee benefit asset				**1,380**
Employee benefit obligation				**(175)**
Net employee benefit asset[3]				**1,205**

	2022			
€ million	APS	NAPS	Other	Total
Scheme assets at fair value[1]	6,283	17,029	356	23,668
Present value of scheme liabilities[1]	(6,052)	(13,692)	(548)	(20,292)
Net pension asset/(liability)	231	3,337	(192)	3,376
Effect of the asset ceiling[2]	(80)	(1,168)	–	(1,248)
Other employee benefit obligations	–	–	(11)	(11)
31 December 2022	151	2,169	(203)	2,117
Represented by:				
Employee benefit asset				2,334
Employee benefit obligation				(217)
Net employee benefit asset[3]				2,117

1 Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At 31 December 2023, such assets were €322 million (2022: €320 million) with a corresponding amount recorded in the scheme liabilities.

2 APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.

3 The net deferred tax asset recognised on the net employee benefit asset (2022: asset) was €48 million at 31 December 2023 (2022: €54 million). The defined benefit obligation includes €20 million (2022: €21 million) arising from unfunded plans.

ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2023	2022
Defined benefit plans:		
Current service cost	**1**	2
Administrative expenses	**17**	19
	18	21
Defined contribution plans	**279**	251
Pension costs recorded as employee costs	**297**	272

€ million	2023	2022
Interest income on scheme assets	**(1,117)**	(633)
Interest expense on scheme liabilities	**955**	584
Interest expense on asset ceiling	**59**	23
Net financing credit relating to pensions	**(103)**	(26)

iii Amounts recognised in the Statement of other comprehensive income

€ million	2023	2022
Return on plan assets excluding interest income	**857**	9,360
Remeasurement of plan liabilities from changes in financial assumptions	**314**	(10,476)
Remeasurement of plan liabilities from changes in demographic assumptions	**55**	(202)
Remeasurement of experience losses	**430**	627
Remeasurement of the APS and NAPS asset ceilings	**(583)**	14
Exchange movements	**–**	6
Pension remeasurements credited/(charged) to Other comprehensive income	**1,073**	(671)
Tax arising on pension remeasurements	**3**	9
Pension remeasurements charged to Other comprehensive income, net of tax	**1,076**	(662)

c Fair value of scheme assets

i Investment strategies

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

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange, longevity and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. Longevity risk is managed through the use of buy-in insurance contracts, asset swaps and longevity swaps.

Along with existing contracts with Rothesay Life (as detailed in note 34c(iii)), APS is 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at 31 March 2018. APS is nearly 90 per cent protected against interest rates and inflation (on a Retail Price Index basis). NAPS is 95 per cent protected against interest rates and inflation (on a Consumer Price Index basis).

The assets held by APS and NAPS are split between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At 31 December 2023, the actual asset allocation for NAPS was 19 per cent (2022: 31 per cent) in return seeking assets and 81 per cent (2022: 69 per cent) in liability matching investments. For NAPS, the Trustee agreed an updated investment framework with British Airways as part of the Scheme's 31 March 2021 actuarial valuation agreement. The Trustee aims towards an overall asset allocation with an agreed modest expected return relative to liabilities, and sufficient liquidity to manage investment risk appropriately on an on-going basis. The actual asset allocation for APS at 31 December 2023 was 1 per cent (2022: 1 per cent) in return seeking assets and 99 per cent (2022: 99 per cent) in liability matching investments. NAPS uses Liability Driven Investments (LDIs) to effectively hedge volatility in the scheme liabilities. This is achieved through direct bond holdings as opposed to the use of derivatives and as such leverage is low. Accordingly, as at 31 December 2023, NAPS has not been required to raise additional cash or liquidate existing assets in order to fund derivative positions.

ii Movement in scheme assets

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

€ million	2023	2022
1 January	23,668	34,370
Interest income	1,114	633
Administrative expenses	(14)	(13)
Return on plan assets excluding interest income	(857)	(9,360)
Employer contributions[1]	49	22
Employee contributions	8	6
Benefits paid	(1,065)	(1,301)
Exchange movements	284	(689)
31 December	23,187	23,668

1 Includes employer contributions to APS of €1 million (2022: €1 million) and to NAPS of €nil (2022: €nil) of which deficit-funding payments represented €nil for APS (2022: €nil) and €nil for NAPS (2022: €nil).

iii Composition of scheme assets

Scheme assets held by the Group at 31 December comprise:

	2023				
€ million	APS	NAPS	Other	Total	2022
Return seeking investments					
Listed equities – UK	8	109	6	123	139
Listed equities – Rest of world	1	438	163	602	1,047
Private equities	29	677	15	721	1,566
Properties	–	1,577	14	1,591	2,142
Alternative investments	35	1,695	2	1,732	1,881
	73	4,496	200	4,769	6,775
Liability matching investments					
Government issued fixed bonds	861	5,132	127	6,120	5,279
Government issued index-linked bonds	874	9,438	8	10,320	8,093
Asset and longevity swaps	899	–	–	899	1,114
Insurance contract	3,353	–	38	3,391	3,392
	5,987	14,570	173	20,730	17,878
Other					
Cash and cash equivalents	50	640	7	697	684
Derivative financial instruments	(38)	(2,985)	8	(3,015)	(1,688)
Other investments	(2)	3	5	6	19
	10	(2,342)	20	(2,312)	(985)
Total scheme assets	6,070	16,724	393	23,187	23,668

The fair values of the Group's scheme assets, which are not derived from quoted prices on active markets, are determined depending on the nature of the inputs used in determining the fair values (see note 30b for further details) and using the following methods and assumptions:

- private equities are valued at fair value based on the most recent transaction price or third-party net asset, revenue or earnings-based valuations that generally result in the use of significant unobservable inputs. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not updated through to the reporting date unless there are indications of significant market movements.
- properties are valued based on an analysis of recent market transactions supported by market knowledge derived from third-party professional valuers that generally result in the use of significant unobservable inputs.
- alternative investments fair values, which predominantly include holdings in investment and infrastructure funds are determined based on the most recent available valuations applying the Net Asset Value methodology and issued by fund administrators or investment managers and adjusted for any cash movements having occurred from the date of the valuation to the reporting date. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not updated through to the reporting date unless there are indications of significant market movements.
- other investments predominantly includes: interest receivable on bonds; dividends from listed and private equities that have been declared but not received at the balance sheet date; receivables from the sale of assets for which the proceeds have not been collected at the balance sheet date; and payables for the purchase of assets which have not been settled at the balance sheet date.

- derivative financial instruments are entered into predominantly to mitigate interest rate and inflation rate risks. These derivative financial instruments are stated at their fair value using pricing models and relevant market data as at the balance sheet date.
- asset and longevity swaps - APS has a contract with Rothesay Life, entered into in 2010 and extended in 2013, which covers 25 per cent (2022: 25 per cent) of the pensioner liabilities for an agreed list of members. Under the contract, to reduce the risk of long-term longevity risk, Rothesay Life makes benefit payments monthly in respect of the agreed list of members in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt) held by the scheme and the contractual payments made by APS to Rothesay Life on the longevity swaps. The Group holds the portfolio of assets at their fair value, with the government debt held at their quoted market price and the swaps accounted for at their estimated discounted future cash flows.

