

SIX MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (August 2, 2019) presented Group consolidated results for the six months to June 30, 2019.

IAG period highlights on results:

- Second quarter operating profit €960 million before exceptional items (2018 pro forma¹: €900 million, 2018 statutory: €816 million)
- Passenger unit revenue for the quarter up 3.1 per cent, up 1.1 per cent at constant currency
- Non-fuel unit costs before exceptional items for the quarter up 1.6 per cent, up 0.4 per cent at constant currency on a pro forma¹ basis.
- Fuel unit costs for the quarter up 12.4 per cent, up 6.3 per cent at constant currency
- Net foreign exchange operating profit impact for the quarter favourable €8 million
- Operating profit before exceptional items for the half year €1,095 million (2018 pro forma¹: €1,240 million, 2018 statutory: €1,735 million), down 11.7 per cent
- Cash of €8,031 million at June 30, 2019 was up €1,757 million on December 31, 2018 and net debt to EBITDA decreased by 0.3 to 0.9 times
- Profit after tax before exceptional items €806 million up 0.4 per cent (down 42.8 per cent on a statutory basis), and adjusted earnings per share up 4.3 per cent on a pro forma¹ basis

Performance summary:

	Six months to June 30			Statutory	
	Statutory	Pro forma	Higher / (lower)	2019	2018 ²
Highlights € million	2019	2018¹			
Passenger revenue	10,649	9,938	7.2 %	10,649	9,938
Total revenue	12,089	11,206	7.9 %	12,089	11,206
Operating profit before exceptional items	1,095	1,240	(11.7)%	1,095	1,115
Exceptional items	-	620	(100.0)%	-	620
Operating profit after exceptional items	1,095	1,860	(41.1)%	1,095	1,735
Available seat kilometres (ASK million)	163,431	154,571	5.7 %		
Passenger revenue per ASK (€ cents)	6.52	6.43	1.3 %		
Non-fuel costs per ASK (€ cents)	4.93	4.87	1.2 %		

Alternative performance measures	2019	2018¹	Higher / (lower)
Profit after tax before exceptional items (€ million)	806	803	0.4 %
Adjusted earnings per share (€ cents)	39.2	37.6	4.3 %
Net debt (€ million) ³	4,777	6,430	(25.7)%
Net debt to EBITDA ³	0.9	1.2	(0.3x)

Statutory results € million	2019	2018	Higher / (lower)
Profit after tax and exceptional items	806	1,408	(42.8)%
Basic earnings per share (€ cents)	40.6	68.3	(40.6)%
Cash and interest-bearing deposits	8,031	8,146	(1.4)%
Interest-bearing long-term borrowings	12,808	7,432	72.3 %

For definitions refer to the Alternative performance measures section.

¹ Pro forma financial information is based on the Group's statutory results with an adjustment to reflect the estimated impact of IFRS 16 'Leases' from January 1, 2018. A reconciliation of the pro forma financial information to the Group's statutory results is included in the Alternative performance measures section.

² June 30, 2018 comparatives are the Group's statutory results as reported.

³ The prior year comparative is pro forma December 31, 2018. The December 31, 2018 as reported was adjusted net debt of €8,355 million, and adjusted net debt to EBITDAR of 1.6 times.

Willie Walsh, IAG Chief Executive Officer, said:

“In Q2 we’re reporting an operating profit of €960 million before exceptional items, up from €900 million last year.

“Despite fuel cost headwinds, we delivered a good performance. At constant currency, fuel unit costs were up 6.3 per cent while passenger unit revenue increased 1.1 per cent, benefitting from the timing of Easter.

“This highlights, once again, that our unique structure and diverse brand portfolio underpins our financial resilience and ability to deliver robust results”.

Trading outlook

At current fuel prices and exchange rates, IAG expects its 2019 operating profit before exceptional items to be in line with 2018 pro forma. Passenger unit revenue is expected to be flat at constant currency and non-fuel unit cost is expected to improve at constant currency. We expect passenger unit revenue at constant currency to improve for the remainder of the year.

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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 can typically be identified by the use of 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.

It is not reasonably possible to itemise all of the many factors and specific events that could the forward-looking statements in this announcement to be incorrect or could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. 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 2018; these documents are available on www.iairgroup.com. All forward-looking statements made on or after the date of this document and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section.

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CONSOLIDATED INCOME STATEMENT

€ million	Six months to June 30					Statutory	
	Total 2019	Pro forma			Higher/ (lower)	2019	
		Before exceptional items 2018 ¹	Exceptional items	Total 2018 ¹		2019	2018 ²
Passenger revenue	10,649	9,938		9,938	7.2 %	10,649	9,938
Cargo revenue	556	557		557	(0.2)%	556	557
Other revenue	884	711		711	24.3 %	884	711
Total revenue	12,089	11,206		11,206	7.9 %	12,089	11,206
Employee costs	2,492	2,373	(628)	1,745	5.0 %	2,492	1,745
Fuel, oil costs and emissions charges	2,936	2,437		2,437	20.5 %	2,936	2,437
Handling, catering and other operating costs	1,476	1,361		1,361	8.4 %	1,476	1,364
Landing fees and en-route charges	1,081	1,051		1,051	2.9 %	1,081	1,051
Engineering and other aircraft costs	1,031	826		826	24.8 %	1,031	822
Property, IT and other costs	380	381	8	389	(0.3)%	380	454
Selling costs	551	534		534	3.2 %	551	534
Depreciation, amortisation and impairment	1,035	979		979	5.7 %	1,035	618
Aircraft operating lease costs	-	-		-	-	-	422
Currency differences	12	24		24	(50.0)%	12	24
Total expenditure on operations	10,994	9,966	(620)	9,346	10.3 %	10,994	9,471
Operating profit	1,095	1,240	620	1,860	(11.7)%	1,095	1,735
Finance costs	(281)	(279)		(279)	0.7 %	(281)	(111)
Finance income	22	21		21	4.8 %	22	21
Net financing credit relating to pensions	13	11		11	18.2 %	13	11
Net currency retranslation credits/(charges)	138	(4)		(4)	nm	138	(4)
Other non-operating credits	20	3		3	566.7 %	20	3
Total net non-operating costs	(88)	(248)		(248)	(64.5)%	(88)	(80)
Profit before tax	1,007	992	620	1,612	1.5 %	1,007	1,655
Tax	(201)	(189)	(47)	(236)	6.3 %	(201)	(247)
Profit after tax for the period	806	803	573	1,376	0.4 %	806	1,408

