SIX MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (July 30, 2021) presents Group consolidated results for the six months to June 30, 2021.

COVID-19 situation and management actions:

- Passenger capacity in quarter 2 was 21.9 per cent of 2019 and continues to be adversely affected by the COVID-19 pandemic together with government restrictions and quarantine requirements
- Current passenger capacity plans for quarter 3 are for around 45 per cent of 2019 capacity, but remain uncertain and subject to ongoing review
- 1,371 cargo-only flights operated in quarter 2, up from 1,306 in quarter 1
- Strong liquidity of €10.2 billion at the end of quarter 2, driven by successful conclusion of financing initiatives since the start of the year, together with cost actions and UK pension contribution deferral. These initiatives included:
    - Drawdown of previously committed borrowing for British Airways (£2.0 billion UK Export Finance) and Aer Lingus (remaining €75 million drawn against Ireland Strategic Investment Fund facility)
    - €1.2 billion of IAG Senior Unsecured Bonds issued, with issue oversubscribed
    - €825 million of IAG Convertible Bonds issued, also oversubscribed
    - New 3-year $1.755 billion committed, secured revolving credit facility concluded for Aer Lingus, British Airways and Iberia and which remains undrawn; simultaneous cancellation of British Airways' previous revolving credit facility scheduled to mature in June 2021 (value at December 31, 2020: $0.8 billion undrawn)
    - Agreement for British Airways to defer monthly pension deficit contributions totalling £450 million between October 2020 and September 2021
    - Cash operating costs for quarter 2 of €190 million per week
- Sustainability-linked EETC financing executed in July for British Airways' remaining fleet deliveries for 2021, with total financing to be drawn of $785 million

IAG period highlights on results:

- Reported operating loss for the second quarter €967 million (2020 restated: operating loss €2,182 million) and operating loss before exceptional items €1,045 million (2020 restated: operating loss before exceptional items €1,370 million)
- Reported operating loss for the half year €2,035 million (2020 restated: operating loss €4,052 million), and operating loss before exceptional items €2,180 million (2020 restated: operating loss before exceptional items €1,915 million)
- Exceptional credit before tax in the half year of €145 million on discontinuance of fuel and foreign exchange hedge accounting (2020: exceptional charge before tax of €2,137 million on discontinuance of fuel and foreign exchange hedge accounting and impairment of fleet)
- Loss after tax and exceptional items for the half year €2,048 million (2020 restated: loss €3,813 million) and loss after tax before exceptional items: €2,169 million (2020 restated: loss €1,972 million)
- Cash of €7.7 billion at June 30, 2021 up €1.7 billion on December 31, 2020. Committed and undrawn general and aircraft facilities of €2.5 billion, bringing total liquidity to €10.2 billion, with pro forma liquidity including the British Airways sustainability-linked EETC financing executed in July at €10.8 billion

Performance summary:

	Six months to June 30		
Reported results (€ million)	**2021**	2020 restated[1]	Higher / (lower)
Passenger revenue	**1,141**	4,113	(72.3)%
Total revenue	**2,212**	5,288	(58.2)%
Operating loss	**(2,035)**	(4,052)	(49.8)%
Loss after tax	**(2,048)**	(3,813)	(46.3)%
Basic loss per share (€ cents)[2]	**(41.2)**	(124.7)	(67.0)%
Cash and interest-bearing deposits[3]	**7,664**	5,917	29.5 %
Borrowings[3]	**19,771**	15,679	26.1 %

Alternative performance measures (€ million)	**2021**	2020 restated[1]	Higher / (lower)
Passenger revenue before exceptional items	**1,136**	4,151	(72.6)%
Total revenue before exceptional items	**2,207**	5,326	(58.6)%
Operating loss before exceptional items	**(2,180)**	(1,915)	13.8 %
Loss after tax before exceptional items	**(2,169)**	(1,972)	10.0 %
Adjusted loss per share (€ cents)[2]	**(43.7)**	(64.5)	(32.2)%
Net debt[3]	**12,107**	9,762	24.0 %
Available seat kilometres (ASK million)	**34,041**	71,625	(52.5)%
Passenger revenue per ASK (€ cents)	**3.34**	5.80	(42.4)%
Non-fuel costs per ASK (€ cents)	**11.02**	8.28	(33.1)%

For definitions refer to the IAG Annual report and accounts 2020.
Cash comprises cash, cash equivalents and interest-bearing deposits.
[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.
[2]The loss per share information for the six months to June 30, 2020, has been restated to reflect the impact of the rights issue in October 2020.
[3]The prior year comparative is December 31, 2020.

Luis Gallego, IAG Chief Executive Officer, said:

"In the short term, our focus is on ensuring our operational readiness, so we have the flexibility to capitalise on an environment where there's evidence of widespread pent-up demand when travel restrictions are lifted.

"This is reflected in Iberia's and Vueling's results. They were the best performers within the group in the second quarter reflecting stronger Latin American and Spanish domestic markets driven by fewer travel restrictions. We know that recovery will be uneven, but we're ready to take advantage of a surge in air travel demand in line with increasing vaccination rates.

"We welcome the recent announcement that fully vaccinated travellers from amber countries in the EU and the US will no longer have to quarantine upon arrival in the UK. We see this as an important first step in fully re-opening the transatlantic travel corridor.

"All our airlines continue to take significant actions to preserve their strength through the current pandemic and to position them for recovery. We continue to build resilience by preserving cash, boosting liquidity and reducing our cost base. At 30 June, the Group's liquidity was €10.2 billion with a significant improvement in operating cash flow compared to previous quarters.

"Longer term we're preparing our business so that we can emerge stronger and more competitive in a structurally changed industry. For example, we're accelerating the digitalisation of our business and our agreements with unions are enabling us to improve productivity and reduce our cost base while increasing the proportion of variable costs.

"We remain resolute in our climate commitments. Recently, British Airways successfully raised $785 million through an EETC financing linked to the airline's sustainability targets. We have also been upgraded by the CDP (Carbon Disclosure Project) to A- in recognition of our comprehensive carbon management strategy. IAG is the only European airline group that has been awarded this high grade."

Trading outlook

Given the uncertainty over the timing of the lifting of government travel restrictions and the continued impact and duration of COVID-19, IAG is not providing profit guidance for 2021.

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This announcement contains inside information and is disclosed in accordance with the Company's obligations under the Market Abuse Regulation (EU) No 596/2014.
Steve Gunning, Chief Financial Officer

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

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

Actual results may differ from those expressed or implied in the forward-looking statements in this announcement as a result of any number of known and unknown risks, uncertainties and other factors, including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this announcement are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group's risk management process is set out in the Risk management and principal risk factors section in the Annual Report and Accounts 2020; these documents are 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. Many of these risks are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the global airline industry and economic environment as a result.

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CONSOLIDATED INCOME STATEMENT

	Six months to June 30			Three months to June 30		
€ million	**2021**	2020[1]	Higher/ (lower)	**2021**	2020[1]	Higher/ (lower)
Passenger revenue	**1,141**	4,113	(72.3)%	**682**	160	nm
Cargo revenue	**769**	615	25.0 %	**419**	369	13.6 %
Other revenue	**302**	560	(46.1)%	**143**	174	(17.8)%
Total revenue	**2,212**	5,288	(58.2)%	**1,244**	703	77.0 %
Employee costs	**1,288**	1,905	(32.4)%	**666**	661	0.8 %
Fuel, oil costs and emissions charges	**497**	2,582	(80.8)%	**271**	48	nm
Handling, catering and other operating costs	**367**	853	(57.0)%	**194**	201	(3.5)%
Landing fees and en-route charges	**287**	539	(46.8)%	**160**	88	81.8 %
Engineering and other aircraft costs	**419**	843	(50.3)%	**212**	339	(37.5)%
Property, IT and other costs	**353**	428	(17.5)%	**169**	203	(16.7)%
Selling costs	**159**	268	(40.7)%	**89**	57	56.1 %
Depreciation, amortisation and impairment	**920**	1,845	(50.1)%	**450**	1,275	(64.7)%
Currency differences	**(43)**	77	nm	**-**	13	nm
Total expenditure on operations	**4,247**	9,340	(54.5)%	**2,211**	2,885	(23.4)%
Operating loss	**(2,035)**	(4,052)	(49.8)%	**(967)**	(2,182)	(55.7)%
Finance costs	**(363)**	(342)	6.1 %	**(186)**	(191)	(2.6)%
Finance income	**4**	23	(82.6)%	**1**	12	(91.7)%
Net financing credit relating to pensions	**1**	9	(88.9)%	**2**	5	(60.0)%
Net currency retranslation credits	**(13)**	97	nm	**-**	20	nm
Other non-operating credits	**70**	50	40.0 %	**30**	10	nm
Total net non-operating costs	**(301)**	(163)	84.7 %	**(153)**	(144)	6.3 %
Loss before tax	**(2,336)**	(4,215)	(44.6)%	**(1,120)**	(2,326)	(51.8)%
Tax	**288**	402	(28.4)%	**139**	201	(30.8)%
Loss after tax for the period	**(2,048)**	(3,813)	(46.3)%	**(981)**	(2,125)	(53.8)%

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

ALTERNATIVE PERFORMANCE MEASURES

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

	Six months to June 30			Three months to June 30		
	Before exceptional items			Before exceptional items		
€ million	**2021**	2020[1]	Higher/ (lower)[2]	2021	2020[1]	Higher/ (lower)[2]
Passenger revenue	**1,136**	4,151	(72.6)%	**682**	198	nm
Cargo revenue	**769**	615	25.0 %	**419**	369	13.6 %
Other revenue	**302**	560	(46.1)%	**143**	174	(17.8)%
Total revenue before exceptional items	**2,207**	5,326	(58.6)%	**1,244**	741	67.9 %
Employee costs	**1,288**	1,905	(32.4)%	**666**	661	0.8 %
Fuel, oil costs and emissions charges	**637**	1,313	(51.5)%	**349**	104	nm
Handling, catering and other operating costs	**367**	853	(57.0)%	**194**	201	(3.5)%
Landing fees and en-route charges	**287**	539	(46.8)%	**160**	88	81.8 %
Engineering and other aircraft costs	**419**	766	(45.3)%	**212**	262	(19.1)%
Property, IT and other costs	**353**	406	(13.1)%	**169**	181	(6.6)%
Selling costs	**159**	268	(40.7)%	**89**	57	56.1 %
Depreciation, amortisation and impairment	**920**	1,114	(17.4)%	**450**	544	(17.3)%
Currency differences	**(43)**	77	nm	**-**	13	nm
Total expenditure on operations before exceptional items	**4,387**	7,241	(39.4)%	**2,289**	2,111	8.4 %
Operating loss before exceptional items	**(2,180)**	(1,915)	13.8 %	**(1,045)**	(1,370)	(23.7)%
Finance costs	**(363)**	(342)	6.1 %	**(186)**	(191)	(2.6)%
Finance income	**4**	23	(82.6)%	**1**	12	(91.7)%
Net financing credit relating to pensions	**1**	9	(88.9)%	**2**	5	(60.0)%
Net currency retranslation (charges)/credits	**(13)**	97	nm	**-**	20	nm
Other non-operating credits	**70**	50	40.0 %	**30**	10	nm
Total net non-operating costs	**(301)**	(163)	84.7 %	**(153)**	(144)	6.3 %
Loss before tax before exceptional items	**(2,481)**	(2,078)	19.4 %	**(1,198)**	(1,514)	(20.9)%
Tax	**312**	106	nm	**153**	103	48.5 %
Loss after tax for the period before exceptional items	**(2,169)**	(1,972)	10.0 %	**(1,045)**	(1,411)	(25.9)%

Operating figures	**2021**[2]	2020[2]	Higher/ (lower)	**2021**[2]	2020[2]	Higher/ (lower)
Available seat kilometres (ASK million)	**34,041**	71,625	(52.5)%	**19,245**	4,103	nm
Revenue passenger kilometres (RPK million)	**16,748**	52,772	(68.3)%	**9,969**	1,155	nm
Seat factor (per cent)	**49.2**	73.7	(24.5)pts	**51.8**	28.2	23.6pts
Passenger numbers (thousands)	**8,080**	20,385	(60.4)%	**5,468**	508	nm
Cargo tonne kilometres (CTK million)	**1,853**	1,751	5.8 %	**999**	578	72.8 %
Sold cargo tonnes (thousands)	**248**	232	7.0 %	**131**	84	55.8 %
Sectors	**77,956**	155,265	(49.8)%	**50,256**	11,296	nm
Block hours (hours)	**260,094**	492,515	(47.2)%	**151,186**	58,271	nm
Average manpower equivalent[3]	**50,813**	63,501	(20.0)%	**50,692**	63,532	(20.2)%
Aircraft in service	**529**	548	(3.5)%	**n/a**	n/a	-
Passenger revenue per RPK (€ cents)	**6.78**	7.87	(13.8)%	**6.84**	17.14	(60.1)%
Passenger revenue per ASK (€ cents)	**3.34**	5.80	(42.4)%	**3.54**	4.83	(26.6)%
Cargo revenue per CTK (€ cents)	**41.50**	35.12	18.2 %	**41.94**	63.84	(34.3)%
Fuel cost per ASK (€ cents)	**1.87**	1.83	2.0 %	**1.81**	2.53	(28.6)%
Non-fuel costs per ASK (€ cents)[1]	**11.02**	8.28	33.1 %	**10.08**	48.92	(79.4)%
Total cost per ASK (€ cents)[1]	**12.89**	10.11	27.5 %	**11.89**	51.45	(76.9)%

[1] The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.
[2] Financial ratios are before exceptional items. Refer to Alternative performance measures section for detail.
[3] Included in the average manpower equivalent are staff on furlough, wage support and equivalent schemes, including the Temporary Redundancy Plan arrangements in Spain.

FINANCIAL REVIEW

COVID-19 Summary – Six months to June 30, 2021

The Group's results continue to be impacted by COVID-19 and the related restrictions on travel. A detailed review of the impact of COVID-19 on the Group in 2020 was provided in the 2020 Annual Report and Accounts and this review provides an update for the first six months of 2021.