  During 2011, APS entered into a longevity swap with Rothesay Life, which covers an additional 21 per cent (2022: 21 per cent) of the pensioner liabilities for the same agreed list of members as the 2010 contract. Under the longevity swap, to reduce the risk of long-term longevity risk, APS makes a fixed payment to Rothesay Life each month reflecting the prevailing mortality assumptions at the inception of the contract, and Rothesay Life make a monthly payment to APS reflecting the actual monthly benefit payments to members. The cash flows are settled net each month. If pensioners live longer than expected at inception of the longevity swap, Rothesay Life will make payments to the scheme to offset the additional cost of paying pensioners and if pensioners do not live as long as expected, then the scheme will make payments to Rothesay Life. The Group holds the longevity swap at fair value, determined at the estimated discounted future cash flows.
- insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at 31 March 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension only benefits, who were alive on 1 October 2018. Benefits coming into payment for retirements after 31 March 2018 are not covered. The contract covers benefits payable from 1 October 2018 onwards. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future.

iv Effect of the asset ceiling

In measuring the valuation of the net defined benefit asset for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available in the form of a refund or a reduction in future contributions after they are paid into the plan. The Group has determined that the recoverability of such surpluses, including minimum funding requirements, will be subject to withholding taxes in the UK, payable by the Trustee, of 35 per cent.

The future committed NAPS deficit contributions, as detailed in note 34a, are treated as minimum funding requirements under IAS 19 and are not recognised as part of the scheme assets or liabilities. The Group has determined that upon the wind up of the scheme, that if the scheme is in surplus, including the incorporation of the minimum funding requirements, then the surplus will be available as a refund or a reduction in future contributions after they are paid into the scheme. The recovery of such amounts is subject to UK withholding tax payable by the Trustee. In measuring the recoverability of the surplus for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available upon wind up of the scheme, less the application of withholding taxes in the UK, payable by the Trustee, at 35 per cent.

A reconciliation of the effect of the asset ceiling used in calculating the IAS 19 irrecoverable surplus in APS and NAPS is set out below:

€ million	**2023**	2022
1 January	**1,248**	1,247
Interest expense	**59**	23
Remeasurements	**(583)**	14
Exchange movements	**11**	(36)
31 December	**735**	1,248

On 22 November 2023, the UK Government announced that it intended to reduce the withholding tax payable upon winding up of pension schemes from 35 per cent to 25 per cent. While this change had not been substantively enacted at the reporting date and as such not reflected in the figures above, had the rate of withholding tax been reduced to 25 per cent at 31 December 2023, the effect would have been to reduce the effect of the asset ceiling by €210 million to €525 million, with a corresponding increase in the net employee benefit asset.

d Present value of scheme liabilities

i Movement in scheme liabilities

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

€ million	2023	2022
1 January	**20,292**	31,622
Current service cost	**1**	2
Interest expense	**952**	584
Remeasurements – financial assumptions[1]	**314**	(10,476)
Remeasurements – demographic assumptions	**55**	(202)
Remeasurements of experience losses	**430**	627
Benefits paid	**(1,065)**	(1,301)
Employee contributions	**8**	6
Exchange movements	**252**	(570)
31 December	**21,239**	20,292

1 Included in the remeasurements from financial assumptions is an amount of €670 million (2022: increase of €10,299 million) that increases the scheme liabilities relating to changes in the discount rates and €356 million (2022: increase of €177 million) that reduces the scheme liabilities relating to changes in inflation rates.

ii Scheme liability assumptions

The principal assumptions used for the purposes of the IAS 19 valuations were as follows:

	2023			2022		
Per cent per annum	APS	NAPS	Other schemes[4]	APS	NAPS	Other schemes[4]
Discount rate[1]	**4.50**	**4.55**	**1.0 - 7.1**	4.85	4.80	0.8 - 7.2
Rate of increase in pensionable pay[2]	**3.20**	**–**	**2.0 - 5.0**	3.40	–	2.0 - 6.0
Rate of increase of pensions in payment[3]	**3.20**	**2.65**	**0.7 - 3.4**	3.40	2.80	0.3 - 3.0
RPI rate of inflation	**3.20**	**3.00**	**2.2 - 2.9**	3.40	3.20	2.2 - 3.1
CPI rate of inflation	**2.65**	**2.65**	**2.0 - 2.5**	2.80	2.80	2.0 - 2.6

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.

2 Rate of increase in pensionable pay, which reflects inflationary increases, is assumed to be in line with increases in RPI.

3 It has been assumed that the rate of increase of pensions in payment, which reflects inflationary increases, will be in line with CPI for NAPS and RPI for APS as at 31 December 2023.

4 The rate of increase in healthcare costs for schemes based in the United States, which is based on medical trends, is assumed at 7.00 per cent grading down to 5.00 per cent over six years (2022: 6.25 per cent to 5.00 per cent over five years).

The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2023	2022
Life expectancy at age 60 for a:		
• male currently aged 60	**27.5**	27.9
• male currently aged 40	**28.8**	29.1
• female currently aged 60	**29.0**	29.3
• female currently aged 40	**31.2**	31.5

For APS, the base mortality tables are based on the Agreed Valuation Basis (AVB) as agreed between British Airways and the trustees of APS. For NAPS, the base mortality tables are based on analysis undertaken for the purpose of the triennial valuation dated 31 March 2021. Future mortality improvements reflect the most recent model published by the UK actuarial profession's Continuous Mortality Investigation (CMI), being its 2022 model. These standard mortality tables, for both APS and NAPS, incorporate adjustments specific to the demographics of scheme members, including a long-term improvement parameter of 1.00 per cent per annum (2022: 1.00 per cent).

For schemes in the United States, mortality rates were based on the MP-2021 mortality tables incorporating adjustments for the long-term impact COVID-19 is expected to have on mortality.

At 31 December 2023, the weighted-average duration of the defined benefit obligation was 9 years for APS (2022: 10 years) and 14 years for NAPS (2022: 15 years). The weighted average duration of the defined benefit obligations was 2 to 16 years for other schemes (2022: 3 to 19 years). The weighted average duration represents a single figure for the average number of years over which the employee benefit liability discounted cash flows is extinguished and is highly dependent on movements in the aforementioned discount rates.

iii Sensitivity analysis

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

€ million	Increase in scheme liabilities APS	NAPS	Other schemes
Discount rate (decrease of 50 basis points)[1]	**278**	**1,020**	**29**
Future pension growth (increase of 50 basis points)[1]	**243**	**973**	**5**
Future mortality rate (one year increase in life expectancy)	**301**	**394**	**22**

1 Sensitivities smaller than those disclosed can be approximately interpolated from those sensitivities above.

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

35 Supplemental cash flow information

a Reconciliation of movements of liabilities to cash flows arising from financing activities