Operating figures	2019	2018 ¹	Higher/ (lower)
Available seat kilometres (ASK million)	163,431	154,571	5.7 %
Revenue passenger kilometres (RPK million)	135,678	127,370	6.5 %
Seat factor (per cent)	83.0	82.4	0.6pts
Cargo tonne kilometres (CTK million)	2,801	2,771	1.1 %
Passenger numbers (thousands)	55,885	52,731	6.0 %
Sold cargo tonnes (thousands)	346	343	0.9 %
Sectors	376,034	359,227	4.7 %
Block hours (hours)	1,102,024	1,051,548	4.8 %
Average manpower equivalent	65,027	63,517	2.4 %
Aircraft in service	588	565	4.1 %
Passenger revenue per RPK (€ cents)	7.85	7.80	0.6 %
Passenger revenue per ASK (€ cents)	6.52	6.43	1.3 %
Cargo revenue per CTK (€ cents)	19.85	20.10	(1.2)%
Fuel cost per ASK (€ cents)	1.80	1.58	13.9 %
Non-fuel costs per ASK (€ cents)	4.93	4.87	1.2 %
Total cost per ASK (€ cents)	6.73	6.45	4.3 %

¹ Pro forma financial information is based on the Group's statutory results with an adjustment to reflect the estimated impact of IFRS 16 'Leases' from January 1, 2018. A reconciliation of the pro forma financial information to the Group's statutory results is included in the Alternative performance measures section.

² The 2018 statutory results for the Group are the consolidated results including the impact of the exceptional items. There are no exceptional items in the six months to June 30, 2019.

CONSOLIDATED INCOME STATEMENT

€ million	Three months to June 30					Statutory	
	Total 2019	Pro forma			Higher/ (lower)	2019	
		Before exceptional items 2018 ¹	Exceptional items	Total 2018 ¹		2019	2018 ²
Passenger revenue	6,003	5,523		5,523	8.7 %	6,003	5,523
Cargo revenue	281	281		281	-	281	281
Other revenue	487	380		380	28.2 %	487	380
Total revenue	6,771	6,184		6,184	9.5 %	6,771	6,184
Employee costs	1,288	1,219	16	1,235	5.7 %	1,288	1,235
Fuel, oil costs and emissions charges	1,570	1,325		1,325	18.5 %	1,570	1,325
Handling, catering and other operating costs	789	718		718	9.9 %	789	719
Landing fees and en-route charges	596	579		579	2.9 %	596	579
Engineering and other aircraft costs	546	438		438	24.7 %	546	431
Property, IT and other costs	211	205	3	208	2.9 %	211	242
Selling costs	270	263		263	2.7 %	270	263
Depreciation, amortisation and impairment	520	494		494	5.3 %	520	311
Aircraft operating lease costs	-	-		-	-	-	220
Currency differences	21	43		43	(51.2)%	21	43
Total expenditure on operations	5,811	5,284	19	5,303	10.0 %	5,811	5,368
Operating profit	960	900	(19)	881	6.7 %	960	816
Finance costs	(144)	(147)		(147)	(2.0)%	(144)	(63)
Finance income	12	7		7	71.4 %	12	7
Net financing credit relating to pensions	7	8		8	(12.5)%	7	8
Net currency retranslation credits/(charges)	68	(25)		(25)	(372.0)%	68	(25)
Other non-operating credits	18	27		27	(33.3)%	18	27
Total net non-operating costs	(39)	(130)		(130)	(70.0)%	(39)	(46)
Profit before tax	921	770	(19)	751	19.6 %	921	770
Tax	(185)	(154)	4	(150)	20.1 %	(185)	(156)
Profit after tax for the period	736	616	(15)	601	19.5 %	736	614

Operating figures	2019	2018 ¹	Higher/ (lower)
Available seat kilometres (ASK million)	88,008	83,478	5.4 %
Revenue passenger kilometres (RPK million)	74,800	70,150	6.6 %
Seat factor (per cent)	85.0	84.0	1.0pts
Cargo tonne kilometres (CTK million)	1,410	1,415	(0.4)%
Passenger numbers (thousands)	31,503	29,777	5.8 %
Sold cargo tonnes (thousands)	172	173	(1.1)%
Sectors	207,024	197,136	5.0 %
Block hours (hours)	600,662	571,404	5.1 %
Average manpower equivalent	66,402	64,799	2.5 %
Passenger revenue per RPK (€ cents)	8.03	7.87	1.9 %
Passenger revenue per ASK (€ cents)	6.82	6.62	3.1 %
Cargo revenue per CTK (€ cents)	19.93	19.86	0.4 %
Fuel cost per ASK (€ cents)	1.78	1.59	12.4 %
Non-fuel costs per ASK (€ cents)	4.82	4.74	1.6 %
Total cost per ASK (€ cents)	6.60	6.33	4.3 %

¹ Pro forma financial information is based on the Group's statutory results with an adjustment to reflect the estimated impact of IFRS 16 'Leases' from January 1, 2018. A reconciliation of the pro forma financial information to the Group's statutory results is included in the Alternative performance measures section.

² The 2018 statutory results for the Group are the consolidated results including the impact of the exceptional items. There are no exceptional items in the three months to June 30, 2019.

FINANCIAL REVIEW

Operating profit overview

IAG's operating profit for the six months to June 30, 2019 was €1,095 million before exceptional items, a decrease of €145 million from last year. British Airways made a profit of €873 million before exceptional items (2018 pro forma: €907 million, 2018 statutory: €868 million); Iberia made a profit of €109 million (2018 pro forma: €147 million, 2018 statutory: €102 million); Aer Lingus made a profit of €78 million (2018 pro forma: €106 million, 2018 statutory: €104 million) and Vueling's profit was €5 million (2018 pro forma: €22 million, 2018 statutory: €11 million loss).