In the first half of 2021, due to the continuing impact of the virus worldwide and the associated travel and border restrictions applying in many countries, the Group was only able to operate a limited passenger schedule, with capacity operated only 20.8 per cent of that operated in 2019. Passenger capacity for quarter 2 was 21.9 per cent of 2019, up marginally on the 19.6 per cent operated in quarter 1, with an increase in capacity during the quarter where travel restrictions allowed. The Group operated 2,677 additional cargo-only flights, leading to record cargo revenue for the six months.

The Group seeks to reduce the impact of volatile commodity prices by hedging fuel purchases in advance, based on expected capacity levels. The Group also hedges foreign exchange rates. The impact of COVID-19 has led to a significant reduction in the requirement to purchase jet fuel, due to the significantly reduced flying programme. As a consequence, the Group has derivative contracts for which there was no corresponding purchase of jet fuel, leading to discontinuance of hedge accounting for these fuel derivatives, together with the related foreign exchange derivatives. In aggregate there is a net loss on these derivative contracts as, whilst the commodity fuel price has risen in recent months, the average fuel price over the period covered by these contracts was significantly below levels seen before COVID-19, when these derivative contracts were taken out. The exceptional credit in the six months is mainly due to reduced losses on these contracts, due to rising fuel prices in 2021, net of an adjustment for the latest assessment of capacity for 2021 and foreign exchange movements.

In May 2021, the Board approved a revised fuel hedging policy, which 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 revised policy allows for differentiation within the Group, to match the nature of each operating company, including greater use of call options. The revised policy will operate on a two-year rolling basis, with hedging up to 60 per cent of anticipated requirements in the first twelve months and up to 30 per cent in the following twelve months and with flexibility for low cost airlines within the Group to adopt hedging up to 75 per cent in the first twelve months. For all Group airlines, hedging between 25 and 36 months ahead will only be undertaken in exceptional circumstances.

The Group continues to take action to preserve cash and boost liquidity. In the six months the Group drew down on debt facilities agreed in 2020, namely £2.0 billion for British Airways from UK Export Finance and €75 million for Aer Lingus from the Ireland Strategic Investment Fund. IAG closed a dual-tranche senior unsecured bond issuance in March, raising €1.2 billion, with €500 million maturing in 2025 and €700 million maturing in 2029. In May, IAG raised €825 million by issuing a convertible bond, maturing in 2028. During the six months the Group also signed a committed secured Revolving Credit Facility (RCF) with a syndicate of banks for $1.755 billion, available 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 whom has a separate borrower limit within the overall facility. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and take-off and landing rights at both London Heathrow and London Gatwick airports. The facility remained undrawn at the end of June. Simultaneous with entering into this new RCF, British Airways cancelled its US dollar revolving credit facility that was due to expire in June 2021 and which had $786 million undrawn and available at December 31, 2020. Approximately €400 million of aircraft financing facilities expired undrawn by the end of March. Subsequent to the end of June, funding of $785 million was secured for British Airways through a sustainability-linked Enhanced Equipment Trust Certificate (EETC) financing, to be drawn down against future aircraft deliveries. Total liquidity at the end of the six months remained strong at €10.2 billion, including cash, cash equivalents and current interest-bearing deposits of €7.7 billion and committed and undrawn general and aircraft facilities of €2.5 billion. Including the British Airways sustainability-linked EETC financing secured in July increases pro forma liquidity to €10.8 billion.

The Group expects that it will take until at least 2023 for passenger demand to reach the levels of 2019. As a result the Group is actively involved in restructuring its cost base to adjust to significantly lower levels of demand, including actions to reduce fixed costs and to increase the variable proportion of the cost structure.

Basis of preparation

Based on the extensive modelling the Group has undertaken in light of the COVID-19 pandemic, including considering plausible but severe downside scenarios, the Directors have a reasonable expectation that the Group has sufficient liquidity for the going concern assessment period to December 31, 2022 and accordingly the Directors have adopted the going concern basis in preparing the consolidated results for the six months to June 30, 2021.

However, there are a number of significant factors related to COVID-19 that are outside of the control of the Group, related to the status and impact of the pandemic worldwide. These include the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. Due to the uncertainty that these factors create, the Directors are not able to provide certainty that there could not be more severe downside scenarios than those that have been considered in the modelling, including the sensitivities the Group has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that such a scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at July 29, 2021.

The Group has been successful in raising liquidity in the six months to June 30, 2021, having financed all aircraft deliveries in the period, secured an additional €4.4 billion of non-aircraft debt and secured a new $1.755 billion Revolving Credit Facility, committed for three years. On July 20, 2021, the Group further improved liquidity by securing a $785 million aircraft-specific facility in the form of a sustainability-linked EETC financing structure. However, the Board cannot provide certainty that the Group will be able to secure additional funding, if required, in the event that a more severe downside scenario than those it has considered were to occur and accordingly this represents a material uncertainty that could cast doubt upon the Group's ability to continue as a going concern. Refer to note 1 of the condensed consolidated interim financial statements for further information.

Principal risks and uncertainties
The Group has continued to maintain its framework and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group, detailed on pages 78 to 88 of the 2020 Annual Report and Accounts, remain relevant. The risk of a pandemic has been considered by the Group under "Event causing significant network disruption", although the consequences of the COVID-19 pandemic continue to negatively impact the risk environment and a number of the Group's other principal risks. The prolonged duration of the pandemic, driven by subsequent waves of variants and corresponding governmental responses require the Group to carefully assess how its principal risks have evolved and how the severity or likelihood of occurrence of certain risks has increased as a result of the pandemic and its consequences, as well as identifying emerging risks related to competitive and market risk changes. Where further action has been required, the Board has assessed potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks.

The Board continues to meet frequently to assess the situation and review updates including the results of modelling of potential scenarios.

From the risks identified in the 2020 Annual Report and Accounts, the main risks that continue to be impacted by the COVID-19 pandemic are highlighted below. Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in the Group's latest business plan and scenarios. No new principal risks were identified through the risk management assessment discussions across the business in the six months to June 30, 2021.

- *Airports, infrastructure and critical third parties.* Restrictions at hubs and airports have required capacity adjustments, including fleet adjustments and new operating procedures to recommence flying. The Group has pro-actively worked with suppliers across all categories to ensure that operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary. Operational bottlenecks such as immigration resource at airports remains outside of the Group's control although management continue to liaise with the relevant providers to identify potential solutions.
- *Competition, consolidation and government regulation.* The scale of governmental support and aviation specific state-aid measures and the potential impact to the competitive landscape is under continuous assessment.
- Data and cyber security. The Group has maintained its planned investment in cyber security. The threat of ransomware attacks on critical infrastructure and services has increased throughout 2021 and the Group continues to focus its efforts on further mitigating the risk.
- *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 is currently engaged in a number of initiatives to modernise its IT systems, whilst also delivering an ongoing efficiency programme and upgrading its digital capability, customer propositions and core IT infrastructure and network where required. Some of these initiatives have been delayed or impacted by actions the Group is taking to respond to the prolonged nature of the COVID-19 pandemic.
- *People, culture and employee relations.* The Group is focussed on staff wellbeing and people morale and motivation, which have been impacted by continued restrictions and lockdowns. Welfare support schemes are in place to support the Group's staff and initiatives to build trust and engagement are underway across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include building out leadership capability and delivering on the Group's diversity and inclusion plans. Employee consultations have been undertaken as required in relation to restructuring that has been necessitated by the ongoing impact of the pandemic.
- *Political and economic environment.* National governments continue to impose varying and complex travel and quarantine restrictions, which will continue to impact Group operations and dampen demand as customers choose not to fly given the uncertainty around the application of restrictions. These changes in restrictions are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status. The economic impact of the pandemic, especially with the focus on variants and vaccine efficacy driving further uncertainty, is expected to be significant and the Group will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required.
- *Debt funding and financial risk.* Financial markets have been volatile since the spread of the pandemic, although the Group has been able to secure new funding and facilities as needed. The Group has an established process to monitor financial and counterparty risk on an ongoing basis. The Group has implemented new guidelines over fuel hedging to increase flexibility.

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

Operating and market environment
Average commodity fuel prices for the six months to June 30, 2021 were approximately 24 per cent higher than the equivalent period in 2020, with prices rising since the start of 2021, in contrast to the significant fall in March 2020 as COVID-19 took hold. The US dollar weakened approximately 10 per cent against the euro and the pound sterling compared with 2020.

FINANCIAL REVIEW

IAG's results are impacted by exchange rates used for the translation of British Airways' and IAG Loyalty's financial results from pound sterling to the Group's reporting currency of euro. For the six months to June 30, 2021 the net impact of translation on the operating result before exceptional items was €6 million favourable.

From a transactional perspective, the Group's financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The Group normally generates a surplus in most currencies in which it does business, except for the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. The Group hedges a portion of its transaction exposures. The net transaction impact on the operating result before exceptional items was favourable by €186 million for the period, reducing revenues by €66 million and reducing costs by €252 million.

The net impact of translation and transaction exchange on the operating result before exceptional items for the Group was €192 million favourable.

Capacity
In the six months of 2021, IAG capacity, measured in available seat kilometres (ASKs), was lower by 52.5 per cent versus 2020 and by 79.2 per cent versus 2019, with the impact of the COVID-19 pandemic felt across all regions. Capacity continues to be significantly affected by the travel restrictions put in place by national governments in response to the COVID-19 pandemic and emerging variants of the virus.

During quarter 1, British Airways capacity was adversely impacted by the UK-wide lockdown imposed at the beginning of January and associated international travel ban. Longhaul routes operated primarily for cargo purposes with a number of daily flights to US cities. Shorthaul operations were severely limited by restrictions, but regular operations connected the main cities and saw steady business travel demand. Iberia's longhaul operations were focussed on Latin America and the Caribbean (LACAR) and benefitted from Visiting Friends and Relatives (VFR) travel over the Christmas and New year period and in the lead up to Easter, although the EU restrictions introduced in response to the identification of the Brazil COVID-19 variant adversely impacted passenger numbers. Vueling operations were focussed on Domestic markets, connecting the Spanish peninsula with the Canary and Balearic Islands. Aer Lingus capacity continued to be driven by cargo needs, with flights operating regularly to New York, JFK, Chicago and Boston with very low passenger load factors. LEVEL longhaul operations out of Barcelona were very limited with only regular flights to Buenos Aires in quarter 1.

During quarter 2, British Airways capacity was impacted by the UK government's travel restrictions and the re-introduction of the traffic light travel system. The restricted nature of the 'green' list severely limited the recovery in capacity expected on the lifting of lockdown restrictions. Restrictions introduced by other governments on travellers from the UK in response to the delta COVID-19 variant also contributed to the low capacity. Iberia longhaul operations continue to focus on LACAR with routes to Colombia and Ecuador benefitting from VFR traffic. Shorthaul routes benefitted from high levels of transfer traffic in the quarter. Vueling operations in the quarter benefitted from the Spanish government lifting the state of alarm on May 9, 2021 and the associated restrictions on travel. Domestic routes connecting the Spanish peninsula with the Canary and Balearic Islands performed well. Aer Lingus capacity continued to be severely limited by the stringent restrictions put in place by the Irish government, with passenger load factors averaging only 20 per cent. Operations continue to be driven by cargo needs with flights operating regularly to New York, Chicago and Boston. LEVEL continued regular operations to Buenos Aires and towards the end of the quarter restarted flights to San Francisco.

Unit measures have been rendered much less meaningful than usual by the significant reduction in capacity operated but are included in the commentary below for completeness.

Revenue
Passenger revenue for the six months to June 30, 2021 fell 72.3 per cent from the previous year; in 2020 the impact of COVID-19 was mainly limited to the period from March onwards. Passenger unit revenue (passenger revenue per ASK) for the six months decreased 42.7 per cent at constant currency ('ccy'), due primarily to lower passenger seat factors, together with lower passenger yields (passenger revenue per revenue passenger kilometre), associated with the impact of COVID-19.

Cargo revenue for the six months was 25.0 per cent higher versus 2020 and up 30.6 per cent at constant currency. The strong cargo revenue performance was due to additional cargo-driven flights; during the six months 2,677 cargo-only flights were operated. Cargo revenue for the six months was €769 million, a record for the period, and up from €615 million versus last year and total cargo carried, measured in cargo tonne kilometres (CTKs) was 5.8 per cent higher. Yields were significantly higher versus last year reflecting the ongoing market supply and demand imbalance. During this pandemic, cargo revenue has had to cover the entire cost of operating cargo-only flights, without passenger revenue, on aircraft configured for passengers.

Other revenue fell by 46.1 per cent and by 39.3 per cent at ccy, mainly due to the impact of COVID-19 on the Group's non-airline businesses.

Costs
Employee costs for the six months decreased by €617 million compared with 2020, linked mainly to the restructuring programmes implemented in 2020, together with furlough and equivalent temporary cost reduction schemes, which account for approximately one third of the reduction.

Fuel costs, including an exceptional credit related to overhedging of €140 million, reduced by 80.8 per cent. Excluding the exceptional overhedging credit in the six months and the overhedging charge in the same period in 2020, fuel costs reduced by 51.5 per cent, reflecting the reduced passenger capacity.

FINANCIAL REVIEW

Supplier costs decreased by 47.0 per cent, linked to volume-related savings due to the lower capacity operated, together with a reduction in non-essential expenditure and negotiated savings as a result of COVID-19.

Depreciation, amortisation and impairment costs decreased by 17.4 per cent on the previous year, linked to the reduction in the Group's fleet triggered by COVID-19, with the in-service fleet, which includes those aircraft temporarily grounded due to COVID-19, reduced from 548 aircraft at June 2020 to 529 aircraft at June 2021.

Total non-fuel costs were down 44.5 per cent on the previous year and down 41.7 per cent at ccy. Excluding the impact of exceptional charges in 2020, mainly relating to fleet and related asset impairments, non-fuel costs were down 36.7 per cent and down 33.6 per cent at ccy.