€ million	Bank, other loans and asset financed liabilities	Convertible bond	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at 1 January 2023	9,760	605	9,619	(71)	19,913
Proceeds from borrowings	1,001	–	–	–	1,001
Repayment of borrowings	(4,268)	–	–	–	(4,268)
Repayment of lease liabilities	–	–	(1,731)	–	(1,731)
Settlement of derivative financial instruments	–	–	–	(119)	(119)
Total changes from financing cash flows	**(3,267)**	**–**	**(1,731)**	**(119)**	**(5,117)**
Interest paid	(488)	(9)	(472)	44	(925)
Interest expense	476	9	508	–	993
New leases and lease modifications	–	–	1,315	–	1,315
Fair value movements	–	130	–	322	452
Other non-cash movements	1	–	(13)	(2)	(14)
Exchange movements	(102)	–	(259)	6	(355)
Balance at 31 December 2023	**6,380**	**735**	**8,967**	**180**	**16,262**

€ million	Bank, other loans and asset financed liabilities[2]	Convertible bond[2]	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at 1 January 2022	9,217	756	9,637	(136)	19,474
Proceeds from borrowings	1,436	–	–	–	1,436
Repayment of borrowings	(1,050)	–	–	–	(1,050)
Repayment of lease liabilities	–	–	(1,455)	–	(1,455)
Settlement of derivative financial instruments[1]	–	–	–	1,036	1,036
Total changes from financing cash flows	386	–	(1,455)	1,036	(33)
Interest paid[1]	(325)	(9)	(422)	(7)	(763)
Interest expense	368	9	464	–	841
New leases and lease modifications	–	–	1,017	–	1,017
Fair value movements	–	(151)	–	(990)	(1,141)
Other non-cash movements	11	–	(37)	–	(26)
Exchange movements	103	–	415	26	544
Balance at 31 December 2022	**9,760**	**605**	**9,619**	**(71)**	**19,913**

1 The 2022 reconciliation includes a reclassification of €7 million from the Settlement of derivative financial instruments to Interest paid to reflect the settlement loss arising on interest rate derivatives designated in hedge relationships. The reclassification of the settlement loss aligns with the classification within Net cash flows from operating activities in the Cash flow statement.

2 The 2022 reconciliation includes a reclassification to conform with the 2023 presentation, whereby, the 2028 convertible bond has been disclosed separately from the Bank, other loans and asset financed liabilities category. The reclassification resulted in an amount of €735 million and €605 million being recorded within the 2028 convertible bond at 1 January 2022 and 31 December 2022, respectively.

b Reconciliation of movement in provisions included within Net cash flows from operating activities

€ million	**2023**	2022
Opening provisions	**3,548**	2,999
Non-cash additions recorded in operating profit	**862**	896
Non-cash releases of unused provisions recorded in operating profit	**(133)**	(137)
Other non-cash amounts recorded within operating profit	**4**	27
Cash settlements relating to operating provisions	**(496)**	(323)
Movements in provisions recorded within net cash flows from operating activities	**237**	463
Movements in provisions recorded within Other comprehensive income	**24**	(69)
Movements elsewhere within the Balance sheet	**(6)**	(15)
Unrealised currency differences arising on provisions recorded within operating profit	**(68)**	127
Non-cash settlement of ETS obligations	**(98)**	(10)
Movements in provisions recorded in the Income statement outside of operating profit	**103**	53
Closing provisions (note 27)	**3,740**	3,548

c Other items included within Net cash flows from operating activities

€ million	**2023**	2022
Non-cash equity settled share-based payments	**50**	36
Ineffectiveness arising on hedge accounting	**6**	17
Non-cash movements on derivative and non-derivative financial instruments	**16**	45
Settlement of interest rate derivatives	**44**	(7)
Other	**(5)**	(15)
	111	76

d Details of acquisition of property, plant and equipment and intangible assets within Net cash flows from investing activities

€ million	**2023**	2022
Purchase of property, plant and equipment – fleet	**2,715**	3,146
Purchase of property, plant and equipment – other	**193**	132
Purchase of intangible assets – ETS allowances	**264**	360
Purchase of intangible assets – other	**372**	237
	3,544	3,875

e Details of cash flows arising from lease transactions presented in the Cash flow statement

€ million	**2023**	2022
Cash flows arising from transactions giving rise to lease liabilities		
Total cash outflows arising from lease liabilities – aircraft	**(2,076)**	(1,699)
Total cash outflows arising from lease liabilities – other	**(127)**	(178)
Total cash inflows arising from sale and leaseback transactions – aircraft	**826**	718
Cash flows arising from transactions that do not give rise to the recognition of lease liabilities		
Total cash outflows arising from short-term leases, low-value assets and variable lease payments	**(25)**	(41)
Total cash inflows arising from the recognition of asset financed liabilities	**(999)**	1,424
Total cash outflows arising from asset financed liabilities	**(416)**	(292)

36 Related party transactions

The following transactions took place with related parties for the financial years to 31 December:

€ million	2023	2022
Sales of goods and services		
Sales to associates[1]	**5**	5
Sales to significant shareholders[2]	**261**	141
Purchases of goods and services		
Purchases from associates[3]	**72**	61
Purchases from significant shareholders[2]	**131**	113

€ million	2023	2022
Receivables from related parties		
Amounts owed by associates[4]	**18**	13
Amounts owed by significant shareholders[5]	**136**	25
Payables to related parties		
Amounts owed to associates[6]	**6**	–
Amounts owed to significant shareholders[5]	**12**	26

1 Sales to associates: Consisted primarily of sales for airline-related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €4 million (2022: €4 million) and €1 million (2022: €1 million) to Serpista, S.A. and Multiservicios Aeroportuarios, S.A.

2 Sales to and purchases from significant shareholders principally relates to interline services, the purchase of cargo capacity, the provision of maintenance services and the income from licensing of the Avios brand with Qatar Airways (Q.C.S.C.).

3 Purchases from associates: Consisted primarily of €41 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2022: €35 million), €13 million of handling services provided by Dunwoody (2022: €14 million) and €17 million of maintenance services received from Serpista, S.A. (2022: €13 million).

4 Amounts owed by associates: Consisted primarily of €17 million from a long-term loan provided to LanzaJet, Inc. (2022: €12 million) and €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A., Dunwoody, Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A., Empresa Logística de Carga Aérea, S.A., Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, EFC, S.A. and Viajes AME, S.A.U. (2022: €1 million).

5 Amounts owed by and to significant shareholders related to Qatar Airways (Q.C.S.C.).

6 Amounts owed to associates: Consisted primarily of €2 million of maintenance of airport equipment to Serpista, S.A. (2022: €nil) and €3 million of auxiliary airport services to Multiservicios Aeroportuarios, S.A. and Dunwoody (2022: €nil).

During the year to 31 December 2023 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €1 million (2022: €2 million) in relation to the costs of the Pension Protection Fund levy.

The Group has transactions with related parties that are conducted in the normal course of the airline and loyalty operating companies, which include the provision of airline and related services and loyalty services. All such transactions are carried out on an arm's length basis.