Strategic overview

On May 23, the Chilean Supreme Court rejected the proposed joint business between IAG and LATAM Airlines Group. This will mean that Chilean consumers will lose out on the benefits that this agreement would have provided which include better links between Europe and Chile, greater choice of flights and enhanced frequent flyer benefits. IAG is assessing the impact of the ruling in the joint business which has already been approved by regulators in Brazil, Colombia and Uruguay.

On June 18, IAG announced an order for eight Airbus A321XLR aircraft for Iberia and six for Aer Lingus, plus 14 options. The airlines will be among the launch customers for the extra long-range narrowbody aircraft with their first deliveries scheduled for 2023. The A321XLR will be used to expand both Aer Lingus and Iberia's existing longhaul fleets. Each aircraft will be fitted with economy and business cabins including fully flat seats.

IAG also signed a letter of intent with Boeing for 200 737 aircraft to join its fleet, which is subject to formal agreement. The mix of 737-8 and 737-10 aircraft would be delivered between 2023 and 2027 and powered by CFM Leap engines. It is anticipated that the aircraft would be used by a number of the Group's airlines including Vueling, LEVEL and British Airways at London Gatwick airport.

On June 28, IAG launched and priced a €1 billion dual tranche offer of senior unsecured bonds. The first tranche will mature in July 2023 and the second tranche will mature in July 2027. The proceeds of the transaction will be used to fund the repurchase of the €500 million 0.25 per cent convertible bond due in November 2020 and other corporate purposes.

Basis of preparation

The Group has adopted the new accounting standard IFRS 16 'Leases' from January 1, 2019, and has used the modified retrospective transition approach. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. On the Balance sheet, obligations to make future payments under leases, previously classified as operating leases, are recognised as debt with the associated right of use assets (ROU). In the Income statement, the operating lease costs are replaced with depreciation (within operating expenditure) and lease interest expense (within non-operating expenditure). For further information see pages 170 to 171 of the 2018 Annual Report and Accounts.

The following review is against a pro forma basis for 2018, which provides a consistent basis for comparison with 2019 results. Pro forma results for 2018 are the Group's statutory results with an adjustment to reflect the estimated impact of IFRS 16 from January 1, 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at January 1, 2019 (set out in note 33 of IAG's 2018 Annual Report and Accounts) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at January 1, 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date.

Principal risks and uncertainties

The Group has continued to maintain and operate its structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group, detailed on pages 30 to 36 of the 2018 Annual Report and Accounts, remain relevant.

Operating and market environment

Average commodity fuel prices for the six months were slightly lower than in the same period last year, although effective fuel prices were higher than in 2018, principally due to hedging profits in 2018 not repeated in 2019 and the strengthening of the US dollar.

The US dollar was stronger against both the euro and pound sterling, whilst the average euro to pound sterling exchange rate for the first six months was at similar levels to the previous year.

IAG's results are impacted by exchange rates used for the translation of British Airways' and Avios' financial results from sterling to the Group's reporting currency of euro. For the six months, the net impact of translation was €7 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 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 operating profit was adverse by €60 million for the period, increasing revenues by €150 million and costs by €210 million.

The net impact of translation and transaction exchange for the Group was €53 million adverse.

FINANCIAL REVIEW

Capacity

In the first six months of 2019, IAG capacity, measured in available seat kilometres (ASKs), was higher by 5.7 per cent with increases across all regions. Vueling increased its capacity through new routes and additional frequencies across its domestic market, with Balearic and Canary Islands performing well throughout 2019. Iberia increased its capacity primarily through additional frequencies on its Latin and North American routes, in particular Mexico, Chile and New York. Aer Lingus growth includes the full year impact of routes to Philadelphia and Seattle launched in 2018. British Airways increased capacity through additional frequencies, primarily in Latin America and the Caribbean, together with new destinations, including flights to Charleston, Pittsburgh and Osaka from London Heathrow. LEVEL longhaul capacity growth reflected the impact of the launch of LEVEL France in July 2018. In addition LEVEL launched shorthaul bases in Vienna in July 2018 and in Amsterdam in April 2019.

Revenue

Passenger revenue increased 7.2 per cent versus last year. Passenger unit revenue (passenger revenue per ASK) was flat at constant currency ('ccy') from lower yields (passenger revenue/revenue passenger kilometre), with passenger load factor higher by 0.6 points at 83.0 per cent. Passenger unit revenues rose in the Domestic, AMESA (Africa Middle East and South Asia) and North America regions, was broadly flat in Asia Pacific and fell in Europe and LACAR (Latin America and the Caribbean). In the six months to June 30, 2019 the Group carried over 55 million passengers, up 6.0 per cent versus last year.

Cargo revenue decreased 0.2 per cent, which represented a decrease of 3.1 per cent at constant currency, reflecting the weak market conditions seen in air freight and global trade.

Other revenue was up 24.3 per cent, excluding currency impacts up 20.3 per cent. Other revenue rose from higher BA Holidays revenue and from Iberia's third party maintenance business.

Costs

Employee costs increased 5.0 per cent compared to last year. On a unit basis and at ccy, employee unit costs improved 1.2 per cent with salary awards, primarily inflation-linked, more than offset by efficiency initiatives achieved across the Group and the closure of the British Airways NAPS pension scheme to future accrual on March 31, 2018. The average number of employees was 2.4 per cent higher than 2018, reflecting the growth in capacity, with productivity, measured as ASKs per average manpower equivalent, up 3.3 per cent for the Group.

Fuel costs increased 20.5 per cent, with fuel unit costs up 8.6 per cent at ccy from higher average fuel prices net of hedging, mainly due to hedging profits in 2018 not repeated in 2019. The introduction of new fleet continued to drive efficiencies.

Supplier costs increased by 8.5 per cent and on a unit basis at ccy were up 0.6 per cent on the previous year, including the additional costs incurred to drive higher other revenue in British Airways and Iberia.