Operating loss

The Group's operating loss for the six months to June 30, 2021 was €2,035 million (2020 restated: operating loss of €4,052 million). The operating loss excluding exceptional credits in 2021 and exceptional charges in 2020, which are outlined in the Alternative Performance Measures note, was €2,180 million for the six months to June 30, 2021, compared with a restated operating loss of €1,915 million in 2020. In 2020 the impact of COVID-19 was experienced mainly from March onwards; by contrast all six months of 2021 were significantly negatively affected by COVID-19 and the related travel restrictions.

Net non-operating costs, taxation and loss after tax

The tax credit for the period was €288 million (2020 restated: €402 million), with an effective tax rate for the Group of 12 per cent (2020: 10 per cent). The substantial majority of the Group's activities are taxed where the main operations are based - in the UK, Spain and Ireland - with corporation tax rates during the period of 19 per cent, 25 per cent and 12.5 per cent respectively, which result in an expected effective tax rate of 20 per cent. The difference between the actual effective tax rate of 12 per cent and the expected effective tax rate of 20 per cent is primarily due to current period losses in Iberia, LEVEL France and Vueling not being recognised in deferred tax assets and the effect of the rate change in the UK.

On March 3, 2021 the UK Chancellor announced that legislation will be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent from April 2023. On May 24, 2021 the increase in the rate of corporation tax in the UK was substantially enacted, which has led to the remeasurement of deferred tax balances at June 30, 2021 and will increase the Group's future current tax charge accordingly.

The loss after tax and exceptional items for the period was €2,048 million (2020 restated: loss after tax €3,813 million), driven by the impact of COVID-19 on the Group's operating results.

Cash and leverage

The Group's cash position at June 30, 2021 of €7,664 million was €1,747 million higher than December 31, 2020, driven by the additional liquidity actions taken in the six months. Net debt at the end of the period was €12,107 million compared with €9,762 million at December 31, 2020.

Other recent developments

On June 29 the European Commission announced that it has launched an in-depth investigation to assess the proposed acquisition of Air Europa by Iberia, under the EU Merger Regulation. IAG believes that the proposed deal is pro-competitive and will benefit customers, employees and the Spanish economy and connectivity. It will strengthen Madrid's hub competitiveness on a global stage and enable it to compete against other major European hubs.

On July 20 British Airways concluded the first sustainability-linked EETC financing in the airline industry, securing funds for seven future aircraft deliveries in the remainder of 2021, with total proceeds to be drawn of $785 million.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Unaudited Condensed Consolidated Interim Financial Statements
January 1, 2021 – June 30, 2021

CONSOLIDATED INCOME STATEMENT

€ million	Six months to June 30 Total 2021	Total 2020[1,2]
Passenger revenue	**1,141**	4,113
Cargo revenue	**769**	615
Other revenue	**302**	560
Total revenue	**2,212**	5,288
Employee costs	**1,288**	1,905
Fuel, oil costs and emissions charges	**497**	2,582
Handling, catering and other operating costs	**367**	853
Landing fees and en-route charges	**287**	539
Engineering and other aircraft costs	**419**	843
Property, IT and other costs	**353**	428
Selling costs	**159**	268
Depreciation, amortisation and impairment	**920**	1,845
Currency differences	**(43)**	77
Total expenditure on operations	**4,247**	9,340
Operating loss	**(2,035)**	(4,052)
Finance costs	**(363)**	(342)
Finance income	**4**	23
Net financing credit relating to pensions	**1**	9
Net currency retranslation (charges)/credits	**(13)**	97
Other non-operating credits	**70**	50
Total net non-operating costs	**(301)**	(163)
Loss before tax	**(2,336)**	(4,215)
Tax	**288**	402
Loss after tax for the period	**(2,048)**	(3,813)
Attributable to:		
Equity holders of the parent	**(2,048)**	(3,813)
Non-controlling interest	**-**	-
	(2,048)	(3,813)
Basic loss per share (€ cents)[3]	**(41.2)**	(124.7)
Diluted loss per share (€ cents)[3]	**(41.2)**	(124.7)

[1]In the six months to June 30, 2021, the Group has presented the Income statement using a single column approach whereas prior to quarter 4 2020 the Group presented the Income statement using a three-column approach. The 2020 comparative figures have also been re-presented. Further information is given in the basis of preparation in note 2.

[2]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

[3]The loss per share information for 2020 has been restated to reflect the impact of the rights issue in October 2020. Further information is given in note 7.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months to June 30	
€ million	**2021**	2020[1]
Items that may be reclassified subsequently to net profit		
Cash flow hedges:		
Fair value movements in equity	**571**	(2,500)
Reclassified and reported in net profit	**18**	1,265
Fair value movements on cost of hedging	**34**	-
Cost of hedging reclassified and reported in net profit	**14**	(8)
Currency translation differences	**(8)**	(162)
Items that will not be reclassified to net profit		
Fair value movements on liabilities attributable to credit risk changes	**(5)**	-
Fair value movements on equity instruments	**-**	(10)
Fair value movements on cash flow hedges	**11**	172
Fair value movements on cost of hedging	**1**	20
Remeasurements of post-employment benefit obligations	**729**	(1,036)
Total other comprehensive loss for the period, net of tax	**1,365**	(2,259)
Loss after tax for the period	**(2,048)**	(3,813)
Total comprehensive loss for the period	**(683)**	(6,072)
Total comprehensive income is attributable to:		
Equity holders of the parent	**(683)**	(6,072)
Non-controlling interest	**-**	-
	(683)	(6,072)

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

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

CONSOLIDATED BALANCE SHEET

€ million	**June 30, 2021**	December 31, 2020[1]	December 31, 2019[1]
Non-current assets			
Property, plant and equipment	**17,700**	17,531	19,168
Intangible assets	**3,212**	3,208	3,442
Investments accounted for using the equity method	**37**	29	31
Other equity investments	**29**	29	82
Employee benefit assets	**1,160**	334	531
Derivative financial instruments	**97**	42	268
Deferred tax assets	**1,015**	1,075	546
Other non-current assets	**273**	228	273
	23,523	22,476	24,341
Current assets			
Non-current assets held for sale	**37**	-	-
Inventories	**309**	351	565
Trade receivables	**731**	557	2,255
Other current assets	**792**	792	1,314
Current tax receivable	**16**	101	186
Derivative financial instruments	**390**	122	324
Current interest-bearing deposits	**53**	143	2,621
Cash and cash equivalents	**7,611**	5,774	4,062
	9,939	7,840	11,327
Total assets	**33,462**	30,316	35,668
Shareholders' equity			
Issued share capital	**497**	497	996
Share premium	**7,770**	7,770	5,327
Treasury shares	**(26)**	(40)	(60)
Other reserves	**(7,333)**	(6,623)	851
Total shareholders' equity	**908**	1,604	7,114
Non-controlling interest	**6**	6	6
Total equity	**914**	1,610	7,120
Non-current liabilities			
Borrowings	**17,726**	13,464	12,411
Employee benefit obligations	**321**	477	326
Deferred tax liability	**17**	40	290
Provisions	**2,242**	2,286	2,416
Deferred revenue on ticket sales	**377**	473	-
Derivative financial instruments	**139**	310	286
Other long-term liabilities	**135**	140	71
	20,957	17,190	15,800
Current liabilities			
Borrowings	**2,045**	2,215	1,843
Trade and other payables	**2,865**	2,810	4,344
Deferred revenue on ticket sales	**5,659**	4,657	5,486
Derivative financial instruments	**293**	1,160	252
Current tax payable	**29**	48	192
Provisions	**700**	626	631
	11,591	11,516	12,748
Total liabilities	**32,548**	28,706	28,548
Total equity and liabilities	**33,462**	30,316	35,668

[1]The 2020 and 2019 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

CONSOLIDATED CASH FLOW STATEMENT

€ million	Six months to June 30 2021	2020[1,2]
Cash flows from operating activities		
Operating loss	**(2,035)**	(4,052)
Depreciation, amortisation and impairment	**920**	1,845
Movement in working capital	**520**	422
(Increase)/decrease in trade receivables, inventories and other current assets	*(254)*	*1,590*
Increase/(decrease) in trade and other payables and deferred revenue on ticket sales	*774*	*(1,168)*
Payments related to restructuring	**(77)**	(87)
Employer contributions to pension schemes	**(32)**	(182)
Pension scheme service costs	**1**	18
Provision and other non-cash movements	**147**	266
Settlement of derivatives where hedge accounting has been discontinued	**(342)**	621
Interest paid	**(298)**	(263)
Interest received	**4**	11
Tax received/(paid)	**62**	(6)
Net cash flows from operating activities	**(1,130)**	(1,407)
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	**(300)**	(1,340)
Sale of property, plant and equipment and intangible assets	**188**	400
Decrease in other current interest-bearing deposits	**90**	1,215
Other investing movements	**(10)**	(1)
Net cash flows from investing activities	**(32)**	274
Cash flows from financing activities		
Proceeds from long-term borrowings	**4,455**	2,709
Repayment of borrowings	**(517)**	(77)
Repayment of lease liabilities	**(685)**	(778)
Acquisition of treasury shares	**(24)**	-
Dividend paid	**-**	(52)
Settlement of derivative financial instruments	**(382)**	111
Net cash flows from financing activities	**2,847**	1,913
Net increase in cash and cash equivalents	**1,685**	780
Net foreign exchange differences	**152**	(146)
Cash and cash equivalents at 1 January	**5,774**	4,062
Cash and cash equivalents at period end	**7,611**	4,696
Interest-bearing deposits maturing after more than three months	**53**	1,320
Cash, cash equivalents and other interest-bearing deposits	**7,664**	6,016

[1]The 2020 results have been restated for the treatment of administration costs associated with the group's defined benefit pension schemes. Further information is given in note 1 to this report.
[2]The 2020 results include a reclassification to conform with the current period of presentation regarding settlement of derivative financial instruments. Further information is given in note 1 to this report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months to June 30, 2021

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	**Total shareholders' equity**	Non-controlling interest	**Total equity**
At January 1, 2021[1]	497	7,770	(40)	(6,917)	**1,310**	6	**1,316**
Change in accounting policy[1]	-	-	-	294	**294**	-	**294**
At January 1, 2021 restated	497	7,770	(40)	(6,623)	**1,604**	6	**1,610**
Total comprehensive loss for the period (net of tax)	-	-	-	(683)	**(683)**	-	**(683)**
Hedges reclassified and reported in property, plant and equipment	-	-	-	9	**9**	-	**9**
Cost of share-based payments	-	-	-	5	**5**	-	**5**
Vesting of share-based payment schemes	-	-	38	(41)	**(3)**	-	**(3)**
Acquisition of treasury shares	-	-	(24)	-	**(24)**	-	**(24)**
June 30, 2021	**497**	**7,770**	**(26)**	**(7,333)**	**908**	**6**	**914**

For the six months to June 30, 2020

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	Total shareholders' equity	Non-controlling interest	Total equity
At January 1, 2020 as reported[1]	996	5,327	(60)	560	6,823	6	6,829
Change in accounting policy[1]	-	-	-	291	291	-	291
At January 1, 2020 restated	996	5,327	(60)	851	7,114	6	7,120
Total comprehensive loss for the period (net of tax)[1]	-	-	-	(6,072)	(6,072)	-	(6,072)
Hedges reclassified and reported in property, plant and equipment	-	-	-	(30)	(30)	-	(30)
Cost of share-based payments	-	-	-	(4)	(4)	-	(4)
Vesting of share-based payment schemes	-	-	15	(18)	(3)	-	(3)
June 30, 2020[1]	996	5,327	(45)	(5,273)	1,005	6	1,011

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

NOTES TO THE ACCOUNTS
For the six months to June 30, 2021

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 (as adopted by the EU) and authorised for issue by the Board of Directors on July 29, 2021. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited.

The same basis of preparation and accounting policies set out in the IAG Annual Report and Accounts for the year to December 31, 2020 have been applied in the preparation of these condensed consolidated interim financial statements, except for those items below and in note 2. IAG's financial statements for the year to December 31, 2020 have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and with those of the Standing Interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

Presentation of results
Consistent with the presentation of results for the year to December 31, 2020, the Group has re-presented its results in the Income statement from using a three-column approach to a single column approach. The comparative figures have also been re-presented.

The prior period Cash flow statement includes a reclassification to conform with the current period of presentation regarding the settlement of foreign currency derivative financial instruments not designated in a hedge relationship, but entered into to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentation currency of the Group. Accordingly, the Group has reclassified the comparative six months to June 30, 2020 to recognise €111 million of derivative settlement cash inflows as Settlement of derivative financial instruments within cash flows from financing activities with a corresponding increase in cash outflows within cash flows from operating activities.

Change in accounting policy
During the six months to June 30, 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the British Airways' Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS) defined benefit schemes, while remaining in compliance with IAS 19. The change in policy has been adopted to better reflect the underlying management and operation of these schemes. This change in accounting policy has been applied retrospectively to the Condensed consolidated interim financial statements.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. These administration costs were recognised as a service cost in the year in which such costs arose and recorded within Other comprehensive income. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both December 31, 2020 and January 1, 2020. It has in addition increased the charge to Employee costs and the Financing charge relating to pensions in the Income statement for the six months to June 30, 2020.

Further details of the accounting policy change are given in note 21.

Going concern
The economic uncertainty of the COVID-19 pandemic and the fragmented and varied responses from governments have had a significant impact on the Group's results and cash flows. At June 30, 2021, the Group had total liquidity of €10.2 billion (December 31, 2020: total liquidity of €8.0 billion), comprising cash and interest-bearing deposits of €7.7 billion, €1.7 billion of committed and undrawn general facilities and a further €0.8 billion of committed and undrawn aircraft specific facilities.