During the course of 2022, the Group renewed its loyalty currency exchange agreement with Qatar Airways (Q.C.S.C.), where Avios could be exchanged for points within the Qatar Airways (Q.C.S.C.)'s loyalty programme, the Privilege Club. In addition, in renewing the agreement, IAG Loyalty licensed the Avios brand name for use within the Privilege Club.

During the course of 2023, the Group provided a long-term shareholder loan of €5 million ($5 million) to LanzaJet, Inc., in addition to the initial long-term shareholder loan of €12 million ($14 million) provided to LanzaJet, Inc. in 2022. LanzaJet, Inc. is a company which specialises in the generation of Sustainable Aviation Fuels of which the Group has a 16.7 per cent equity interest, classified as an associate and presented within Investments accounted for using the equity method in the Balance sheet.

For the year to 31 December 2023, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2022: €nil).

Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies. At 31 December 2023, the only significant shareholder of the Group was Qatar Airways (Q.C.S.C.).

At 31 December 2023 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €nil (2022: €nil).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2023 and 2022 is as follows:

	Year to 31 December	
€ million	**2023**	2022
Base salary, fees and benefits		
Board of Directors		
Short-term benefits	**4**	4
Share-based payments	**1**	1
Management Committee		
Short-term benefits	**15**	15
Share-based payments	**-**	2

For the year to 31 December 2023, the Board of Directors includes remuneration for one Executive Director (31 December 2022: one Executive Director). The Management Committee includes remuneration for 14 members (31 December 2022: 14 members), and excludes remuneration for the one Executive Director.

The Company provides life insurance for the Executive Director and all members of the Management Committee. For the year to 31 December 2023, the Company's obligation was €45,000 (2022: €38,000).

At 31 December 2023 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €4 million (2022: €5 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at 31 December 2023 (2022: €nil).

37 Change in presentation of the Cash flow statement

During the course of 2023, the Group has made a number of changes to the presentation of its Cash flow statement. These changes have been applied retrospectively to the Cash flow statement and are detailed below.

Net gain on sale of property plant and equipment

Previously gains/losses on the sale of property, plant and equipment were recorded in the Income statement within Other non-operating credits. Under the updated presentation, Net (gain)/loss on sale of property, plant and equipment is presented separately in the Income statement and included within Operating profit. Accordingly, operating profit included within Net cash flows from operating activities has been updated. See note 2 for further information.

Unrealised currency differences

Previously all unrealised foreign currency gains/losses arising in the Cash flow statement were recorded within Net foreign exchange differences. Under the updated presentation, Net foreign exchange differences has been amended to only include those unrealised currency differences arising from the retranslation of opening cash and cash equivalent balances, while unrealised currency differences arising from working capital used in operating activities are presented within Net cash flows from operating activities.

Other cash flows from operating activities

Previously movements in working capital balances were presented aggregated between working capital assets and working capital liabilities. Under the updated presentation working capital balances have been disaggregated by their nature to allow greater visibility as to the cash flow impacts associated with these balances. There has been no change in the overall total movement in working capital.

In addition, previously the Group presented the non-cash movements in provisions combined with other non-cash movements. Under the updated presentation these items have been separated into individual row items within the Cash flow statement.

The following table summarises the impact of the changes in presentation in the Cash flow statement for the year to 31 December 2022:

Cash flow statement (extract for the year to 31 December 2022)

€ million	As reported	Adjustment – net gain on sale of property, plant and equipment	Adjustment – unrealised currency differences	Adjustment – operating cash flow items	Restated
Cash flows from operating activities					
Operating profit	1,256	22			1,278
Depreciation, amortisation and impairment	2,070				2,070
Net gain on disposal of property, plant and equipment	–	(22)			(22)
Movement in working capital	1,884			(1,884)	–
(Increase)/decrease in trade receivables, inventories and other current assets	(914)			914	–
Increase/(decrease) in trade and other payables and deferred revenue	2,798			(2,798)	–
Employer contributions to pension schemes	(22)				(22)
Pension scheme service costs	17				17
Payments related to restructuring	(81)			81	–
Provisions and other non-cash movements	627			(627)	–
Increase in provisions	–			463	463
Unrealised currency differences	–		19		19
Other movements	–			76	76
Interest paid	(824)			7	(817)
Interest received	42				42
Tax paid	(134)				(134)
Net cash flows from operating activities before movements in working capital	4,835	–	19	(1,884)	2,970
Increase in trade receivables	–			(660)	(660)
Increase in inventories	–			(21)	(21)
Increase in other receivables and current assets	–			(233)	(233)
Increase in trade payables	–			886	886
Increase in deferred revenue	–			1,236	1,236
Increase in other payables and current liabilities	–			676	676
Net cash flows from operating activities	4,835	–	19	–	4,854
Net cash flows from investing activities	(3,463)	–	–	–	(3,463)
Net cash flows from financing activities	(56)	–	–	–	(56)
Net increase in cash and cash equivalents	1,316	–	19	–	1,335
Net foreign exchange differences	(12)		(19)		(31)
Cash and cash equivalents at 1 January	7,892				7,892
Cash and cash equivalents at year end	9,196	–	–	–	9,196
Interest-bearing deposits maturing after more than three months	403	–	–	–	403
Cash, cash equivalents and interest-bearing deposits	9,599	–	–	–	9,599

38 Post balance sheet events

Revocation of Royal Decree-Law 3/2016 in Spain

On 18 January 2024 the *Tribunal Constitucional* (Constitutional Court) in Spain, issued a ruling that a number of the amendments to corporate income tax arising from the introduction of Royal Decree-Law 3/2016 were unconstitutional and accordingly revoked. The revocation of Royal Decree-Law 3/2016 impacts the Groups operations as follows:

- *Limitation of the use of historic tax losses*
  Prior to the introduction of Royal Decree-Law 3/2016, the Spanish subsidiaries of the Group were permitted to offset up to 70 per cent of their taxable profit with historical accumulated tax losses (to the extent there were sufficient tax losses to do so). With the introduction of the Royal Decree-Law 3/2016, this limitation of tax losses applied to taxable profit was reduced to 25 per cent.
- *Tax deductibility of impairments of investment in subsidiary undertakings*
  Where companies had impaired investments in subsidiaries prior to 2013 and deducted those impairments for tax purposes, Royal Decree-Law 3/2016 retrospectively required companies to reverse those impairment charges, for tax purposes, with the effect recognised equally over the five years commencing 1 January 2016.