Ownership costs increased 5.7 per cent on the previous year, with the number of aircraft in service growing from 565 to 588. Ownership costs on a unit basis and at ccy were broadly in line with 2018.

Overall non-fuel unit costs at ccy were down 0.1 per cent versus a year ago, with the impact of growth and efficiency measures across the Group more than offsetting price increases and the additional costs incurred to grow Iberia's MRO and BA Holidays' revenues.

Operating profit

The Group's operating profit for the period was €1,095 million, a decrease of €145 million versus 2018 (a decrease of €640 million on a statutory basis after exceptional items), and down €92 million at ccy, including the impact of fuel headwinds.

Exceptional items

There were no exceptional items in the half year. In 2018, the Group recognised an exceptional gain of €678 million, due to the closure of British Airways' NAPS and BARP pension schemes, and an exceptional charge of €58 million related to the continuation of British Airways' transformation initiatives.

Net non-operating costs, taxation and profit after tax

The Group's net non-operating costs for the period were €88 million in 2019, compared with €248 million (2018 statutory: €80 million) in 2018. The change was primarily from the net retranslation of debt and hedging instruments, resulting in a credit of €138 million in 2019, compared with a charge of €4 million in the previous year.

The tax charge for the period was €201 million before exceptional items, with an effective tax rate for the Group of 20 per cent (2018: 19 per cent).

The profit after tax for the six months was €806 million (2018 pro forma: €1,376 million after exceptional items, 2018 statutory: €1,408 million after exceptional items), a decrease of €570 million versus last year, principally driven by the net impact in 2018 of the reduction in pension liabilities associated with the closure of the British Airways NAPS pension scheme to future accrual and restructuring costs.

Cash and leverage

The Group's cash position of €8,031 million was broadly in line with June 30, 2018. Net debt at the end of the period, including the debt associated with right of use assets, was €4.8 billion and net debt to EBITDA was 0.9 times.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Unaudited Condensed Consolidated Interim Financial Statements
January 1, 2019 – June 30, 2019

CONSOLIDATED INCOME STATEMENT

€ million	Six months to June 30			
	Total 2019	Before exceptional items 2018	Exceptional items	Total 2018
Passenger revenue	10,649	9,938		9,938
Cargo revenue	556	557		557
Other revenue	884	711		711
Total revenue	12,089	11,206		11,206
Employee costs	2,492	2,373	(628)	1,745
Fuel, oil costs and emissions charges	2,936	2,437		2,437
Handling, catering and other operating costs	1,476	1,364		1,364
Landing fees and en-route charges	1,081	1,051		1,051
Engineering and other aircraft costs	1,031	822		822
Property, IT and other costs	380	446	8	454
Selling costs	551	534		534
Depreciation, amortisation and impairment	1,035	618		618
Aircraft operating lease costs	-	422		422
Currency differences	12	24		24
Total expenditure on operations	10,994	10,091	(620)	9,471
Operating profit	1,095	1,115	620	1,735
Finance costs	(281)	(111)		(111)
Finance income	22	21		21
Net financing credit relating to pensions	13	11		11
Net currency retranslation credits/(charges)	138	(4)		(4)
Other non-operating credits	20	3		3
Total net non-operating costs	(88)	(80)		(80)
Profit before tax	1,007	1,035	620	1,655
Tax	(201)	(200)	(47)	(247)
Profit after tax for the period	806	835	573	1,408
Attributable to:				
Equity holders of the parent	806	825		1,398
Non-controlling interest	-	10		10
	806	835		1,408
Basic earnings per share (€ cents)	40.6	40.3		68.3
Diluted earnings per share (€ cents)	39.2	39.1		65.9

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Six months to June 30	
	2019	2018
<i>Items that may be reclassified subsequently to net profit</i>		
Cash flow hedges:		
Fair value movements in equity	554	740
Reclassified and reported in net profit	56	(235)
Fair value movements on cost of hedging	43	1
Currency translation differences	35	30
<i>Items that will not be reclassified to net profit</i>		
Fair value movements on equity instruments	(5)	-
Fair value movements on cash flow hedges	(1)	-
Remeasurements of post-employment benefit obligations	(68)	-
Total other comprehensive income for the period, net of tax	614	536
Profit after tax for the period	806	1,408
Total comprehensive income for the period	1,420	1,944
Total comprehensive income is attributable to:		
Equity holders of the parent	1,420	1,934
Non-controlling interest	-	10
	1,420	1,944

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

CONSOLIDATED BALANCE SHEET

€ million	June 30, 2019	December 31, 2018
Non-current assets		
Property, plant and equipment	17,475	12,437
Intangible assets	3,258	3,198
Investments accounted for using the equity method	31	31
Other equity investments	76	80
Employee benefit assets	1,373	1,129
Derivative financial instruments	400	221
Deferred tax assets	602	536
Other non-current assets	309	309
	23,524	17,941
Current assets		
Inventories	506	509
Trade receivables	2,010	1,597
Other current assets	1,502	1,175
Current tax receivable	199	383
Derivative financial instruments	298	155
Other current interest-bearing deposits	3,227	2,437
Cash and cash equivalents	4,804	3,837
	12,546	10,093
Total assets	36,070	28,034
Shareholders' equity		
Issued share capital	996	996
Share premium	5,327	6,022
Treasury shares	(60)	(68)
Other reserves	311	(236)
Total shareholders' equity	6,574	6,714
Non-controlling interest	6	6
Total equity	6,580	6,720
Non-current liabilities		
Interest-bearing long-term borrowings	11,101	6,633
Employee benefit obligations	286	289
Deferred tax liability	526	453
Provisions for liabilities and charges	2,430	2,268
Derivative financial instruments	240	423
Other long-term liabilities	83	198
	14,666	10,264
Current liabilities		
Current portion of long-term borrowings	1,707	876
Trade and other payables	5,437	3,959
Deferred revenue on ticket sales	6,674	4,835
Derivative financial instruments	281	656
Current tax payable	167	165
Provisions for liabilities and charges	558	559
	14,824	11,050
Total liabilities	29,490	21,314
Total equity and liabilities	36,070	28,034