The increase in liquidity during the six months to June 30, 2021 was attributable to, amongst other actions, accessing €2.3 billion (£2.0 billion) of the UK Export Credit Facility, the issuance of fixed rate bonds of €1.2 billion, the issuance of a convertible bond of €0.8 billion and securing a multi-entity three-year Revolving Credit Facility of €1.5 billion ($1.8 billion). These actions raised an additional €5.9 billion of liquidity. On July 20, 2021, the Group further improved liquidity by securing a €659 million ($785 million) aircraft-specific facility achieved as part of an Enhanced Equipment Trust Certificate (EETC) financing structure. Of facilities in place at June 30, 2021, €0.5 billion matures by December 31, 2022. The Group's facilities have limited financial covenants, but there are a number of non-financial covenants to protect the position of the banks, including restrictions on the upstreaming of cash to the IAG Group or lending to other Group companies.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2021

1. CORPORATE INFORMATION AND BASIS OF PREPARATION continued

Despite the uncertainty of the COVID-19 pandemic, the Group has continued to successfully secure financing arrangements for all aircraft delivered in the six months to June 30, 2021.

In its assessment of going concern over the period to December 31, 2022 (the 'going concern period'), the Group has modelled three scenarios referred to below as the Base Case, the Downside Case and the Downside Lockdown Case. The Group's three-year Business plan, prepared and approved by the Board in December 2020, was subsequently refreshed with the latest available internal and external information in July 2021. This refreshed Business plan supports the Base Case, which takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group across the going concern period. The key inputs and assumptions underlying the Base Case include:

- As part of the recovery, the Group has assumed a gradual easing of travel restrictions, by geographical region, based on deployment of vaccines during the year. Travel corridors between countries are assumed to be introduced from quarter 3 2021, first in Europe then North America, with other regions following in the first half of 2022;
- Capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from a reduction of 55 per cent in quarter 3 2021 (compared to the equivalent period in 2019) to 9 per cent in quarter 4 2022 (again compared to quarter 4 2019), with the average over the going concern period being 24 per cent down;
- Passenger unit revenue per ASK, although forecast to continue recovering, is assumed to still remain below levels of 2019 by the end of the going concern period, which is based on, amongst other assumptions, a greater weighting of shorthaul versus longhaul, leisure versus business and economy versus premium compared to 2019. Specifically, the Group's assumption is that traffic related to domestic and leisure will recover faster than longhaul and business;
- The Group has assumed that the committed and undrawn general facilities of €1.7 billion will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €1.6 billion being available to the Group at the end of the going concern period;
- The Group has assumed that of the committed and undrawn aircraft specific facilities of €0.8 billion (excluding the EETC financing structure), €0.6 billion would be available to be drawn over the going concern period if required, but is not expected to be drawn;
- Of the capital commitments detailed in note 9, €3.1 billion is due to be paid over the going concern period and the Group has forecast securing 80 per cent, or €1.9 billion, of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. This loan to value assumption is below the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date;
- The Group has assumed that the €0.5 billion convertible bond that matures in November 2022 will be refinanced; and
- The Group has assumed that the acquisition of Air Europa will complete in the second half of 2021 and has incorporated its best estimates of the associated operating cash flows into the Base Case. The aforementioned capacity assumptions exclude the additional capacity Air Europa would provide.

The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a more gradual recovery relative to the Base Case. The Downside Case is representative of a slower roll out of the vaccination programme on a regional basis, with travel restrictions remaining in place and the gradual recovery of capacity being delayed longer than in the Base Case. The Downside Case also models a more acute impact on the longhaul sector, with the domestic sector and European shorthaul sectors recovering faster than longhaul. The result of which is that the levels of capacity assumed under the Base Case for the fourth quarter of 2021 are not achieved under the Downside Case until the fourth quarter of 2022. In the Downside Case, over the going concern period capacity would be 45 per cent down on 2019. The Downside Case assumes that the aforementioned Revolving Credit Facility is drawn in full over the going concern period. The Directors consider the Downside Case to be a severe but plausible scenario.

In addition, the Group has sensitised the Downside Case to incorporate the occurrence of a two-month lockdown, and associated travel restrictions, over the winter of 2021/2022, a scenario referred to as the Downside Lockdown Case. The Downside Lockdown Case is representative of the emergence of more virulent strains of COVID-19 and/or strains for which the efficacy of existing vaccines is reduced. Subsequent to this lockdown, capacity is assumed to recover gradually through to the end of the second quarter of 2022, at which time capacity is assumed to align with that of the Downside Case. In this additional scenario, over the going concern period capacity would be 60 per cent down on 2019. Consistent with the Downside Case, the Directors consider the Downside Lockdown Case to be an alternative severe but plausible scenario.

Under all three scenarios modelled, the Group's limited financial covenants are forecast to be met.

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

Furthermore, to add resilience to the liquidity position of the Group, the Directors are actively pursuing a range of financing options, including securing additional long term financial facilities, but these have not been included in the Base, Downside or Downside Lockdown Cases.

1. CORPORATE INFORMATION AND BASIS OF PREPARATION continued

Having reviewed the Base Case, Downside Case, Downside Lockdown Case and additional sensitivities, 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 condensed consolidated interim financial statements for the six months to June 30, 2021.

However, due to the uncertainty created by COVID-19, there are a number of significant factors that are outside of the control of the Group, including: the status and impact of the pandemic worldwide; the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. The Group, therefore, is not able to provide certainty that there could not be a more severe downside scenario than those it has considered, including the sensitivities in relation to the timing of recovery from the COVID-19 pandemic, capacity operated, impact on yield, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that a more severe scenario were to occur, the Group will need to secure sufficient additional funding. As set out above, sources of additional funding are expected to include securing additional long term financial facilities. However, the Group's ability to obtain this additional funding in the event of a more severe downside scenario represents a material uncertainty at July 29, 2021 that could cast significant doubt upon the Group's ability to continue as a going concern and therefore, to continue to realise its assets and discharge its liabilities in the normal course of business.

The condensed consolidated interim financial statements for the six months to June 30, 2021 do not include the adjustments that would result if the Group was unable to continue as a going concern.

2. ACCOUNTING POLICIES

Critical judgement and estimates
Except as described below, the accounting policies adopted in the presentation of the condensed consolidated interim financial statements for the six months to June 30, 2021 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year to December 31, 2020.

In preparing the condensed consolidated interim financial statements for the six months to June 30, 2021, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are summarised below, including consideration of the impact on COVID-19 on financial reporting.

New and changes in accounting policies

Convertible bonds

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 option 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 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 at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Long-term 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 Long-term borrowings. At the date of issue, the entirety of the convertible bonds are accounted for at fair value with subsequent fair value gains or losses recorded within Long-term 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.

Administration costs in British Airways defined benefit obligations

During the six months to June 30, 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the APS and NAPS Defined benefit schemes. See note 1 for further information.

2. ACCOUNTING POLICIES continued

New standards, interpretations and amendments adopted by the Group
The following amendments and interpretations apply for the first time in the six months to June 30, 2021, but do not have a material impact on the condensed consolidated interim financial statements of the Group:

- Interest rate benchmark reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 effective for periods beginning on or after January 1, 2021.

The IASB and IFRIC have issued the following standards, amendments and interpretations with an effective date after the period end of these financial statements which while management are still assessing the impact of adopting these standards, amendments and interpretations, believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- Property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after January 1, 2022;
- Reference to the Conceptual Framework – amendments to IFRS 3 effective for periods beginning on or after January 1, 2022;
- Onerous contracts – cost of fulfilling a contract - amendments to IAS 37 effective for periods beginning on or after January 1, 2022;
- Annual improvements to IFRS standards 2018–2020 - effective for periods beginning on or after January 1, 2022;
- Classification of liabilities as current or non-current - amendments to IAS 1 effective for periods beginning on or after January 1, 2023.
- Definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after January 1, 2023;
- Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after January 1, 2023; and
- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 effective for periods beginning on or after January 1, 2023.

Impact of COVID-19 on financial reporting

Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of COVID-19

As a result of COVID-19 the Group has experienced a significant decline in the level of flight activity and does not expect to return to the level of 2019 activity until at least 2023. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of COVID-19 regarding the recognition and measurement of assets and liabilities within the Condensed consolidated interim financial statements.

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

The Group has applied estimation and judgement in the evaluation of the impact of COVID-19 on the estimation uncertainty of determining cash flow forecasts as part of the approved Business plans. The details regarding the inputs and assumptions used in the determination of these cash flow forecasts are given in the going concern basis of preparation.

The following critical accounting estimates, assumptions and judgements utilise these cash flow forecasts consistently, which are in some instances significantly different from judgements applied in previous years:

a Discontinuance of hedge accounting

In determining whether hedge accounting is required to be discontinued or to remain in a hedge relationship, judgement is required as to whether a forecast transaction that was previously highly probable continues to be expected to occur or is no longer expected to occur. The Group applied the capacity output from the cash flow forecasts as part of the approved Business plans in order to determine the forecast level of revenue generation and fuel consumption over the periods in which hedge accounting has been applied.

In the six months to June 30, 2021, the Group recognised a credit of €140 million (six months to June 30, 2020: expense of €1,269 million) arising from a combination of the discontinuance of hedge accounting in the six months to June 30, 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at June 30, 2021. This was represented by a credit of €146 million (six months to June 30, 2020: expense of €1,372 million) relating to fuel derivatives and an expense of €6 million (six months to June 30, 2020: credit of €103 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (six months to June 30, 2020: charge of €38 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy is to build up these hedges gradually over a two-year period (previously a three-year period) when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

Further information is given in the Alternative performance measures section.

b Long-term fleet plans and associated impairment

The Group derives long-term fleet plans from the cash flow forecasts arising from the approved business plans. In deriving the long-term fleet plans, the Group applies judgement with respect to consideration of the period of temporary and permanent grounding of fleet assets, the deferral of the delivery of certain aircraft and the assumptions around specific provisions relating to leased fleet assets.

2. ACCOUNTING POLICIES continued

During the six months to June 30, 2021 the Group recognised no impairment charge. For the six months to June 30, 2020 the Group recognised an impairment charge of €731 million, represented by an impairment of fleet assets of €729 million and an impairment of other assets of €2 million. The fleet impairment related to 55 aircraft, their associated engines and rotable inventories that have been stood down permanently and 6 further aircraft which have been impaired down to their recoverable value at June 30, 2020, which includes 32 Boeing 747 aircraft, 15 Airbus A340 aircraft, 4 Airbus A320 aircraft, 4 Airbus A330-200 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €635 million was recorded within Property, plant and equipment relating to owned aircraft and €94 million was recorded within Right of use assets relating to leased aircraft.

Further information is given in the Alternative performance measures section.

c Impairment testing of the Group's cash generating units

Due to the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group has adopted a weighted average multi-scenario discounted cash flow model derived from the cash flow forecasts from the approved business plans. The Group exercises judgement in determining the weighting between these scenarios in the value-in-use model.

Having undertaken this impairment testing, the Group has not recognised any impairment charge (six months to June 30, 2020: €nil). While no impairment charge is arising, the headroom in the impairment test of the British Airways, Iberia and Aer Lingus cash generating units are particularly sensitive to changes in key assumptions. Further information is given in note 11.

d Recoverability of deferred tax assets

In determining the recoverable amounts of the Group's deferred tax assets, the Group applied the future cash flow projections from the approved business plans. Given the estimation uncertainty of the timing and duration of the recovery from COVID-19, the Group exercises judgement in the determination of cash flows during this recovery and subsequent periods.

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.

As at June 30, 2021, the Group had unrecognised deferred tax assets of €2,332 million relating to tax losses 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 deferred tax assets would have reduced by €1,938 million.

Critical accounting estimates, assumptions and judgements – other transactions

In addition to the estimation uncertainty relating to cash flow forecasts, the Group has applied the following critical accounting estimates, assumptions and judgements that impact the Condensed consolidated interim financial statements:

e Revenue recognition

Historically, where a voucher has been issued to a customer in the event of a flight cancellation, the Group estimated, based on historical evidence, the level of such vouchers that would not be used prior to expiry and recognised revenue accordingly. Due to the significant level of flight cancellations arising from COVID-19 there remains insufficient historical data by which to reliably estimate the amount of these vouchers that will not be used prior to expiry. Accordingly, consistent with the approach taken at December 31, 2020, the Group has not recognised revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher is redeemed or it expires.

Revenue associated with the issuance of points under customer loyalty programmes is determined using estimation techniques, with the transaction price of the points based on the value of the awards for which the points can be redeemed and is reduced to take account of the proportion of the award credits that are not expected to be redeemed by customers. The Group estimates the number of points not expected to be redeemed using statistical modelling and historical trends. Due to the significant disruption in the patterns of the redemption of points caused by COVID-19, there remains insufficient recent historical data by which to estimate the long-term proportion of the award credits that are not expected to be redeemed by customers. Accordingly, consistent with the approach taken at December 31, 2020, the Group has maintained the proportion of those award credits not expected to be redeemed to pre-COVID-19 levels.

Significant transactions as a result of COVID-19

The Group has recorded the following additional significant transactions as a result of management actions in response to COVID-19:

f Loans and borrowings

To enhance liquidity due to the impact of COVID-19, the Group has entered into a number of financing arrangements during 2021, which have been fully drawn unless otherwise stated, including:

On February 22, 2021, British Airways entered into a 5 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 UKEF;

2. ACCOUNTING POLICIES continued

On March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. The amount available under the facility is $1.755 billion. As at June 30, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021;

On March 25, 2021, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1.2 billion; €500 million fixed rate 2.75 per cent due in 2025, and €700 million fixed rate 3.75 per cent due in 2029;

On December 23, 2020, Aer Lingus entered into a financing arrangement with the Ireland Strategic Investment Fund for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million. The facility is repayable in 2023; and

On May 18, 2021, the Group issued an €825 million senior unsecured convertible bond due 2028 and bearing a fixed rate of 1.125 per cent.

In April 2021, British Airways fully repaid the Coronavirus Corporate Finance Facility of €328 million (£298 million), which was entered into in April 2020.