The Group does not consider that the ruling by the *Tribunal Constitucional* constitutes an adjusting post-balance sheet event and accordingly the impact of these changes are not reflected in the financial statements. As at the date of these financial statements, there remains uncertainty as to how the revocation of Royal Decree-Law 3/2016 will be applied and accordingly the methodology by which the Group, with its external tax advisors, quantifies the impacts of this revocation. Had the Group reflected the impact of ruling into the financial statements as at 31 December 2023, the impact would have been as follows:

- *Current tax impact of historic loss limitation and deductibility of historic impairments of investments for fiscal years 2016 through 2022*
  The Royal Decree Law 3/2016 restricted the use of prior year tax losses to 25 per cent of current year profits in the Group's Spanish companies. In addition, prior to 2013, Iberia impaired its subsidiary undertakings in Venezuela. Had the loss limitation been 70 per cent and the historic impairment been tax deductible, the tax paid to the Spanish tax authorities, would have been up to approximately €83 million lower. The Group expects to record an associated current tax credit, with a corresponding receivable from the Spanish tax authorities. The Group is currently assessing the potential interest due, if any, from the Spanish tax authorities arising on this receivable.
- *Current tax impact of loss limitation for fiscal year 2023*
  The Group measures current tax expense based on the regulations in effect as of the date when corporate income taxes are accrued. With the change in loss limitation, the Group anticipates the ability to offset up to 70 per cent of their Spanish taxable profits with prior-year losses for their 2023 Spanish taxes. If this limit had been applied at 31 December 2023 the Group foresees a reduction in the 2023 current tax expense of approximately €108 million.
- *Deferred tax impact of future loss limitation*
  The Group measures deferred tax assets at the tax rates that are expected to apply when the related asset is realised. As detailed in note 2, the Group uses future cash flow projections over periods of up to ten years to determine the recoverability of deferred tax assets. With the change in loss limitation, the Group expects to be able to utilise more of its historical tax losses within this ten-year period. Had the Royal Decree-Law 3/2016 not applied at 31 December 2023, the Group expects that the deferred tax assets of the Group, attributable to tax losses and tax credits, would have decreased by approximately €58 million, with a corresponding charge to Tax in the Income statement.

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, may differ to definitions given by regulatory bodies applicable to the Group and may differ to similarly titled measures presented by other companies. They are used to measure the outcome of the Group's strategy based on the Group's strategic imperatives of: strengthening our core; driving earnings growth through asset-light businesses; and operating under a strengthened financial and sustainability framework.

During 2023, the Group has replaced the Levered free cash flow measure with the Free cash flow measure. The Free cash flow measure represents the cash generating ability of the Group to support operations and maintain its capital assets. This measure is monitored by the Group in making both investment and capital decisions. In addition, the Group has added an APM regarding the Ownership costs of the Group to enable a better understanding of how the capital assets of the Group contribute to the operating result in each reporting period. Other than the aforementioned change, the Group has made no changes to its pre-existing disclosures and treatments of APMs compared to those disclosed in the Annual report and accounts for the year to 31 December 2022.

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

a Profit after tax before exceptional items

Exceptional items are those that in the Board's and management's view need to be separately disclosed by virtue of their size or incidence to supplement the understanding of the entity's financial performance. The Management Committee of the Group uses financial performance on a pre-exceptional basis to evaluate operating performance and to make strategic, financial and operational decisions, and externally because it is widely used by security analysts and investors in evaluating the performance of the Group between reporting periods and against other companies.

While there have been no exceptional items recorded in the year to 31 December 2023, exceptional items in the year to 31 December 2022 include: significant changes in the long-term fleet plans that result in the reversal of impairment of fleet assets and legal reimbursements.

The table below reconciles the statutory Income statement to the Income statement before exceptional items of the Group:

	Year to 31 December					
€ million	**Statutory 2023**	**Exceptional items**	**Before exceptional items 2023**	Statutory 2022[1]	Exceptional items	Before exceptional items 2022[1]
Passenger revenue	**25,810**	**-**	**25,810**	19,458	-	19,458
Cargo revenue	**1,156**	**-**	**1,156**	1,615	-	1,615
Other revenue	**2,487**	**-**	**2,487**	1,993	-	1,993
Total revenue	**29,453**	**-**	**29,453**	23,066	-	23,066
Employee costs	**5,423**	**-**	**5,423**	4,647	-	4,647
Fuel, oil costs and emissions charges	**7,557**	**-**	**7,557**	6,120	-	6,120
Handling, catering and other operating costs	**3,849**	**-**	**3,849**	2,971	-	2,971
Landing fees and en-route charges	**2,308**	**-**	**2,308**	1,890	-	1,890
Engineering and other aircraft costs	**2,509**	**-**	**2,509**	2,101	-	2,101
Property, IT and other costs[2]	**1,058**	**-**	**1,058**	950	(23)	973
Selling costs	**1,155**	**-**	**1,155**	920	-	920
Depreciation, amortisation and impairment[3]	**2,063**	**-**	**2,063**	2,070	(8)	2,078
Net gain on sale of property, plant and equipment[1]	**(2)**	**-**	**(2)**	(22)	-	(22)
Currency differences	**26**	**-**	**26**	141	-	141
Total expenditure on operations	**25,946**	**-**	**25,946**	21,788	(31)	21,819
Operating profit	**3,507**	**-**	**3,507**	1,278	31	1,247
Finance costs	**(1,113)**	**-**	**(1,113)**	(1,017)	-	(1,017)
Finance income	**386**	**-**	**386**	52	-	52
Net change in fair value of financial instruments	**(11)**	**-**	**(11)**	81	-	81
Net financing credit relating to pensions	**103**	**-**	**103**	26	-	26
Net currency retranslation credits/(charges)	**176**	**-**	**176**	(115)	-	(115)
Other non-operating credits[1]	**8**	**-**	**8**	110	-	110
Total net non-operating costs	**(451)**	**-**	**(451)**	(863)	-	(863)
Profit before tax	**3,056**	**-**	**3,056**	415	31	384
Tax	**(401)**	**-**	**(401)**	16	(2)	18
Profit after tax	**2,655**	**-**	**2,655**	431	29	402

€ million	Statutory 2023	Exceptional items	Before exceptional items 2023	Statutory 2022[1]	Exceptional items	Before exceptional items 2022[1]
	Three months to 31 December					
Passenger revenue	**6,293**	**–**	**6,293**	5,438	–	5,438
Cargo revenue	**290**	**–**	**290**	399	–	399
Other revenue	**641**	**–**	**641**	549	–	549
Total revenue	**7,224**	**–**	**7,224**	6,386	–	6,386
Employee costs	**1,438**	**–**	**1,438**	1,230	–	1,230
Fuel, oil costs and emissions charges	**1,978**	**–**	**1,978**	1,720	–	1,720
Handling, catering and other operating costs	**958**	**–**	**958**	828	–	828
Landing fees and en-route charges	**546**	**–**	**546**	499	–	499
Engineering and other aircraft costs	**647**	**–**	**647**	594	–	594
Property, IT and other costs[2]	**270**	**–**	**270**	280	–	280
Selling costs	**304**	**–**	**304**	249	–	249
Depreciation, amortisation and impairment[3]	**555**	**–**	**555**	539	–	539
Net loss on sale of property, plant and equipment[1]	**13**	**–**	**13**	9	–	9
Currency differences	**13**	**–**	**13**	(39)	–	(39)
Total expenditure on operations	**6,722**	**–**	**6,722**	5,909	–	5,909
Operating profit	**502**	**–**	**502**	477	–	477
Finance costs	**(246)**	**–**	**(246)**	(294)	–	(294)
Finance income	**101**	**–**	**101**	41	–	41
Net change in fair value of financial instruments	**(11)**	**–**	**(11)**	(51)	–	(51)
Net financing credit relating to pensions	**26**	**–**	**26**	7	–	7
Net currency retranslation credits	**112**	**–**	**112**	190	–	190
Other non-operating charges[1]	**(43)**	**–**	**(43)**	(121)	–	(121)
Total net non-operating costs	**(61)**	**–**	**(61)**	(228)	–	(228)
Profit before tax	**441**	**–**	**441**	249	–	249
Tax	**63**	**–**	**63**	(17)	–	(17)
Profit after tax	**504**	**–**	**504**	232	–	232

1 The 2022 results include a reclassification to conform with the current year presentation for the Net loss/(gain) on sale of property, plant and equipment. There is no impact on the Profit after tax. Further information is given in note 2.