CONSOLIDATED CASH FLOW STATEMENT

€ million	Six months to June 30	
	2019	2018
Cash flows from operating activities		
Operating profit after exceptional items	1,095	1,735
Depreciation, amortisation and impairment	1,035	618
Movement in working capital	1,579	1,673
<i>Increase in trade receivables, prepayments, inventories and other current assets</i>	<i>(609)</i>	<i>(394)</i>
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>	<i>2,188</i>	<i>2,067</i>
Payments related to restructuring	(89)	(97)
Employer contributions to pension schemes ¹	(368)	(655)
Pension scheme service costs	3	52
Provision and other non-cash movements	165	(579)
Interest paid	(213)	(66)
Interest received	19	14
Tax received	61	26
Net cash flows from operating activities	3,287	2,721
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1,509)	(1,266)
Sale of property, plant and equipment and intangible assets	458	186
Increase in other current interest-bearing deposits	(799)	(185)
Other investing movements	(1)	67
Net cash flows from investing activities	(1,851)	(1,198)
Cash flows from financing activities		
Proceeds from long-term borrowings	441	452
Repayment of borrowings	(68)	(53)
Repayment of leases	(823)	(441)
Acquisition of treasury shares	-	(132)
Distributions made to holders of perpetual securities and other	-	(10)
Dividend paid	(52)	(47)
Net cash flows from financing activities	(502)	(231)
Net increase in cash and cash equivalents	934	1,292
Net foreign exchange differences	33	(15)
Cash and cash equivalents at 1 January	3,837	3,292
Cash and cash equivalents at period end	4,804	4,569
Interest-bearing deposits maturing after more than three months	3,227	3,577
Cash, cash equivalents and other interest-bearing deposits	8,031	8,146

¹ The six months to June 30, 2018 includes transitional arrangement cash costs associated with changes to the British Airways pension schemes. Refer to note 3 'Exceptional items'.

At June 30, 2019 British Airways held €280 million (2018: €nil) of restricted cash within interest-bearing deposits which has been set aside in escrow relating to certain contingent payments to the Group's pension schemes, APS and NAPS. Under the proposed APS Settlement Agreement (subject to obtaining the approval of the High Court), the full €280 million would be payable to the NAPS scheme. Refer to note 17 'Contingent liabilities'.

At June 30, 2019 Aer Lingus held €42 million of restricted cash (2018: €44 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months to June 30, 2019

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	Total shareholders' equity	Non- controlling interest	Total equity
January 1, 2019 as reported	996	6,022	(68)	(236)	6,714	6	6,720
Adoption of IFRS 16	-	-	-	(550)	(550)	-	(550)
January 1, 2019 (restated)	996	6,022	(68)	(786)	6,164	6	6,170
Total comprehensive income for the period (net of tax)	-	-	-	1,420	1,420	-	1,420
Hedges reclassified and reported in property, plant and equipment	-	-	-	(1)	(1)	-	(1)
Cost of share-based payments	-	-	-	19	19	-	19
Vesting of share-based payment schemes	-	-	8	(14)	(6)	-	(6)
Dividend	-	(695)	-	(327)	(1,022)	-	(1,022)
June 30, 2019	996	5,327	(60)	311	6,574	6	6,580

For the six months to June 30, 2018

€ million	Issued share capital	Share premium	Treasury shares	Other reserves	Total shareholders' equity	Non- controlling interest	Total equity
At January 1, 2018	1,029	6,022	(77)	(348)	6,626	307	6,933
Total comprehensive income for the period (net of tax)	-	-	-	1,934	1,934	10	1,944
Cost of share-based payments	-	-	-	10	10	-	10
Vesting of share-based payment schemes	-	-	8	(10)	(2)	-	(2)
Acquisition of treasury shares	-	-	(500)	-	(500)	-	(500)
Dividend	-	-	-	(295)	(295)	-	(295)
Distributions made to holders of perpetual securities	-	-	-	-	-	(10)	(10)
June 30, 2018	1,029	6,022	(569)	1,291	7,773	307	8,080

NOTES TO THE ACCOUNTS

For the six months to June 30, 2019

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 April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015.

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

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on August 1, 2019. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the interim financial statements.

The same basis of preparation and accounting policies set out in the IAG Annual Report and Accounts for the year to December 31, 2018 have been applied in the preparation of these condensed consolidated interim financial statements, except as adjusted for the implementation of IFRS 16 as described below. IAG's financial statements for the year to December 31, 2018 have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and with those of the Standing Interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

2. ACCOUNTING POLICIES

Changes to accounting policies

IFRS 16 'Leases' was adopted by the Group on January 1, 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model.

The main changes arising on adoption of IFRS 16 were as follows:

1. Interest-bearing borrowings and non-current assets increased on implementation of the standard as obligations to make future payments under leases previously classified as operating leases were recognised on the Balance sheet, along with the related 'right of use' (ROU) asset. The Group has used the practical expedients in respect of leases of less than 12 months duration and leases for low value items and excluded them from the scope of IFRS 16. Rental payments associated with these leases are recognised in the Income statement on a straight-line basis over the life of the lease. No adjustment has been made to the recognition and measurement of assets previously recognised as 'finance leases' under IAS 17 which were transferred to ROU assets on adoption of IFRS 16, with the related borrowings transferred to ROU lease liabilities.

2. Expenditure on operations has decreased and finance costs have increased, as operating lease costs have been replaced by depreciation and lease interest expense.

3. The adoption of IFRS 16 required the Group to make a number of judgements, estimates and assumptions. These included:

- The approach to be adopted on transition - The Group used the modified retrospective transition approach. Lease liabilities were determined based on the value of the remaining lease payments, discounted by the appropriate incremental borrowing rates and translated at the rates of exchange at the date of transition (January 1, 2019). ROU assets in respect of aircraft were measured as if IFRS 16 had been applied at the commencement date of each lease using the appropriate incremental borrowing rates at the date of transition and rates of exchange at the commencement of each lease, and depreciated to January 1, 2019. Other ROU assets were measured based on the related lease liability as at the date of transition, adjusted for prepaid or accrued lease payments. Deferred gains on sale and operating leasebacks, previously recognised in current and non-current liabilities, were reclassified to the related ROU asset. IFRS 16 does not allow comparative information to be restated if the modified retrospective transition approach is used.