Further information is given in note 13.

g Government assistance

Given the significant reduction in operations that have occurred as a result of COVID-19, the Group has availed itself of the various employee support mechanisms in the jurisdictions in which it operates. In the period to June 30, 2021 this has led to an amount of €200 million (six months to June 30, 2020: €155 million) being received directly from governments (classified as government grants) and savings of €144 million (six months to June 30, 2020: €127 million) (classified as government assistance) where employees have been paid directly by their respective governments. Those amounts received in the form of government assistance have been recorded net within Employee costs. Further information is given in note 19.

h Defined benefit pension scheme contributions

On December 18, 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between October 1, 2020 and January 31, 2021. The deferral of such contributions amounted to €165 million. On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions through to September 30, 2021. The deferral of such contributions will amount to €330 million. Further information is given in note 15.

Impact of climate change on financial reporting

As detailed in the IAG Annual report and accounts 2020, as a result of the society-wide need to tackle climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to achieving net zero emissions by 2050.

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a lower carbon economy. Where the strategy is sufficiently developed, the potential financial impacts have been considered as part of recoverability analysis of the assets of the Group at June 30, 2021, including, but not limited to, the carrying value of the Groups cash generating units.

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. The Group has addressed estimation uncertainty through the provision of sensitivity analysis over its long-term assumptions relating to the recoverability of the carrying value of the Groups cash generating units (note 11).

3. SEASONALITY

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

4. SEGMENT INFORMATION

a Business segments

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

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

4. SEGMENT INFORMATION continued

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

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

For the six months to June 30, 2021

	2021					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	**Total**
Revenue						
Passenger revenue	424	470	193	33	21	**1,141**
Cargo revenue	581	155	-	31	2	**769**
Other revenue	38	182	3	1	78	**302**
External revenue	1,043	807	196	65	101	**2,212**
Inter-segment revenue	17	122	-	-	156	**295**
Segment revenue	1,060	929	196	65	257	**2,507**
Depreciation and amortisation	(514)	(177)	(124)	(68)	(37)	**(920)**
Operating loss	**(1,325)**	**(330)**	**(195)**	**(192)**	**7**	**(2,035)**
Exceptional items	120	7	9	7	2	145
Operating loss before exceptional items	(1,445)	(337)	(204)	(199)	5	(2,180)
Net non-operating costs						(301)
Loss before tax						**(2,336)**
Total assets	20,001	6,529	2,685	1,818	2,429	**33,462**
Total liabilities	(17,945)	(6,858)	(3,299)	(1,649)	(2,797)	**(32,548)**

[1]Includes eliminations on total assets of €15,745 million and total liabilities of €5,645 million.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2021

4. SEGMENT INFORMATION continued

For the six months to June 30, 2020

	2020[1]					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[2]	Total
Revenue						
Passenger revenue	2,566	784	317	315	131	4,113
Cargo revenue	448	107	-	60	-	615
Other revenue	156	335	4	-	65	560
External revenue	3,170	1,226	321	375	196	5,288
Inter-segment revenue	53	147	(8)	2	211	405
Segment revenue	3,223	1,373	313	377	407	5,693
Depreciation and amortisation charge	(671)	(196)	(139)	(68)	(40)	(1,114)
Impairment charge	(463)	(234)	-	(25)	(9)	(731)
Operating loss	(2,469)	(867)	(386)	(316)	(14)	(4,052)
Exceptional items	(1,360)	(508)	(118)	(127)	(24)	(2,137)
Operating (loss)/profit before exceptional items	(1,109)	(359)	(268)	(189)	10	(1,915)
Net non-operating costs						(163)
Loss before tax						(4,215)
Total assets	19,200	8,178	3,658	2,026	(981)	32,081
Total liabilities	(16,243)	(7,748)	(3,692)	(1,592)	(1,795)	(31,070)

[1]Segment information for 2020 has been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

[2]Includes eliminations on total assets of €14,159 million and total liabilities of €4,077 million.

b Geographical analysis

Revenue by area of original sale

	Six months to June 30	
€ million	**2021**	2020
UK	**480**	1,739
Spain	**657**	1,024
USA	**175**	750
Rest of world	**900**	1,775
	2,212	5,288

Assets by area

June 30, 2021

€ million	**Property, plant and equipment**	**Intangible assets**
UK	**11,691**	**1,289**
Spain	**4,634**	**1,327**
USA	**96**	**15**
Rest of world	**1,279**	**581**
	17,700	**3,212**

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2021

4. SEGMENT INFORMATION continued

December 31, 2020

€ million	Property, plant and equipment	Intangible assets
UK	11,313	1,251
Spain	4,850	1,353
USA	122	15
Rest of world	1,246	589
	17,531	3,208

5. FINANCE COSTS, INCOME AND OTHER NON-OPERATING CREDITS

	Six months to June 30	
€ million	**2021**	2020[1]
Finance costs		
Interest expense on:		
Bank borrowings	**(57)**	(9)
Asset financed liabilities	**(40)**	(18)
Lease liabilities	**(195)**	(236)
Provisions unwinding of discount	**(5)**	(6)
Other borrowings	**(20)**	(48)
Capitalised interest on progress payments	**1**	7
Other finance costs	**(47)**	(32)
Total finance costs	**(363)**	(342)
Finance income		
Interest on other interest-bearing deposits	**-**	15
Other finance income	**4**	8
Total finance income	**4**	23
Net credit relating to pensions[1]		
Net financing credit relating to pensions	**1**	9
Other non-operating credits		
Gains on sale of property, plant and equipment and investments	**41**	4
Realised (losses)/gains on derivatives not qualifying for hedge accounting	**(1)**	53
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	**30**	(6)
Share of post-tax losses in associates accounted for using equity method	**(1)**	(3)
Net credit relating to other equity investments	**1**	2
	70	50

[1]The 2020 net financing credit relating to pensions has been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

6. TAX

The tax credit in the Income statement was as follows:

	Six months to June 30[1]	
€ million	**2021**	2020
Current tax	**(22)**	258
Deferred tax	**310**	144
Total tax	**288**	402

[1]The 2020 current tax has been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.

The effective tax rate for the six months to June 30, 2021 was 12 per cent (2020: 10 per cent). The substantial majority of the Group's activities are taxed where the main operations are based, being Spain, UK, and Ireland, with corporation tax rates during 2021 and 2020 of 25 per cent, 19 per cent and 12.5 per cent respectively. These result in an expected effective tax rate of 20 per cent.

The difference between the actual effective tax rate of 12 per cent and the expected effective tax rate of 20 per cent was primarily due to the €640 million increase in unrecognised deductible temporary differences and losses. The details of the unrecognised temporary differences and losses are given in the table below:

€ million	**June 30, 2021**	December 31, 2020
Income tax losses		
Spanish corporate income tax losses	**1,884**	848
Openskies SASU trading losses	**394**	450
UK trading losses	**54**	39
	2,332	1,337
Other losses and temporary differences		
UK capital losses	**346**	350
Spanish deductible temporary differences	**884**	1,287
Irish capital losses	**17**	25
	1,247	1,662

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

On March 3, 2021 the UK Chancellor 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 May 24, 2021 the increase in the rate of corporation tax in the UK was substantially enacted, which has led to the remeasurement of deferred tax balances at June 30, 2021 and will increase the Group's future current tax charge accordingly.

Uncertain tax positions for which no amount has been recognised
The Group has certain uncertain tax positions for which no amount has been recognised, across all taxes, which at June 30, 2021 gave rise to a total maximum exposure of €194 million (December 31, 2020: €166 million). No material losses are likely to arise from such uncertain tax positions. As such the Group does not consider it appropriate to recognise a provision for these amounts. Included in the uncertain tax positions is the following:

Merger gain
Following tax audits covering the period 2011 to 2014, the Spanish Tax Authorities issued a corporate income tax assessment to the Company regarding the merger in 2011 between British Airways and Iberia. The maximum exposure in this case is €94 million (December 31, 2020: €92 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to June 30, 2021.

The Company appealed the assessment to the *Tribunal Económico-Administrativo Central* or 'TEAC' (Central Administrative Tax Tribunal). On October 23, 2019 the TEAC ruled in favour of the Spanish Tax Authorities. The Company subsequently appealed this ruling to the *Audiencia Nacional* (National High Court) on December 20, 2019, and on July 24, 2020 filed submissions in support of its case. The Company does not expect a hearing at the National High Court until 2022 at the earliest.

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

7. EARNINGS PER SHARE AND SHARE CAPITAL

	Six months to June 30	
Millions	**2021**	2020[1]
Weighted average number of ordinary shares in issue	**4,967**	3,057
Weighted average number for diluted earnings per share	**4,967**	3,057

	Six months to June 30	
€ cents	**2021**	2020[1]
Basic loss per share	**(41.2)**	(124.7)
Diluted loss per share	**(41.2)**	(124.7)

[1] Loss per share information has been restated for the comparative period presented, by adjusting the weighted average number of shares to include the impact of the rights issue in October 2020. The discount element inherent in the rights issue has been accounted for as a bonus issue of 1,071,565 thousand shares in 2020. Earnings per share information has also been restated for the comparative period presented for the effects of the Employee benefits restatement given in note 1.

The effect of the assumed conversion of the IAG €500 million convertible bond 2022, the IAG €825 million convertible bond 2028 and outstanding employee share schemes is antidilutive for the six months to June 30, 2021 and 2020 due to the reported loss after tax for each period, and therefore has not been included in the diluted earnings per share calculation.

The number of shares in issue at June 30, 2021 was 4,971,476,000 (December 31, 2020: 4,971,476,000) ordinary shares with a par value of €0.10 each.

8. DIVIDENDS

The Directors propose that no dividend be paid for the six months to June 30, 2021 (June 30, 2020: 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.

Certain debt obligations place 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 UKEF and loans to Iberia and Vueling partially guaranteed by the *Instituto de Crédito Oficial* (ICO) in Spain; these loans can be repaid early without penalty at the election of each company. British Airways agreed with the Trustee of its main UK defined benefit pension scheme (NAPS) as part of an agreement to defer £450 million of contributions that no dividends will be paid to IAG before 2024 and that any dividends paid to IAG from 2024 will trigger a pension contribution of 50 per cent of the amount of the dividend, until the deferred pension contributions have been paid.

9. PROPERTY, PLANT AND EQUIPMENT, RIGHT OF USE ASSETS AND INTANGIBLE ASSETS

€ million	Other Property, plant and equipment	Right of use assets	**Total Property, plant and equipment**	**Intangible assets**
Net book value at January 1, 2021	7,656	9,875	**17,531**	**3,208**
Additions	213	192	**405**	**64**
Modifications	-	119	**119**	**-**
Disposals	(161)	-	**(161)**	**(49)**
Reclassifications[1]	126	(163)	**(37)**	**-**
Depreciation and amortisation charge	(316)	(518)	**(834)**	**(86)**
Exchange movements	323	354	**677**	**75**
Net book value at June 30, 2021	7,841	9,859	**17,700**	**3,212**

[1]Reclassifications include an amount of €37 million reclassified from Other property, plant and equipment into Non-current assets held for sale. Refer to note 10 for further information.

9. PROPERTY, PLANT AND EQUIPMENT, RIGHT OF USE ASSETS AND INTANGIBLE ASSETS continued

€ million	Other Property, plant and equipment	Right of use assets	Total Property, plant and equipment	Intangible assets
Net book value at January 1, 2020	8,580	10,588	19,168	3,442
Additions	1,194	285	1,479	137
Modifications	-	55	55	-
Disposals	(365)	(10)	(375)	(76)
Reclassifications	157	(155)	2	(2)
Depreciation and amortisation charge	(448)	(591)	(1,039)	(75)
Impairment charge	(635)	(94)	(729)	(2)
Exchange movements	(377)	(402)	(779)	(94)
Net book value at June 30, 2020	8,106	9,676	17,782	3,330

At June 30, 2021, long-term borrowings of the Group are secured on owned fleet assets with a net book value of €2,938 million (December 31, 2020: €2,794 million).

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €9,938 million (December 31, 2020: €10,545 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

10. NON-CURRENT ASSETS HELD FOR SALE

The non-current assets held for sale of €37 million represent five Embraer E170 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft are presented within the British Airways segment and will exit the business within 12 months of June 30, 2021.

11. IMPAIRMENT REVIEW

Basis for calculating recoverable amount
At each reporting date, the Group considers the existence of indicators of potential impairment. At June 30, 2021, the continued disruption caused by COVID-19 has led to a decrease in demand across each cash generating unit (CGU) and economic uncertainty over the short and medium term.

As a result, a full impairment test at June 30, 2021 has been conducted for each CGU.

The recoverable amounts of 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 1, with a weighting of 70 per cent to the base case, 20 per cent to the downside case and 10 per cent to the downside lockdown case. Cash flow projections are based on the forecasts approved by the relevant operating companies covering a three-year period. As a result of the slower recovery than previously expected, management have extended the period of cash flows in the value-in-use model, for all CGUs, to four years. Cash flow forecasts extrapolated beyond the four-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and approve three-year business plans, and the Board approves the Group three-year business plan in the fourth quarter of the year. The cash flows used in the value-in-use calculations reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions
The value-in-use calculations for each CGU reflected the increased risks arising from COVID-19, including updated projected cash flows for the decreased activity for the remaining six months of 2021 through to the end of 2024, an increase in the pre-tax discount rates to incorporate increased equity market volatility and a decrease in long-term growth rates. For each of the Group's CGUs the key assumptions utilised over the forecast period in the value-in-use calculations are as follows:

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2021

11. IMPAIRMENT REVIEW continued

	June 30, 2021				
Per cent	**British Airways**	**Iberia[2]**	**Vueling**	**Aer Lingus**	**IAG Loyalty**
Operating margin[1]	**(16)-15**	**(7)-9**	**(6)-11**	**(42)-13**	**24-25**
ASKs as a proportion of 2019[1]	**28-96**	**49-108**	**48-110**	**21-108**	**n/a**
Long-term growth rate	**2.1**	**1.8**	**1.7**	**1.8**	**1.8**
Pre-tax discount rate	**11.5**	**11.4**	**11.1**	**10.2**	**12.0**

	December 31, 2020				
Per cent	British Airways	Iberia[2]	Vueling	Aer Lingus	IAG Loyalty
Operating margin[1]	(20)-16	(12)-11	(22)-12	(14)-13	25-27
ASK as a proportion of 2019[1]	45-95	49-98	46-107	40-100	n/a
Long-term growth rate	2.1	2.0	1.8	1.9	2.0
Pre-tax discount rate	11.2	11.6	11.5	10.4	10.3

[1]Operating margin and ASKs as a proportion of 2019 are the weighted average of the base case, downside case and downside lockdown case scenarios.
[2]The Iberia CGU includes the operations of Iberia, Iberia Express and Level Spain.