The rationale for each exceptional item is given below.

2 Partial reversal of historical fine

The exceptional credit of €23 million for the year to 31 December 2022 relates to the partial reversal of the fine, plus accrued interest, initially issued by the European Commission, in 2010, to British Airways regarding its involvement in cartel activity in the air cargo sector and that had been recognised as an exceptional charge. The exceptional credit has been recorded within Property, IT and other costs in the Income statement with no resultant tax charge arising. The cash inflow associated with the partial reversal of the fine was recognised during 2022.

3 Impairment reversal of fleet and associated assets

The exceptional impairment reversal of €8 million for the year to 31 December 2022 relates to six Airbus A320s in Vueling, previously stood down in the fourth quarter of 2020 and subsequently stood up in the second and third quarters of 2022. The exceptional impairment reversal was recorded within Right of use assets on the Balance sheet and within Depreciation, amortisation and impairment in the Income statement.

There is no cash flow impact and there has been a tax charge of €2 million on the recognition of the impairment reversal.

The table below provides a reconciliation of the statutory to pre-exceptional condensed alternative income statement by operating segment for the years to 31 December 2023 and 2022:

	Year to 31 December 2023														
	British Airways (£)			**British Airways (€)**			**Iberia**			**Vueling**			**Aer Lingus**		
Million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	12,668	–	12,668	14,558	–	14,558	5,262	–	5,262	3,181	–	3,181	2,209	–	2,209
Cargo revenue	757	–	757	869	–	869	275	–	275	–	–	–	55	–	55
Other revenue	898	–	898	1,032	–	1,032	1,421	–	1,421	17	–	17	10	–	10
Total revenue	14,323	–	14,323	16,459	–	16,459	6,958	–	6,958	3,198	–	3,198	2,274	–	2,274
Employee costs	2,577	–	2,577	2,960	–	2,960	1,284	–	1,284	399	–	399	471	–	471
Fuel, oil costs and emissions charges	3,825	–	3,825	4,395	–	4,395	1,496	–	1,496	907	–	907	639	–	639
Ownership costs	1,015	–	1,015	1,166	–	1,166	411	–	411	256	–	256	150	–	150
Supplier costs	5,475	–	5,475	6,288	–	6,288	2,827	–	2,827	1,240	–	1,240	789	–	789
Total expenditure on operations	12,892	–	12,892	14,809	–	14,809	6,018	–	6,018	2,802	–	2,802	2,049	–	2,049
Operating profit	1,431	–	1,431	1,650	–	1,650	940	–	940	396	–	396	225	–	225
Operating margin (%)	10.0%		10.0%				13.5%		13.5%	12.4%		12.4%	9.9%		9.9%

	Year to 31 December 2023					
	IAG Loyalty (£)			**IAG Loyalty (€)**		
Million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	837	–	837	961	–	961
Other revenue	455	–	455	524	–	524
Total revenue	1,292	–	1,292	1,485	–	1,485
Employee costs	61	–	61	70	–	70
Ownership costs	10	–	10	11	–	11
Supplier costs	941	–	941	1,083	–	1,083
Total expenditure on operations	1,012	–	1,012	1,164	–	1,164
Operating profit	280	–	280	321	–	321
Operating margin (%)	21.7%		21.7%			

	Year to 31 December 2022[1]														
	British Airways (£)			British Airways (€)			Iberia			Vueling			Aer Lingus		
Million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	9,215	–	9,215	10,790	–	10,790	4,042	–	4,042	2,584	–	2,584	1,679	–	1,679
Cargo revenue	1,060	–	1,060	1,245	–	1,245	347	–	347	–	–	–	80	–	80
Other revenue	755	–	755	886	–	886	1,122	–	1,122	14	–	14	10	–	10
Total revenue	11,030	–	11,030	12,921	–	12,921	5,511	–	5,511	2,598	–	2,598	1,769	–	1,769
Employee costs	2,100	–	2,100	2,464	–	2,464	1,161	–	1,161	370	–	370	393	–	393
Fuel, oil costs and emissions charges	2,929	–	2,929	3,432	–	3,432	1,313	–	1,313	739	–	739	539	–	539
Ownership costs[1]	1,081	–	1,081	1,268	–	1,268	364	–	364	206	(8)	214	134	–	134
Supplier costs	4,595	(19)	4,614	5,391	(23)	5,414	2,284	–	2,284	1,088	–	1,088	646	–	646
Total expenditure on operations[1]	10,705	(19)	10,724	12,555	(23)	12,578	5,122	–	5,122	2,403	(8)	2,411	1,712	–	1,712
Operating profit[1]	325	19	306	366	23	343	389	–	389	195	8	187	57	–	57
Operating margin (%)[1]	2.9%		2.8%				7.1%		7.1%	7.5%		7.2%	3.2%		3.2%

	Year to 31 December 2022					
	IAG Loyalty (£)			IAG Loyalty (€)		
Million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	569	–	569	676	–	676
Other revenue	274	–	274	325	–	325
Total revenue	843	–	843	1,001	–	1,001
Employee costs	50	–	50	56	–	56
Ownership costs	7	–	7	8	–	8
Supplier costs	546	–	546	655	–	655
Total expenditure on operations	603	–	603	719	–	719
Operating profit	240	–	240	282	–	282
Operating margin (%)	28.4%		28.4%			

1 Segment information for 2022 has been restated for the reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment.

b Adjusted earnings per share (KPI)

Adjusted 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	Note	2023	2022
Profit after tax attributable to equity holders of the parent	a	2,655	431
Exceptional items	a	–	29
Profit after tax attributable to equity holders of the parent before exceptional items		**2,655**	402
Income statement impact of convertible bonds	11	15	(104)
Adjusted profit		**2,670**	298
Weighted average number of ordinary shares in issue used for basic earnings per share	11	4,933	4,958
Weighted average number of ordinary shares used for diluted earnings per share	11	5,277	5,344
Basic earnings per share (€ cents)		**53.8**	8.7
Basic earnings per share before exceptional items (€ cents)		**53.8**	8.1
Adjusted earnings per share before exceptional items (€ cents)		**50.6**	5.6

c Ownership costs

Ownership costs represents the income statement impact of the historical purchase of capital assets and is defined as depreciation, amortisation and impairment, arising on both property, plant and equipment and intangible assets, and the net loss/(gain) on the sale of property, plant and equipment. The Group believes that this measure is useful to the users of the financial statements in understanding the impact of capital assets in deriving the operating result of the Group.