- The estimated lease term - The term of each lease was based on the original lease term unless management was 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term included fleet plans which underpin approved business plans, and historic experience regarding extension options.

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

2. ACCOUNTING POLICIES continued

• The discount rate used to determine the lease liability - The rates used on transition to discount future lease payments were the Group's incremental borrowing rates. These rates have been calculated for each airline, reflecting the underlying lease terms and based on observable inputs. The risk-free rate component was based on LIBOR rates available in the same currency and over the same term as the lease and was adjusted for credit risk. For future aircraft lease obligations, the Group will use the interest rate implicit in the lease.

• Terminal arrangements - The Group has reviewed its arrangements at airport terminals to determine whether any agreements previously considered to be service agreements should be classified as leases. No additional leases have been identified.

• Restoration obligations - The Group has identified certain obligations associated with the maintenance condition of its aircraft on redelivery to the lessor, such as the requirement to complete a final airframe check, repaint the aircraft and reconfigure the cabin. Under IAS 17 these costs were recognised as a maintenance expense over the lease term. On adoption of IFRS 16, they were recognised as part of the ROU asset on transition, resulting in an increase in restoration and handback provisions. Judgement has been used to identify the appropriate obligations and estimation has been used (based on observable data) to measure them. Other maintenance obligations associated with these assets, comprising obligations that arise as the aircraft is utilised, such as engine overhauls and periodic airframe checks, are recognised as a maintenance expense over the lease term.

4. The above adjustments resulted in a post-tax charge to equity of €550 million.

5. Foreign currency balances on lease obligations, which are predominantly denominated in US dollars, are remeasured at each balance sheet date, with the ROU asset recognised at the historic exchange rate. The Group manages foreign exchange risk arising on these US dollar obligations as part of its risk management strategy.

The Group recognised the following assets and liabilities on the Consolidated balance sheet at January 1, 2019 on adoption of IFRS 16:

Consolidated balance sheet (extract as at January 1, 2019)

€ million	As reported	IFRS 16 adjustments	Restated
Non-current assets			
Property, plant and equipment			
Fleet	10,790	3,730	14,520
Property and equipment	1,647	755	2,402
Deferred tax assets	536	130	666
Other non-current assets	4,968	-	4,968
	17,941	4,615	22,556
Current assets			
Other current assets	10,093	(35)	10,058
	10,093	(35)	10,058
Total assets	28,034	4,580	32,614
Total equity	6,720	(550)	6,170
Non-current liabilities			
Interest-bearing long-term borrowings	6,633	4,315	10,948
Deferred tax liability	453	(40)	413
Provisions for liabilities and charges	2,268	120	2,388
Other non-current liabilities	910	(125)	785
	10,264	4,270	14,534
Current liabilities			
Current portion of long-term borrowings	876	880	1,756
Other current liabilities	10,174	(20)	10,154
	11,050	860	11,910
Total liabilities	21,314	5,130	26,444
Total equity and liabilities	28,034	4,580	32,614

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

2. ACCOUNTING POLICIES continued

The following table reconciles the amount disclosed as operating lease commitments at December 31, 2018 disclosed in the Group's 2018 consolidated financial statements to the amount recognised on the Balance sheet in respect of ROU lease liabilities on adoption of IFRS 16.

€ million	
Operating lease commitments at December 31, 2018	8,664
Weighted average incremental borrowing rate at January 1, 2019	6.2%
Operating lease commitments discounted using the weighted average incremental borrowing rate	5,612
Less:	
Leases considered to be short-term (less than 12 months duration)	(61)
Leases for assets considered to be substitutable	(66)
Future variable payments based on an index or rate	(140)
Prepayments	(11)
Commitments for leases that had not commenced on December 31, 2018	(459)
Add:	
Service contracts	232
Residual value guarantees	61
Rentals associated with extension options reasonably certain to be exercised	27
Right of use lease liability recognised at January 1, 2019	5,195
Reclassification from finance lease obligations	5,928
Right of use lease liability at January 1, 2019	11,123

The Group has not adopted any other standards, amendments or interpretations in the six months to June 30, 2019 that have had a significant change to its financial performance or position.

3. EXCEPTIONAL ITEMS

€ million	Six months to June 30	
	2019	2018
Restructuring costs ¹	-	58
Employee benefit obligations ²	-	(678)
Recognised in expenditure on operations	-	(620)
Total exceptional credit before tax	-	(620)
Tax on exceptional items	-	47
Total exceptional credit after tax	-	(573)

¹ Restructuring costs

During 2018 British Airways continued to implement the restructuring programme that started in July 2016, to develop a more efficient and cost effective structure. The overall costs of the programme principally comprised employee severance costs and include other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the six months to June 30, 2018 in respect of this programme amounted to €58 million, with a related tax credit of €11 million.

² Employee benefit obligations

British Airways closed its New Airways Pension Scheme (NAPS) to future accrual and British Airways Retirement Plan (BARP) to future contributions from March 31, 2018. The schemes have been replaced by a flexible defined contribution scheme, the British Airways Pension Plan (BAPP). The changes resulted in a one-off reduction of the NAPS IAS 19 defined benefit liability of €872 million and associated transitional arrangement cash costs of €192 million through employee costs. These items are presented net, together with BARP closure costs, as an exceptional credit of €678 million within the six months to June 30, 2018 Income Statement, with a related tax charge of €58 million.