Jet fuel price ($ per MT)	**To December 31, 2021**	**To December 31, 2022**	**To December 31, 2023**	**To December 31, 2024**	**2025 and thereafter**
June 30, 2021	**623**	**624**	**609**	**597**	**597**
December 31, 2020	373	420	449	449	449

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

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The airline's network plans are reviewed annually as part of the business plan 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 calculation is based on the circumstances of the airline industry, the Group and the CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is broadly based on the Group's interest-bearing borrowings. CGU specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

Jet fuel price assumptions are derived from forward price curves at the balance sheet date and sourced externally. The cash flow forecasts reflect these price increases after taking into consideration of level of fuel derivatives and their associated prices that the Group has in place.

Summary of results
At June 30, 2021, 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 operating margin by 2 per cent in each year, ASKs by 5 per cent in each year, long-term growth rates to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the downside lockdown case to 100 per cent, and increasing the fuel price by 40 per cent.

For the British Airways, Iberia, Vueling and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €6,690 million, €772 million, €1,760 and €1,059 million, respectively, the recoverable amounts would be below the carrying amounts when applying the following reasonable possible changes in assumptions:

- *British Airways*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 18 per cent; and (ii) if the fuel price had been 28 per cent higher;
- *Iberia*: (i) if the discount rate had been 1.8 per cent higher; (ii) if ASKs had been 4.7 per cent lower; (iii) if operating margin had been 1.4 per cent lower; (iv) if the weighting to the downside lockdown case had increased to 83 per cent, with the base case lowered to 17 per cent; and (v) if the fuel price had been 9 per cent higher;
- *Vueling*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 29 per cent;
- *Aer Lingus*: (i) if ASKs had been five per cent lower combined with a fuel price increase of 16 per cent; and (ii) if the fuel price had been 25 per cent higher.

11. IMPAIRMENT REVIEW continued

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

In addition, at June 30, 2021, the directors have considered the existence of indicators of impairment for individual assets, including but not limited to, landing rights and fleet assets, and concluded no impairment charge is deemed necessary.

12. FINANCIAL INSTRUMENTS

a Financial assets and liabilities by category

The detail of the Group's financial instruments at June 30, 2021 and December 31, 2020 by nature and classification for measurement purposes is as follows:

June 30, 2021

	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	-	29	-	-	**29**
Derivative financial instruments	-	-	97	-	**97**
Other non-current assets	151	10	-	112	**273**
Current assets					
Trade receivables	731	-	-	-	**731**
Other current assets	313	-	-	479	**792**
Derivative financial instruments	-	-	390	-	**390**
Other current interest-bearing deposits	53	-	-	-	**53**
Cash and cash equivalents	7,611	-	-	-	**7,611**

	Financial liabilities				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Lease liabilities	8,466	-	-	-	**8,466**
Interest-bearing long-term borrowings	8,477	-	783	-	**9,260**
Derivative financial instruments	-	-	139	-	**139**
Other long-term liabilities	80	-	-	55	**135**
Current liabilities					
Lease liabilities	1,511	-	-	-	**1,511**
Current portion of long-term borrowings	525	-	9	-	**534**
Trade and other payables	2,346	-	-	519	**2,865**
Derivative financial instruments	-	-	293	-	**293**

12. FINANCIAL INSTRUMENTS continued

December 31, 2020

€ million	Financial assets: 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	-	29	-	-	29
Derivative financial instruments	-	-	42	-	42
Other non-current assets	119	10	-	99	228
Current assets					
Trade receivables	557	-	-	-	557
Other current assets	350	-	-	442	792
Derivative financial instruments	-	-	122	-	122
Other current interest-bearing deposits	143	-	-	-	143
Cash and cash equivalents	5,774	-	-	-	5,774

€ million	Financial liabilities: Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Lease liabilities	8,464	-	-	-	8,464
Interest-bearing long-term borrowings	5,000	-	-	-	5,000
Derivative financial instruments	-	-	310	-	310
Other long-term liabilities	80	-	-	533	613
Current liabilities					
Lease liabilities	1,560	-	-	-	1,560
Current portion of long-term borrowings	655	-	-	-	655
Trade and other payables	2,572	-	-	238	2,810
Derivative financial instruments	-	-	1,160	-	1,160

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 at the balance sheet date using forward pricing models, which include forward exchange rates, forward interest rates and forward fuel curves at the reporting date. The fair value of derivative financial liabilities and derivative financial assets are adjusted for own credit risk and counterparty credit risk, respectively.

12. FINANCIAL INSTRUMENTS continued

The fair value of the Group's interest-bearing borrowings, excluding leases, 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 are 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.

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 June 30, 2021 are as follows:

	Fair value				**Carrying value**
€ million	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Other equity investments	-	-	29	29	**29**
Derivative financial assets[1]	-	487	-	487	**487**
Financial liabilities					
Interest-bearing loans and borrowings	3,559	6,382	-	9,941	**9,794**
Derivative financial liabilities[2]	-	432	-	432	**432**

[1]Current portion of derivative financial assets is €390 million.
[2]Current portion of derivative financial liabilities is €293 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2020 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	-	-	29	29	29
Derivative financial assets[1]	-	164	-	164	164
Financial liabilities					
Interest-bearing loans and borrowings	1,510	4,280	-	5,790	5,655
Derivative financial liabilities[2]	-	1,470	-	1,470	1,470

[1]Current portion of derivative financial assets is €122 million.
[2]Current portion of derivative financial liabilities is €1,177 million.

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

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 IAG €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	**June 30, 2021**	December 31, 2020
Opening balance for the period	**29**	72
Additions	**-**	3
Losses recognised in other comprehensive income	**-**	(44)
Exchange movements	**-**	(2)
	29	29

13. BORROWINGS

€ million	**June 30, 2021**	December 31, 2020
Current		
Bank and other loans	**235**	90
Bank and other loans less than 12 months	**-**	329
Asset financed liabilities	**174**	139
Other financing liabilities	**125**	97
Lease liabilities	**1,511**	1,560
	2,045	2,215
Non-current		
Bank and other loans	**7,205**	2,950
Asset financed liabilities	**2,055**	2,050
Lease liabilities	**8,466**	8,464
	17,726	13,464

Banks and other loans are repayable up to the year 2029. Long-term borrowings of the Group amounting to €2,434 million (December 31, 2020: €2,412 million) are secured on owned fleet assets with a net book value of €2,938 million (December 31, 2020: €2,794 million). Asset financed liabilities are all secured on the associated aircraft or other property, plant and equipment.

On February 22, 2021, British Airways entered into a 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 UKEF. The annual rate of interest associated with the UKEF is consistent with the prevailing market rate of interest at the time of executing the term loan.

On March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. The amount available under the facility is $1.755 billion. As at June 30, 2021 no amounts had been drawn under the facility. Concurrent to entering into the facility, British Airways extinguished its US dollar secured Revolving Credit Facility due to mature in June 2021, and which had $786 million undrawn and available at December 31, 2020. While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be securitised against specific landing rights and aircraft in the respective operating companies.

On March 25, 2021, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1.2 billion; €500 million fixed rate 2.75 per cent due in 2025, and €700 million fixed rate 3.75 per cent due in 2029.

On March 27, 2021, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. The facility is repayable in 2023.

On May 11, 2021, the Group issued an €825 million senior unsecured convertible bond due May 11, 2028. The convertible bond bears a fixed rate of interest of 1.125 per cent per annum, receiving net proceeds, after transaction costs, of €818 million. The Group recognised €825 million within long-term borrowings.

The convertible bond provides bondholders with dividend protection and includes a total of 244,850,715 options at inception and at December 31, 2021 to convert into ordinary shares of IAG. 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 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 convertible bond is recorded at its fair value, which at June 30, 2021 was €792 million, representing a decrease of €33 million since issuance. Of this decrease, the amount recorded in Other comprehensive income arising from credit risk of the convertible bonds was €5 million and a credit recorded within Finance costs in the Income statement attributable to changes in market conditions of €38 million.

14. SHARE BASED PAYMENTS

During the period there were 27,759,914 awards made under the Group's Full Potential Incentive Plan and 15,876,659 awards under the Restricted Share Plan, to key senior executives and selected members of the wider management team. The fair value of equity-settled share awards granted is based on the share price at the date of grant. The Group settles the employees' tax obligations arising from the issue of the shares directly with the relevant tax authority in cash and an equivalent number of shares is withheld by the Group upon vesting.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2021

15. EMPLOYEE BENEFIT OBLIGATIONS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. NAPS was closed to future accrual from March 31, 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments relating to the 2021 valuation, which remains subject to finalisation at the date of this report, has been made in the valuation of the defined benefit obligation at June 30, 2021. The NAPS actuarial valuation at March 31, 2018 resulted in a deficit of €2,736 million.

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

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation rather than the IAS 19 accounting valuation. In October 2019, the latest deficit recovery plan was agreed as at March 31, 2018 with respect to NAPS. The actuarial valuations performed as at March 31, 2018 for APS and NAPS are different to the valuation performed at June 30, 2021 under IAS 19 'Employee benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Group of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

Following consultation during 2019 and 2020, on November 25, 2020 the UK Chancellor of the Exchequer and the UK Statistics Authority confirmed that from February 2030 onwards CPIH (a proposed variant to CPI) will replace RPI with no compensation to holders of index-linked gilts. At June 30, 2021, the Group has made no adjustment for these proposals.

	June 30, 2021			
€ million	**APS**	**NAPS**	**Other**	**Total**
Scheme assets at fair value	**8,583**	**23,264**	**465**	**32,312**
Present value of scheme liabilities	**(8,075)**	**(21,302)**	**(760)**	**(30,137)**
Net pension asset/(liability)	**508**	**1,962**	**(295)**	**2,175**
Effect of the asset ceiling[2]	**(166)**	**(1,157)**	**-**	**(1,323)**
Other employee benefit obligations	**-**	**-**	**(13)**	**(13)**
June 30, 2021	**342**	**805**	**(308)**	**839**
Represented by:				
Employee benefit assets				**1,160**
Employee benefit obligations				**(321)**
				839

	December 31, 2020[1]			
€ million	APS	NAPS	Other	Total
Scheme assets at fair value	8,537	22,240	408	31,185
Present value of scheme liabilities	(8,064)	(21,778)	(714)	(30,556)
Net pension asset/(liability)	473	462	(306)	629
Effect of the asset ceiling[2]	(151)	(610)	-	(761)
Other employee benefit obligations	-	-	(11)	(11)
December 31, 2020	322	(148)	(317)	(143)
Represented by:				
Employee benefit assets				334
Employee benefit obligations				(477)
				(143)

[1] The 2020 results have restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. Further information is given in note 1 to this report.
[2] Both APS and NAPS are in an IAS 19 accounting surplus, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to the withholding taxes that would be payable by the Trustee arising on both the net pension asset and the future contractual minimum funding requirements.

At June 30, 2021, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect the market condition at that date. Principal assumptions were as follows:

15. EMPLOYEE BENEFIT OBLIGATIONS continued

	June 30, 2021		December 31, 2020	
Per cent per annum	**APS**	**NAPS**	APS	NAPS
Discount rate	**1.70**	**1.90**	1.20	1.40
Rate of increase in pensionable pay	**3.25**	**-**	2.95	-
Rate of increase of pensions in payment	**3.25**	**2.55**	2.95	2.25
RPI rate of inflation	**3.25**	**3.10**	2.95	2.80
CPI rate of inflation	**2.55**	**2.55**	2.25	2.25

Further information on the basis of the assumptions is included in note 30 of the Annual Report and Accounts for the year to December 31, 2020.

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2018, using assumptions and methodologies agreed between the Company and Trustees of each scheme. On December 18, 2020 British Airways reached agreement with the Trustee of NAPS to defer deficit contributions on an interim basis for the period between October 1, 2020 and January 31, 2021. On February 19, 2021 British Airways reached further agreement with the Trustee of NAPS to defer deficit contributions through to September 30, 2021. Under this deferral agreement, the deferred payments will be incorporated into the future deficit payment plan and associated deficit contributions arising from the triennial valuation of the NAPS scheme as at March 31, 2021. If the future deficit payment plan has not been agreed by September 30, 2021, the default position is that British Airways will return to making payments of €41 million (£38 million) per month from October 2021. At June 30, 2021 and through to the date of authorisation of these condensed consolidated interim financial statements, the March 31, 2021 triennial valuation has not been finalised.

16. PROVISIONS

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	**Total**
Net book value January 1, 2021	1,588	432	714	84	94	**2,912**
Provisions recorded during the period	123	18	19	35	16	**211**
Utilised during the period	(58)	(77)	(15)	(18)	(36)	**(204)**
Release of unused amounts	(15)	(3)	-	(8)	(5)	**(31)**
Unwinding of discount	3	-	2	-	-	**5**
Exchange differences	40	4	2	2	1	**49**
Net book value June 30, 2021	**1,681**	**374**	**722**	**95**	**70**	**2,942**
Analysis:						
Current	394	172	57	57	20	**700**
Non-current	1,287	202	665	38	50	**2,242**
	1,681	**374**	**722**	**95**	**70**	**2,942**

17. FINANCIAL RISK MANAGEMENT

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

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

During the six months to June 30, 2021, following a substantial recovery in the global price of crude oil, the fair value of such net asset derivative instruments was €167 million at June 30, 2021, representing an increase of €945 million since January 1, 2021. Since the outbreak of COVID-19, a significant proportion of the associated hedge relationships have no longer been expected to occur and subsequently fuel hedge accounting was discontinued, with subsequent mark-to-market movements recorded in the Income statement. However, as a result of the updated forecasts as detailed in note 2, a further €56 million of the gains recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs in the six month period to June 30, 2021.