€ million	**2023**	2022
Depreciation, amortisation and impairment	**2,063**	2,070
Net gain on sale of property, plant and equipment	**(2)**	(22)
Ownership costs	**2,061**	2,048

d Airline non-fuel costs per ASK

The Group monitors airline unit costs (per available seat kilometre (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 (abbreviated to 'ccy').

€ million	Note	**2023 Reported**	**ccy adjustment**	**2023 ccy**	2022[1]
Total expenditure on operations[1]	a	25,946	408	26,354	21,788
Add: exceptional items in operating expenditure	a	-		-	(31)
Less: fuel, oil costs and emission charges	a	7,557	6	7,563	6,120
Non-fuel costs[1]		18,389	402	18,791	15,699
Less: Non-flight specific costs[1]		2,141	68	2,209	1,716
Airline non-fuel costs		16,248	334	16,582	13,983
ASKs (millions)		323,111		323,111	263,592
Airline non-fuel unit costs per ASK (€ cents)		**5.03**		**5.13**	5.30

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment.

e Free cash flow (KPI)

Free cash flow represents the cash generated by the businesses and is defined as the net cash flows from operating activities taken from the Cash flow statement, less the cash flows associated with the acquisition of property, plant and equipment and intangible assets reported in net cash flows from investing activities from the Cash flow statement. The Group believes that this measure is useful to the users of the financial statements in understanding the cash generating ability of the Group to support operations and maintain its capital assets.

€ million	**2023**	2022
Net cash flows from operating activities	**4,864**	4,854
Acquisition of property, plant and equipment and intangible assets	**(3,544)**	(3,875)
Free cash flow	**1,320**	979

f Net debt to EBITDA before exceptional items (KPI)

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA before exceptional items 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 against internal and external security analyst and investor benchmarks.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits. Net debt excludes supply chain financing arrangements which are classified within trade payables (note 23).

EBITDA before exceptional items is defined as operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment.

The Group believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. It is a measure of the profitability of the Group and of the core operating cash flows generated by the business model.

€ million	Note	2023	2022[1]
Interest-bearing long-term borrowings	26	**16,082**	19,984
Less: Cash and cash equivalents	22	**5,441**	9,196
Less: Other current interest-bearing deposits	22	**1,396**	403
Net debt		**9,245**	10,385
Operating profit[1]	a	**3,507**	1,278
Add: Depreciation, amortisation and impairment	a	**2,063**	2,070
EBITDA		**5,570**	3,348
Add: Exceptional items (excluding those reported within Depreciation, amortisation and impairment)	a	**–**	(23)
EBITDA before exceptional items		**5,570**	3,325
Net debt to EBITDA before exceptional items (times)		**1.7**	3.1

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment.

g Return on invested capital (KPI)

The Group 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 EBITDA before exceptional items, less fleet depreciation adjusted for inflation, depreciation of other property, plant 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	Note	2023	2022[1, 2]
EBITDA before exceptional items	f	**5,570**	3,325
Less: Fleet depreciation multiplied by inflation adjustment		**(1,976)**	(1,944)
Less: Other property, plant and equipment depreciation		**(194)**	(247)
Less: Software intangible amortisation		**(185)**	(210)
		3,215	924
Invested capital			
Average fleet value[3]	13	**16,919**	15,717
Less: Average progress payments[4]	13	**(993)**	(910)
Fleet book value less progress payments		**15,926**	14,807
Inflation adjustment[5]		**1.18**	1.18
		18,811	17,435
Average net book value of other property, plant and equipment[6]	13	**2,143**	2,037
Average net book value of software intangible assets[7]	17	**737**	640
Total invested capital		**21,691**	20,112
Return on invested capital		**14.8%**	4.6%

1 The 2022 results include a reclassification to conform with the current year presentation for the Net gain on sale of property, plant and equipment.

2 The 2022 RoIC calculation excludes the effect of the €29 million credit recorded in Depreciation, amortisation and impairment in the Income statement relating to the de-designation of hedge accounting (see note 6 of the Group financial statements).

3 The average net book value of aircraft is calculated from an amount of €17,520 million at 31 December 2023 and €16,317 million at 31 December 2022.

4 The average net book value of progress payments is calculated from an amount of €914 million at 31 December 2023 and €1,071 million at 31 December 2022.

5 Presented to two decimal places and calculated using a 1.5 per cent inflation (31 December 2022: 1.5 per cent inflation) rate over the weighted average age of the fleet at 31 December 2023: 11.0 years (31 December 2022: 11.3 years).

6 The average net book value of other property, plant and equipment is calculated from an amount of €2,256 million at 31 December 2023 and €2,029 million at 31 December 2022.

7 The average net book value of software intangible assets is calculated from an amount of €837 million at 31 December 2023 and €637 million at 31 December 2022.

h Results on a constant currency basis

Movements in foreign exchange rates impact the Group's financial results. The IAG Board and Management Committee review the results, including revenue and operating costs at constant rates of exchange. These financial measures are calculated at constant rates of exchange based on a retranslation, at prior year exchange rates, of the current year's results of the Group. Although the Board and Management Committee do not believe that these measures are a substitute for IFRS measures, the Board and Management Committee do 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 2023 figures are stated at a constant currency basis, the 2022 rates stated below have been applied:

Foreign exchange rates

	Weighted average		Closing	
	2023	2022	**2023**	2022
Pound sterling to euro	**1.15**	1.17	**1.16**	1.14
Euro to US dollar	**1.09**	1.05	**1.09**	1.06
Pound sterling to US dollar	**1.26**	1.23	**1.27**	1.21

i Liquidity

The Board and the Management Committee monitor liquidity in order to assess the resilience of the Group to adverse events and uncertainty and develop funding initiatives to maintain this resilience.

Liquidity is used by analysts, investors and other users of the financial statements as a measure of the financial health and resilience of the Group.

Liquidity is defined as Cash and cash equivalents plus Current interest-bearing deposits, plus Committed general undrawn facilities and Committed aircraft undrawn facilities.