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

4. SEASONALITY

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

5. SEGMENT INFORMATION**a Business segments**

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

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

The Group has determined its operating segments based on the way that it treats its businesses and the manner in which resource allocation decisions are made. British Airways, Iberia, Vueling and Aer Lingus have been identified for financial reporting purposes as reportable operating segments. Avios 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, 2019

€ million	2019					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies ¹	
Revenue						
Passenger revenue	6,528	1,846	1,070	939	266	10,649
Cargo revenue	404	125	-	26	1	556
Other revenue	333	428	7	3	113	884
External revenue	7,265	2,399	1,077	968	380	12,089
Inter-segment revenue	105	237	-	3	288	633
Segment revenue	7,370	2,636	1,077	971	668	12,722
Depreciation, amortisation and impairment	(621)	(191)	(120)	(64)	(39)	(1,035)
Operating profit	873	109	5	78	30	1,095
Net non-operating costs						(88)
Profit before tax						1,007
Total assets	22,351	8,787	3,734	2,260	(1,062)	36,070
Total liabilities	(15,309)	(7,091)	(3,478)	(1,450)	(2,162)	(29,490)

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

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2019

5. SEGMENT INFORMATION continued

For the six months to June 30, 2018

	2018					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies ¹	Total
Revenue						
Passenger revenue	6,159	1,715	999	867	198	9,938
Cargo revenue	413	119	-	25	-	557
Other revenue	290	287	7	4	123	711
External revenue	6,862	2,121	1,006	896	321	11,206
Inter-segment revenue	111	196	-	3	244	554
Segment revenue	6,973	2,317	1,006	899	565	11,760
Depreciation, amortisation and impairment	(441)	(104)	(11)	(40)	(22)	(618)
Operating profit/(loss) before exceptional items	868	102	(11)	104	52	1,115
Exceptional items (note 3)	620	-	-	-	-	620
Operating profit/(loss) after exceptional items	1,488	102	(11)	104	52	1,735
Net non-operating costs						(80)
Profit before tax						1,655
Total assets	21,295	6,565	2,058	2,141	(1,271)	30,788
Total liabilities	(12,998)	(4,675)	(1,727)	(1,247)	(2,061)	(22,708)

¹ Includes eliminations on total assets of €14,204 million and total liabilities of €3,720 million.

b Geographical analysis

Revenue by area of original sale

	Six months to June 30	
€ million	2019	2018
UK	4,066	3,658
Spain	2,043	1,716
USA	2,121	1,916
Rest of world	3,859	3,916
	12,089	11,206

Assets by area
June 30, 2019

€ million	Property, plant and equipment	Intangible assets
UK	10,771	1,270
Spain	5,250	1,335
USA	226	33
Rest of world	1,228	620
	17,475	3,258

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2019

5. SEGMENT INFORMATION continued

December 31, 2018

€ million	Property, plant and equipment	Intangible assets
UK	9,017	1,285
Spain	2,512	1,291
USA	29	4
Rest of world	879	618
	12,437	3,198

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

€ million	Six months to June 30	
	2019	2018
Finance costs		
Interest payable on bank and other loans, finance charges payable under leases	(273)	(103)
Unwinding of discount on provisions	(18)	(14)
Capitalised interest on progress payments	9	6
Change in fair value of cross currency swaps	1	-
Total finance costs	(281)	(111)
Finance income		
Interest on other interest-bearing deposits	22	14
Other finance income	-	7
Total finance income	22	21
Net charge relating to pensions		
Net financing credit relating to pensions	13	11
Other non-operating credits/(charges)		
Profit/(loss) on sale of property, plant and equipment and investments	10	(27)
Realised gain on derivatives not qualifying for hedge accounting	6	3
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	(1)	23
Share of post-tax profits in associates accounted for using equity method	2	1
Net credit relating to other equity investments	3	3
Total Other non-operating credits	20	3

7. TAX

The tax charge for the six months to June 30, 2019 is €201 million (2018: €247 million), and the effective tax rate is 20.0 per cent (2018: 14.9 per cent).

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

8. EARNINGS PER SHARE AND SHARE CAPITAL

Millions	Six months to June 30	
	2019	2018
Weighted average number of ordinary shares in issue	1,984	2,046
Weighted average number for diluted earnings per share	2,080	2,135

€ cents	Six months to June 30	
	2019	2018
Basic earnings per share	40.6	68.3
Diluted earnings per share	39.2	65.9

The number of shares in issue at June 30, 2019 was 1,992,032,634 (December 31, 2018: 1,992,032,634) ordinary shares with a par value of €0.50 each.

9. DIVIDENDS

The Directors propose that no dividend be paid for the six months to June 30, 2019 (June 30, 2018: nil).

The final dividend of 16.5 € cents per share for the year to December 31, 2018 and the special dividend of 35.0 € cents per share were approved at the annual general meeting on June 20, 2019. The final dividend, amounting to €327 million, and special dividend, amounting to €695 million, have been recognised as a liability at June 30, 2019 and were paid from July 8, 2019.

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ million	Other Property, plant and equipment	Right of use assets	Total Property, plant and equipment	Intangible assets
Net book value at January 1, 2019	12,437	-	12,437	3,198
Adoption of IFRS 16	(5,767)	10,252	4,485	-
Net book value at January 1, 2019 (restated)	6,670	10,252	16,922	3,198
Additions	1,383	452	1,835	166
Disposals	(430)	-	(430)	(57)
Reclassifications	85	(85)	-	-
Depreciation, amortisation and impairment	(392)	(582)	(974)	(61)
Exchange movements	48	74	122	12
Net book value at June 30, 2019	7,364	10,111	17,475	3,258

The net book value of the Right of use assets includes €5,526 million (January 1, 2019: €5,767 million) in respect of assets previously leased through finance leases before the adoption of IFRS 16.

€ million	Property, plant and equipment	Intangible assets
Net book value at January 1, 2018	11,846	3,018
Additions	1,113	189
Disposals	(216)	(18)
Depreciation, amortisation and impairment	(553)	(65)
Exchange movements	64	9
Net book value at June 30, 2018	12,254	3,133

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €14,126 million (December 31, 2018: €10,831 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

11. IMPAIRMENT REVIEW

Goodwill and intangible assets with indefinite lives are tested for impairment annually (in the fourth quarter) and when circumstances indicate the carrying value may be impaired. The key assumptions used to determine the recoverable amount for the different cash generating units are disclosed in the Annual Report and Accounts for the year to December 31, 2018. For the six months to June 30, 2019 there are no indicators that the carrying value may exceed the recoverable amount.