17. FINANCIAL RISK MANAGEMENT continued

The gain arising from the derecognition of fuel hedges has been recorded as an exceptional item. Refer to the Alternative performance measures section for further details.

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

At June 30, 2021, the fair value of foreign currency net liability derivatives instruments was €64 million, representing an increase of €403 million since January 1, 2021. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated into a hedge relationship at inception. As per the fuel price risk above, a significant proportion of the derivatives designated in hedge relationships have no longer been expected to occur and subsequently hedge accounting has been discontinued, with subsequent mark-to-market movements recorded in the Income statement. However, as a result of the updated forecasts as detailed in note 2, a further €2 million of the gains were recognised in Other comprehensive income were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue. 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 (charges)/credits.

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

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

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

18. CONTINGENT LIABILITIES

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

Legal and regulatory proceedings
There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at June 30, 2021 amounted to €54 million (December 31, 2020: €56 million).

Voucher issuance at British Airways
On June 9, 2021, the Competition and Markets Authority (CMA) opened an enforcement case regarding British Airways' policy in relation to refunding passengers who were prevented from taking their British Airways operating flights as a result of the UK Government's lockdown restrictions. British Airways maintains that its policy was in accordance with its terms and conditions of carriage and was lawful. At June 30, 2021 and the date of this report, British Airways continues to engage with the CMA regarding its investigation.

Guarantees and indemnities
The Group also has guarantees and indemnities entered into as part of the normal course of business, which at June 30, 2021 are not expected to result in material losses for the Group.

19. GOVERNMENT GRANTS AND ASSISTANCE

The Group has availed itself of government grants and assistance as follows:

The Coronavirus Job Retention Scheme (CJRS) – recognised net within Employee costs
The CJRS was implemented by the government of the United Kingdom from March 1, 2020 to August 30, 2020, where those employees designated as being 'furloughed workers' were eligible to have 80 per cent of their wage costs paid up to a maximum of £2,500 per month.

19. GOVERNMENT GRANTS AND ASSISTANCE continued

From September 1, 2020 to September 30, 2020, the level eligibility reduced to 70 per cent of wage costs and up to a maximum of £2,197.50 per month. From October 1, 2020 to October 31, 2020, the level of eligibility reduced to 60 per cent of wage costs and up to a maximum of £1,875 per month. Following the introduction of further lockdown restrictions in the United Kingdom in November 2020, the CJRS was extended from November 1, 2020 to November 30, 2020 and then further to March 31, 2021 and then further again to September 30, 2021 with the level of eligibility increased to 80 per cent of wage costs and a maximum of £2,500 per month through to the end of June 2021, after which the eligibility decreases down each month to 60 per cent of wage costs and a maximum of £1,875 per month by September 30, 2021.

Such costs are paid by the government to the Group in arrears. The Group is obliged to continue to pay the associated social security costs and employer pension contributions.

The Temporary Wage Subsidy Scheme (TWSS) and the Employment Wage Subsidy Scheme (EWSS) – recognised net within Employee costs
The TWSS was implemented by the government of Ireland from March 1, 2020 to August 30, 2020, where those employees designated as being furloughed workers are eligible to have 85 per cent of their wage costs paid up to a maximum of €410 per week. This scheme was replaced with the EWSS from September 1, 2020 and is expected to run through to December 31, 2021. For those qualifying employees (earning less than €1,462 per week), the government will reimburse wage costs up to a maximum of €203 per week. Such costs are paid by the government to the Group in arrears.

The total amount of the relief received under the CJRS, the TWSS and the EWSS by the Group for the six months to June 30, 2021 amounted to €200 million (six months to June 30, 2020: €155 million).

Temporary Redundancy Plan (ERTE) – no recognition in the financial statements of the Group
The ERTE was implemented by the government of Spain from March 1, 2020 and is expected to run through to September 30, 2021. Under this plan, employment is temporarily suspended and those designated employees are paid directly by the government and there is no remittance made to the Group. The Group is obliged to continue to pay the associated social security costs.

Had those designated employees not been temporarily suspended during the six months to June 30, 2021, the Group would have incurred further employee costs of €144 million (six months to June 30, 2020: €127 million).

The Ireland Strategic Investment Fund (ISIF) - recognised within Long-term borrowings
On December 23, 2020, Aer Lingus entered into a financing arrangement for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million.

The UK Export Finance (UKEF) - recognised within Long-term borrowings
On February 22, 2021, British Airways entered into a 5 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 UKEF.

20. RELATED PARTY TRANSACTIONS

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

Sales and purchases of goods and services:

	Six months to June 30	
€ million	**2021**	2020
Sales of goods and services		
Sales to associates	**3**	2
Sales to significant shareholders	**13**	7
Purchases of goods and services		
Purchases from associates	**18**	25
Purchases from significant shareholders	**30**	47

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

€ million	**June 30, 2021**	December 31, 2020
Receivables from related parties		
Amounts owed by associates	**1**	1
Amounts owed by significant shareholders	**1**	1
Payables to related parties		
Amounts owed to associates	**2**	2
Amounts owed to significant shareholders	**-**	1

20. RELATED PARTY TRANSACTIONS continued

For the six months to June 30, 2021 the Group has not made any allowance on expected credit losses relating to amounts owed by related parties (2020: nil).

Board of Directors and Management Committee remuneration

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

	Six months to June 30	
€ million	**2021**	2020
Base salary, fees and benefits		
Board of Directors' remuneration	**1**	2
Management Committee remuneration	**4**	3

For the six months to June 30, 2021 the remuneration for the Board of Directors includes one Executive Director (June 30, 2020: two Executive Directors). The Management Committee includes remuneration for 14 members (June 30, 2020: 11 members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the six months to June 30, 2021 the Company's obligation was €18,000 (2020: €20,000).

At June 30, 2021 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €8 million (2020: €9 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at June 30, 2021 (2020: nil).

21. CHANGE IN ACCOUNTING POLICY

Change in accounting policy relating to employee benefits
During the six months to June 30, 2021, the Group has changed its accounting policy with regard to the treatment of administration costs associated with the APS and NAPs Defined benefit schemes. The change in policy has been adopted to better reflect the underlying management and operation of these schemes, while remaining in compliance with IAS 19. This change in accounting policy has been applied retrospectively to the Condensed consolidated interim financial statements and are detailed below.

Previously a discounted estimate of future administration costs was included as part of the APS and NAPS defined benefit obligations. These administration costs were recognised as a service cost in the year in which such costs arose and recorded within Other comprehensive income. Under the updated accounting policy, administration costs are now recognised as incurred and included within Employee costs in the Income statement. This change has had the effect of reducing the defined benefit obligation and increasing retained earnings at both December 31, 2020 and January 1, 2020. It has in addition increased the charge to Employee costs and the Financing charge relating to pensions in the Income statement for the six months to June 30, 2020.

The impact of the change in this accounting policy on the Consolidated income statement and the Consolidated statement of comprehensive income for the six months to June 30, 2020, as well as the Consolidated balance sheet at December 31, 2020 and January 1, 2020 are shown below:

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2021

21. CHANGE IN ACCOUNTING POLICY continued

Consolidated income statement (extract for the six months to June 30, 2020)

€ million	Reported	Adjustment - administration costs	Restated
Total revenue	**5,288**	-	**5,288**
Employee costs	1,890	15	1,905
Other expenditure on operations	7,435	-	7,435
Total expenditure on operations	**9,325**	15	**9,340**
Operating loss	**(4,037)**	(15)	**(4,052)**
Net financing credit relating to pensions	3	6	9
Other financing items	(222)	-	(222)
Other non-operating items	50	-	50
Total net non-operating costs	(169)	6	(163)
Loss before tax	**(4,206)**	(9)	**(4,215)**
Tax	400	2	402
Loss after tax for the period	**(3,806)**	(7)	**(3,813)**

Consolidated statement of other comprehensive income (extract for the six months to June 30, 2020)

€ million	Reported	Adjustment - administration costs	Restated
Items that may be classified subsequently to net profit			
Currency translation differences	(146)	(16)	(162)
Other items that may be classified subsequently to net profit	(1,243)	-	(1,243)
Items that will not be reclassified to net profit			
Remeasurements of post-employment benefit obligations	(994)	(42)	(1,036)
Other items that will not be reclassified to net profit	182	-	182
Total other comprehensive loss for the period, net of tax	(2,201)	(58)	(2,259)
Loss after tax for the year	**(3,806)**	**(7)**	**(3,813)**
Total comprehensive loss for the period	**(6,007)**	**(65)**	**(6,072)**

21. CHANGE IN ACCOUNTING POLICY continued

Consolidated balance sheet (extract at December 31, 2020 and December 31, 2019)

€ million	Reported 2020	Adjustment - administration costs[1]	Restated 2020	Reported 2019	Adjustment - administration costs[1]	Restated 2019
Non-current assets						
Employee benefit assets	282	52	334	314	217	531
Other non-current assets	22,142	-	22,142	23,810	-	23,810
	22,424	**52**	**22,476**	**24,124**	**217**	**24,341**
Current assets	**7,840**	**-**	**7,840**	**11,327**	**-**	**11,327**
Total assets	**30,264**	**52**	**30,316**	**35,451**	**217**	**35,668**
Other equity	8,233	-	8,233	6,269	-	6,269
Other reserves	(6,917)	294	(6,623)	560	291	851
Total equity	**1,316**	**294**	**1,610**	**6,829**	**291**	**7,120**
Non-current liabilities						
Employee benefit obligations	719	(242)	477	400	(74)	326
Other non-current liabilities	16,713	-	16,713	15,474	-	15,474
	17,432	**(242)**	**17,190**	**15,874**	**(74)**	**15,800**
Current liabilities	**11,516**	**-**	**11,516**	**12,748**	**-**	**12,748**
Total liabilities	**28,948**	**(242)**	**28,706**	**28,622**	**(74)**	**28,548**
Total equity and liabilities	**30,264**	**52**	**30,316**	**35,451**	**217**	**35,668**

[1]Adjustments made to Employee benefit assets and Employee benefit obligations are presented net of the impact of withholding tax.

22. POST BALANCE SHEET EVENTS

On July 20, 2021, the Group entered into an asset-financing structure, under which seven aircraft are expected to be sold and leased back over the period to September 2022. This asset-financing structure matures between 2033 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2021-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). The Group expects to recognise €659 million ($785 million) through these aforementioned sale and lease backs over the period to September 2022.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

At a meeting held on July 29, 2021, the directors of International Consolidated Airlines Group, S.A. (the "Company") state that, to the best of their knowledge, the condensed consolidated financial statements for the six months to June 30, 2021, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the companies that fall within the consolidated group taken as a whole, and that the interim management report includes a fair review of the required information.

July 29, 2021

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	Alberto Terol Esteban

REPORT ON LIMITED REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of International Consolidated Airlines Group, S.A. commissioned by management:

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of International Consolidated Airlines Group, S.A. (the "Company") and subsidiaries (together the "Group"), which comprise the balance sheet at 30 June 2021, the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and the explanatory notes thereto for the six-month period then ended (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of review

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

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2021 have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial statements.

Emphasis of matter

Material uncertainty related to going concern
We draw your attention to note 1 to the accompanying consolidated interim financial statements, which states that the pandemic triggered by COVID-19 has had a significant impact on the Group's profit or loss and its cash flows.

In this regard, in its assessment of the going concern principle, Group management has considered different scenarios, one using benchmark assumptions and two other scenarios employing downside assumptions, one of these considering lockdown measures. The benchmark assumption scenario considers a recovery during the period encompassed by the going concern analysis. However, the downside scenarios take into account stress case assumptions associated with a more gradual estimated recovery compared to the assumptions used in the benchmark scenario.

The Directors consider that the Group has sufficient liquidity to continue its operations in the foreseeable future, and thus the going concern principle has been applied in the preparation of these consolidated interim financial statements. Nonetheless, as indicated in note 1 to the accompanying interim financial statements, a number of factors are beyond the Group's control, and should a more severe scenario come about than those envisaged, the Group will need to obtain the necessary additional financing. These events and conditions indicate the existence of material uncertainty which could cast significant doubts as to the Group's ability to continue as a going concern. This matter does not modify our conclusion.

Condensed consolidated interim financial statements
We draw your attention to the accompanying note 1, which states that these interim financial statements do not include all the information that would be required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2020. This matter does not modify our conclusion.

Report on other legal and regulatory requirements

The accompanying consolidated interim management's report for the six-month period ended 30 June 2021 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2021. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of International Consolidated Airlines Group, S.A. and subsidiaries.

Other matter

This report has been prepared at the request of management in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October 2015 and enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

Bernardo Rücker-Embden

29 July 2021

ALTERNATIVE PERFORMANCE MEASURES

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. These measures are not defined under International Financial Reporting Standards (IFRS), should be considered in addition to IFRS measurements and may differ to definitions given by regulatory bodies applicable to the Group. They are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'. Further information on why these APMs are used is provided in the Strategic priorities and key performance indicators section in IAG's 2020 Annual Report and Accounts.

During the six months to June 30, 2021, the Group has made no changes to its disclosures and treatment of APMs compared with those disclosed in the Annual Report and Accounts for the year to December 31, 2020.

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

a Loss after tax before exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance. The exceptional items include: significant discontinuance of hedge accounting; significant changes in the long term fleet plans that result in the impairment of fleet assets and the recognition of associated provisions; and, legal settlements.