€ million	Note	**2023**	2022
Cash and cash equivalents	22	**5,441**	9,196
Current interest-bearing deposits	22	**1,396**	403
Committed general undrawn facilities	29f	**4,359**	3,231
Committed aircraft undrawn facilities	29f	**375**	1,116
Overdrafts and other facilities	29f	**53**	53
Total liquidity		**11,624**	13,999

GROUP INVESTMENTS

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New-Delhi, 110065	Call centre	India	100 %
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100 %
BA Euroflyer Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100 %
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100 %
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100 %
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Holding company	Jersey	100 %
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100 %
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100 %
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100 %
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100 %
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100 %
British Airways Holdings B.V. Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100 %
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100 %
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100 %
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100 %
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100 %
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100 %
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100 %
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100 %
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100 %
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100 %
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100 %
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100 %
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Call centre	England	100 %
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99 %
Avios Group (AGL) Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Management of airline loyalty programmes	England	86 %[1]

Iberia

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100 %
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027	Cargo transport	Spain	100 %
Iberia LAE México SA de CV Xochicalco 174, Col. Narvarte, Alcaldía Benito Juárez, Mexico City, 03020	Aircraft technical assistance	Mexico	100 %
Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100 %[2]
Iberia Operadora UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %[1]
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100 %
Iberia Desarrollo Barcelona, S.L.* Avenida de les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75 %
Avios Group (AGL) Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Management of airline loyalty programmes	England	14 %[1]

Aer Lingus

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Aer Lingus (Ireland) Limited Dublin Airport, Dublin	Provision of human resources support to fellow group companies	Republic of Ireland	100 %
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin	Trustee	Republic of Ireland	100 %
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, Douglas, IM1 4LZ	Dormant	Isle of Man	100 %
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100 %[3]
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100 %
Aer Lingus (UK) Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Airline operations	Northern Ireland	100 %
ALG Trustee Limited 33-37 Athol Street, Douglas, IM1 1LB	Trustee	Isle of Man	100 %
Dirnan Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100 %
Santain Developments Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100 %

IAG Loyalty

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Avios South Africa Proprietary Limited Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	Dormant	South Africa	100 %
IAG Loyalty Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100 %
IAG Loyalty Retail Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Retail services	England	100 %

IAG Cargo

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Cargo Innovations Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Dormant	England	100 %
Zenda Group Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Dormant	England	100 %

Vueling

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Yellow Handling, S.L.U Carrer de Catalunya 83, Viladecans, Barcelona 08840	Ground handling services	Spain	100 %

LEVEL

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
FLYLEVEL UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100 %
Openskies SASU 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100 %

International Consolidated Airlines Group, S.A.

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
AERL Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100 %
British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100 %[4]
FLY LEVEL, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Airline operations	Spain	100 %
IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100 %
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Inflight eCommerce platform	Republic of Ireland	100 %
IAG GBS Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance, procurement services	England	100 %
IAG GBS Poland sp z.o.o.* Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100 %
IB Opco Holding, S.L. Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100 %[2]
Vueling Airlines, S.A.* Carrer de Catalunya 83, Viladecans, Barcelona 08840	Airline operations	Spain	100 %

* Principal subsidiaries

1 The Group holds 100% of both the nominal share capital and economic rights in Avios Group (AGL) Limited, held directly by British Airways Plc, which owns 86% and Iberia Operadora UK Limited which owns 14%.

2 The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

3 The Group holds 49.75% of the total number of voting rights and the majority of the economic rights in Aer Lingus Group DAC. The remaining voting rights, representing 50.25%, correspond to a trust established for implementing the Aer Lingus nationality structure.

4 The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, are held by a trust established for the purposes of implementing the British Airways nationality structure.

Associates

Name and address	Country of Incorporation	Percentage of equity owned
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Carretera Aerocaribbean y Final, Terminal No 5 Jose Martí Airport, Wajay, Municipio Boyeros, Havana	Cuba	50 %
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 1 ½, Jose Martí Airport, Havana	Cuba	50 %
Mundiplan Turismo y Ocio S.L. Calle Hermanos García Noblejas 41, Madrid, 28037	Spain	50 %
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49 %
Dunwoody Airline Services Limited Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	England	40 %
Serpista, S.A. Calle Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39 %
Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7 %
Inloyalty by Travel Club, S.L.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7 %
Viajes Ame, S.A.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7 %
LanzaJet Inc. 520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015	USA	16.7 %

Joint ventures

Name and address	Country of incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. Calle de O'Donnell 12, Madrid, 28009	Spain	50.5 %

Other equity investments

The Group's principal other equity investments are as follows:

Name and address	Country of incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Air Europa Holdings S.L.[1] Carretera Arenal - Llucmajor, km 21.5, Llucmajor, 07620	Spain	20 %	€	25	–
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9 %	€	70	6
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7 %	£	241	–
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10 %	€	–	–
i6 Group Limited Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.4 %	£	2	(2)
Monese Limited Eagle House 163 City Road, London, EC1V 1NR	England	4.8 %	£	8	(31)

1 The Shareholder funds and result before tax of Air Europa Holdings S.L. represent the data for the year to 31 December 2022 and are prepared under Spanish GAAP. The Group does not have access to financial information other than that reported in the statutory financial statements of the company, which are published subsequent to the authorisation of these consolidated financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF 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 28 February 2024, the Directors of International Consolidated Airlines Group, S.A. state that, to the best of their knowledge, the consolidated financial statements for the year to 31 December 2023 prepared in accordance with the applicable international accounting standards, offer a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the interim consolidated management report includes a fair review of the required information.

28 February 2024

Javier Ferrán Larraz
Chairman

Luis Gallego Martín
Chief Executive Officer

Giles Agutter

Peggy Bruzelius

Eva Castillo Sanz

Margaret Ewing

Maurice Lam

Heather Ann McSharry

Robin Phillips

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

AIRCRAFT FLEET

Number in service with Group companies

	Owned	Finance lease	Operating lease	**Total 31 December 2023**	Total 31 December 2022	Changes since 31 December 2022	Future deliveries	Options[1]
Airbus A319ceo	9	–	32	**41**	41	–	–	–
Airbus A320ceo	49	13	128	**190**	199	(9)	3	–
Airbus A320neo	–	38	28	**66**	60	6	49	40
Airbus A321ceo	11	3	29	**43**	44	(1)	–	–
Airbus A321neo	4	6	19	**29**	16	13	33	–
Airbus A321 LR	–	–	8	**8**	8	–	–	–
Airbus A321 XLR	–	–	–	**–**	–	–	14	14
Airbus A330-200	2	1	16	**19**	16	3	–	–
Airbus A330-300	4	4	12	**20**	20	–	–	–
Airbus A350-900	3	6	12	**21**	15	6	2	15
Airbus A350-1000	1	14	2	**17**	13	4	1	36
Airbus A380	3	9	–	**12**	12	–	–	–
Boeing 737-8200	–	–	–	**–**	–	–	25	100
Boeing 737-10	–	–	–	**–**	–	–	25	–
Boeing 777-200	38	2	3	**43**	43	–	–	–
Boeing 777-300	8	1	7	**16**	16	–	–	–
Boeing 777-9	–	–	–	**–**	–	–	18	24
Boeing 787-8	2	8	2	**12**	12	–	–	–
Boeing 787-9	1	8	9	**18**	18	–	–	–
Boeing 787-10	–	5	2	**7**	4	3	11	6
Embraer E190	9	–	11	**20**	21	(1)	–	–
Group total	**144**	**118**	**320**	**582**	**558**	**24**	**181**	**235**

1 The options to purchase 100 Boeing 737 aircraft allow for flexibility in the choice of variant.

Aircraft are reported based on their contractual definitions as opposed to their accounting determination. For accounting purposes, while all operating leases are presented as lease liabilities, finance leases are presented as either lease liabilities or asset financed liabilities, depending on the nature of the individual arrangement. See note 2 in the Group financial statements for further information.

As well as those aircraft in service the Group also holds 9 aircraft (31 December 2022: 18) not in service.