The table below reconciles the statutory income statement to the income statement before exceptional items of the Group:

	Six months to June 30					
€ million	**Reported 2021**	**Exceptional items**	**Before exceptional items 2021**	Reported 2020[1]	Exceptional items	Before exceptional items 2020[1]
Passenger revenue[2]	**1,141**	**5**	**1,136**	4,113	(38)	4,151
Cargo revenue	**769**	**-**	**769**	615	-	615
Other revenue	**302**	**-**	**302**	560	-	560
Total revenue	**2,212**	**5**	**2,207**	5,288	(38)	5,326
Employee costs	**1,288**	**-**	**1,288**	1,905	-	1,905
Fuel, oil costs and emissions charges[2]	**497**	**(140)**	**637**	2,582	1,269	1,313
Handling, catering and other operating costs	**367**	**-**	**367**	853	-	853
Landing fees and en-route charges	**287**	**-**	**287**	539	-	539
Engineering and other aircraft costs[3]	**419**	**-**	**419**	843	77	766
Property, IT and other costs[4]	**353**	**-**	**353**	428	22	406
Selling costs	**159**	**-**	**159**	268	-	268
Depreciation, amortisation and impairment[5]	**920**	**-**	**920**	1,845	731	1,114
Currency differences	**(43)**	**-**	**(43)**	77	-	77
Total expenditure on operations	**4,247**	**(140)**	**4,387**	9,340	2,099	7,241
Operating loss	**(2,035)**	**145**	**(2,180)**	(4,052)	(2,137)	(1,915)
Finance costs	**(363)**	**-**	**(363)**	(342)	-	(342)
Finance income	**4**	**-**	**4**	23	-	23
Net financing credit relating to pensions	**1**	**-**	**1**	9	-	9
Net currency retranslation (charges)/credits	**(13)**	**-**	**(13)**	97	-	97
Other non-operating credits	**70**	**-**	**70**	50	-	50
Total net non-operating costs	**(301)**	**-**	**(301)**	(163)	-	(163)
Loss before tax	**(2,336)**	**145**	**(2,481)**	(4,215)	(2,137)	(2,078)
Tax	**288**	**(24)**	**312**	402	296	106
Loss after tax for the period	**(2,048)**	**121**	**(2,169)**	(3,813)	(1,841)	(1,972)

€ million	Reported 2021	Exceptional items	Before exceptional items 2021	Reported 2020[1]	Exceptional items	Before exceptional items 2020[1]
	Three months to June 30					
Passenger revenue[2]	**682**	**-**	**682**	160	(38)	198
Cargo revenue	**419**	**-**	**419**	369	-	369
Other revenue	**143**	**-**	**143**	174	-	174
Total revenue	**1,244**	**-**	**1,244**	703	(38)	741
Employee costs	**666**	**-**	**666**	661	-	661
Fuel, oil costs and emissions charges[2]	**271**	**(78)**	**349**	48	(56)	104
Handling, catering and other operating costs	**194**	**-**	**194**	201	-	201
Landing fees and en-route charges	**160**	**-**	**160**	88	-	88
Engineering and other aircraft costs[3]	**212**	**-**	**212**	339	77	262
Property, IT and other costs[4]	**169**	**-**	**169**	203	22	181
Selling costs	**89**	**-**	**89**	57	-	57
Depreciation, amortisation and impairment[5]	**450**	**-**	**450**	1,275	731	544
Currency differences	**-**	**-**	**-**	13	-	13
Total expenditure on operations	**2,211**	**(78)**	**2,289**	2,885	774	2,111
Operating loss	**(967)**	**78**	**(1,045)**	(2,182)	(812)	(1,370)
Finance costs	**(186)**	**-**	**(186)**	(191)	-	(191)
Finance income	**1**	**-**	**1**	12	-	12
Net financing credit relating to pensions	**2**	**-**	**2**	5	-	5
Net currency retranslation credits	**-**	**-**	**-**	20	-	20
Other non-operating credits	**30**	**-**	**30**	10	-	10
Total net non-operating costs	**(153)**	**-**	**(153)**	(144)	-	(144)
Loss before tax	**(1,120)**	**78**	**(1,198)**	(2,326)	(812)	(1,514)
Tax	**139**	**(14)**	**153**	201	98	103
Loss after tax for the period	**(981)**	**64**	**(1,045)**	(2,125)	(714)	(1,411)

[1]Refer to note 1 for information in relation to the restatement of Employee benefit obligations for the six months to June 30, 2020.

The rationale for each exceptional item is given below:

[2] Discontinuation of hedge accounting

In the six months to June 30, 2021, the Group recognised a credit of €140 million (six months to June 30, 2020: charge of €1,269 million) arising from a combination of the discontinuance of hedge accounting and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at June 30, 2021. This was represented by a credit of €146 million (six months to June 30, 2020: expense of €1,372 million) relating to fuel derivatives and an expense of €6 million (six months to June 30, 2020: credit of €103 million) related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million (six months to June 30, 2020: expense of €38 million) relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The Group's risk management strategy is to build up these hedges gradually over a two-year period (previously three-year period) when the level of forecast passenger revenue and fuel consumption were higher than current expectations. Accordingly, the hedge accounting for these transactions has been discontinued and the credit recognised in the Income statement. The expense relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

The related tax charge was €24 (six months to June 30, 2020: credit was €204 million), with €23 million being attributable to Fuel, oil costs and emissions charges (six months to June 30, 2020: €197 million) and €1 million being attributable to the credit to Passenger revenue (six months to June 30, 2020: €7 million).

For the six months to June 30, 2020:

[3] Engineering and other aircraft costs

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

The related tax credit was €5 million.

[4] Settlement provision

The exceptional charge of €22 million represented the fine issued by the Information Commissioner's Office in the United Kingdom, relating to the theft of customer data at British Airways in 2018. The exceptional charge was recorded within Property, IT and other costs in the Income statement, with a corresponding amount recorded in Provisions.
There was no tax impact on the recognition of this charge.

[5] Impairment of fleet and associated assets

The total exceptional impairment expense of €731 million was represented by an impairment of fleet assets of €729 million and an impairment of other assets of €2 million. The fleet impairment related to 55 aircraft, their associated engines and rotable inventories that were stood down permanently and 6 further aircraft which were impaired down to their recoverable value at June 30, 2020, which included 32 Boeing 747 aircraft, 15 Airbus A340 aircraft, 4 Airbus A320 aircraft, 4 Airbus A330-200 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €635 million was recorded within Property, plant and equipment relating to owned aircraft and €94 million was recorded within Right of use assets relating to leased aircraft. The exceptional impairment expenses were recorded within Depreciation, amortisation and impairment in the Income statement.

The impairment expense arose from the substantial deterioration in the then current and forecast demand for air travel caused by the COVID-19 outbreak, which led the Group to re-assess the medium and long term capacity and utilisation of the fleet. Subsequent to these impairments, all assets are held at their recoverable amounts.

The related tax credit was €87 million.

b Basic loss per share before exceptional items and adjusted loss per share [(KPI)]

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. The effect of the assumed conversion of the IAG €500 million convertible bond 2022, the IAG €825 million convertible bond 2028 and outstanding employee share schemes are antidilutive for the six months to June 30, 2021 and 2020 due to the reported loss after tax for each period, and therefore has not been included in the diluted earnings per share calculation.

€ million	**June 30, 2021**	June 30, 2020[1]
Loss after tax attributable to equity holders of the parent	**(2,048)**	(3,813)
Exceptional items	**121**	(1,841)
Loss after tax attributable to equity holders of the parent before exceptional items	**(2,169)**	(1,972)
Interest expense on convertible bonds	**-**	-
Adjusted loss	**(2,169)**	(1,972)
Weighted average number of shares used for basic earnings per share	**4,967**	3,057
Weighted average number of shares used for diluted earnings per share	**4,967**	3,057
Basic loss per share before exceptional items (€ cents)	**(43.7)**	(64.5)
Adjusted loss per share (€ cents)	**(43.7)**	(64.5)

[1]Earnings per share information has been restated for the comparative period presented, by adjusting the weighted average number of shares to include the impact of the rights issue in October 2020 (note 7). The discount element inherent in the rights issue has been accounted for as a bonus issue of 1,071,565 thousand shares in 2020. Earnings per share information has also been restated for the comparative period presented for the effects of the Employee benefits restatement given in note 1.

c Airline non-fuel costs per ASK

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

€ million	**Six months to June 30, 2021 reported**	**ccy adjustment**[1]	**Six months to June 30, 2021 ccy**	Six months to June 30, 2020[2]
Total expenditure on operations	4,247	259	4,506	9,340
Less: exceptional items	(140)	-	(140)	2,099
Less: fuel, oil costs and emission charges before exceptional items	637	72	709	1,313
Non-fuel costs	3,750	187	3,937	5,928
Less: Non-flight specific costs	260	33	293	482
Airline non-fuel costs	3,490	154	3,644	5,446
ASKs	34,041	-	34,041	71,625
Airline non-fuel unit costs per ASK (€ cents)	**10.25**	**-**	**10.70**	**7.60**

[1]Refer to note g for the definition of the ccy adjustment.
[2]Refer to note 1 for information in relation to the restatement of Employee benefit obligations for the six months to June 30, 2020.

d Levered free cash flow (KPI)

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

€ million	**Six months to June 30, 2021**	**Six months to June 30, 2020**
Net Increase in cash and cash equivalents	**1,685**	780
Less: Decrease in other current interest-bearing deposits	**(90)**	(1,215)
Add: Dividends paid	**-**	52
Levered free cash flow	**1,595**	(383)

e Net debt to EBITDA (KPI)

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA to assess its level of net debt in comparison to the underlying earnings generated by the Group in order to evaluate the underlying business performance of the Group. This measure is used to monitor the Group's leverage and to assess financial headroom.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits.

EBITDA is defined as the rolling four quarter 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	June 30, 2021	December 31, 2020[1]
Interest-bearing long-term borrowings	**19,771**	15,679
Less: Cash and cash equivalents	**(7,611)**	(5,774)
Less: Other current interest-bearing deposits	**(53)**	(143)
Net debt	**12,107**	9,762
Operating loss	**(5,434)**	(7,451)
Add: Exceptional items	**779**	3,061
Add: Depreciation, amortisation and impairment	**1,905**	2,099
EBITDA	**(2,750)**	(2,291)
Net debt to EBITDA	**(4.4)**	(4.3)

[1]Refer to note 1 for information in relation to the restatement of Employee benefit obligations for the six months to June 30, 2020.

f 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, 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	June 30, 2021	December 31, 2020[1]
EBITDA	**(2,750)**	(2,291)
Less: Fleet depreciation multiplied by inflation adjustment	**(1,707)**	(1,921)
Less: Other property, plant and equipment depreciation	**(247)**	(258)
Less: Software intangible amortisation	**(158)**	(151)
	(4,862)	(4,621)
Average fleet value[3]	**15,508**	16,020
Less: average progress payments[4]	**(877)**	(1,117)
Fleet book value less progress payments	**14,631**	14,903
Inflation adjustment[2]	*1.18*	*1.18*
	17,221	17,520
Average net book value of other property, plant and equipment[5]	**2,233**	2,329
Average net book value of software intangible assets[6]	**662**	652
Total invested capital	**20,116**	20,501
Return on Invested Capital	**(24.2)%**	(22.5)%

[1]Refer to note 1 for information in relation to the restatement of Employee benefit obligations for the six months to June 30, 2020.
[2] Presented to two decimal places and calculated using a 1.5 per cent inflation (June 30, 2020: 1.5 per cent inflation) rate over the weighted average age of the fleet June 30, 2021: 10.2 years (June 30, 2020: 11.7 years).
[3]The average net book value of aircraft is calculated from an amount of €15,472 million at June 30, 2020 and €15,545 million at June 30, 2021.
[4]The average net book value of progress payments is calculated from an amount of €1,077 million at June 30, 2020 and €677 million at June 30, 2021.
[5]The average net book value of other property, plant and equipment is calculated from an amount of €2,309 million at June 30, 2020 and €2,155 million at June 30, 2021.
[6]The average net book value of software intangible assets is calculated from an amount of €679 million at June 30, 2020 and €645 million at June 30, 2021.

g Results on a constant currency (ccy) basis

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

The following table represents the main average and closing exchange rates for the reporting periods. Where 2021 figures are stated at a constant currency basis, they have applied the 2020 rates stated below:

Foreign exchange rates

	Average six months to June 30		Closing at June 30	Closing at December 31
	2021	2020	**2021**	2020
Euro to pound sterling	**1.14**	1.15	**1.17**	1.10
US dollar to the euro	**1.21**	1.09	**1.19**	1.22
US dollar to pound sterling	**1.38**	1.26	**1.39**	1.35

AIRCRAFT FLEET

	Number in service with Group companies						
	Owned	Right of use	**Total June 30, 2021**	Total December 31, 2020	Changes since December 31, 2020	Future deliveries	Options
Airbus A319	13	33	**46**	49	(3)	-	-
Airbus A320	57	173	**230**	232	(2)	25	76
Airbus A321	16	57	**73**	72	1	34	14
Airbus A330-200	2	17	**19**	19	-	-	-
Airbus A330-300	5	13	**18**	18	-	-	-
Airbus A350	10	7	**17**	17	-	26	52
Airbus A380	2	10	**12**	12	-	-	-
Boeing 777-200	36	7	**43**	43	-	-	-
Boeing 777-300	3	13	**16**	16	-	-	-
Boeing 777-9	-	-	**-**	-	-	18	24
Boeing 787-8	-	12	**12**	12	-	-	-
Boeing 787-9	1	17	**18**	18	-	-	-
Boeing 787-10	2	-	**2**	2	-	10	-
Embraer E170	-	-	**-**	1	(1)	-	-
Embraer E190	9	14	**23**	22	1	1	-
Group total	**156**	**373**	**529**	**533**	**(4)**	**114**	**166**

As well as those aircraft in service the Group also holds 46 aircraft not in service.