12. FINANCIAL INSTRUMENTS**a Financial assets and liabilities by category**

The detail of the Group's financial instruments at June 30, 2019 and December 31, 2018 by nature and classification for measurement purposes is as follows:

June 30, 2019

€ million	Financial assets				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	
Non-current assets					
Other equity investments	-	76	-	-	76
Derivative financial instruments	-	-	400	-	400
Other non-current assets	154	-	-	155	309
Current assets					
Trade receivables	2,010	-	-	-	2,010
Other current assets	530	-	-	972	1,502
Derivative financial instruments	-	-	298	-	298
Other current interest-bearing deposits	3,227	-	-	-	3,227
Cash and cash equivalents	4,804	-	-	-	4,804
€ million	Financial liabilities				Total carrying amount by balance sheet item
	Amortised cost	Fair value through Other comprehensive income	Fair value through income statement	Non-financial liabilities	
Non-current liabilities					
Interest-bearing long-term borrowings	11,101	-	-	-	11,101
Derivative financial instruments	-	-	240	-	240
Other long-term liabilities	17	-	-	66	83
Current liabilities					
Current portion of long-term borrowings	1,707	-	-	-	1,707
Trade and other payables	4,988	-	-	449	5,437
Derivative financial instruments	-	-	281	-	281

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2019

12. FINANCIAL INSTRUMENTS continued

December 31, 2018

	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	-	80	-	-	80
Derivative financial instruments	-	-	221	-	221
Other non-current assets	154	-	-	155	309
Current assets					
Trade receivables	1,597	-	-	-	1,597
Other current assets	444	-	-	731	1,175
Derivative financial instruments	-	-	155	-	155
Other current interest-bearing deposits	2,437	-	-	-	2,437
Cash and cash equivalents	3,837	-	-	-	3,837
	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					
Interest-bearing long-term borrowings	6,633	-	-	-	6,633
Derivative financial instruments	-	-	423	-	423
Other long-term liabilities	13	-	-	185	198
Current liabilities					
Current portion of long-term borrowings	876	-	-	-	876
Trade and other payables	3,591	-	-	368	3,959
Derivative financial instruments	-	-	656	-	656

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 as follows:

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 present actual and regularly occurring market transactions on an arm's length basis. Level 1 methodologies (market values at the balance sheet date) were used to determine the fair value of listed asset investments classified as equity investments and listed interest-bearing borrowings.

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

Level 3: Inputs for the asset or liability that are not based on observable market data. For unquoted investments, fair value has been determined based on the most recent arm's length transaction for an identical instrument. The Group monitors transactions of these instruments on a regular basis to ensure the fair value is based on the most recent arm's length price.

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

12. FINANCIAL INSTRUMENTS continued

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, 2019 are as follows:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	13	-	63	76	76
Derivatives ¹	-	698	-	698	698
Financial liabilities					
Bank and other loans	1,086	485	-	1,571	1,564
Asset financing liabilities	-	435	-	435	435
Derivatives ²	-	521	-	521	521

¹ Current portion of derivative financial assets is €298 million.

² Current portion of derivative financial liabilities is €281 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2018 are set out below:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	17	-	63	80	80
Derivatives ¹	-	376	-	376	376
Financial liabilities					
Bank and other loans	1,096	468	-	1,564	1,581
Finance lease obligations ³	-	6,086	-	6,086	5,928
Derivatives ²	-	1,079	-	1,079	1,079

¹ Current portion of derivative financial assets is €155 million.

² Current portion of derivative financial liabilities is €656 million.

³ Reclassified to the ROU lease liability on adoption of IFRS 16.

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

The financial instruments listed in the previous table are measured at fair value for reporting purposes, with the exception of the bank and other loans and asset financing liabilities, including finance lease obligations recognised at December 31, 2018, which are measured at amortised cost.

c Level 3 financial assets reconciliation

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

€ million	June 30, 2019	December 31, 2018
Opening balance for the period	63	56
Additions	-	8
Exchange movements	-	(1)
Closing balance for the period	63	63

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2019

13. BORROWINGS

€ million	June 30, 2019	December 31, 2018
Current		
Bank and other loans	110	153
Asset financing liabilities	23	723
	133	876
Leases previously classified as finance leases ¹	719	-
Leases on right of use assets	855	-
Borrowings on right of use assets	1,574	-
	1,707	876
Non-current		
Bank and other loans	1,454	1,428
Asset financing liabilities	412	5,205
	1,866	6,633
Leases previously classified as finance leases ¹	4,834	-
Leases on right of use assets	4,401	-
Borrowings on right of use assets	9,235	-
	11,101	6,633

¹On adoption of IFRS 16 'Leases' on January 1, 2019, the carrying amount of leases previously classified as finance leases was transferred to 'Borrowings on right of use assets' in accordance with the modified transition approach. In the comparative information in the table above these leases are presented as 'Asset financing liabilities'.

14. SHARE BASED PAYMENTS

During the period 6,111,608 nil-cost options were awarded under the Group's Performance Share Plan (PSP) to key senior executives and selected members of the wider management team. The 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. The fair value of equity-settled share awards granted is estimated at the date of the award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded, or based on the share price at the date of grant, dependent on the performance criteria attached. The following are the inputs to the model for the PSP awards granted in the period:

Expected share price volatility (per cent)	35
Expected life of options (years)	4.8
Weighted average share price (£)	5.67

The Group also made awards under the Group's Incentive Award Deferral Plan during the period, under which 2,113,154 conditional shares were awarded.

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').

NAPS was closed to future accrual from March 31, 2018. Following closure, members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using CPI), which is generally lower than the previous assumption for pay growth which included pay rises and promotions. British Airways currently makes deficit contributions to NAPS of €336 million per annum until September 2027 plus additional contributions of up to €168 million per year depending on the cash balance at the end of March each year. As part of the closure of NAPS, 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 allowance for such payments has been made in the valuation of the defined benefit obligation.

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

15. EMPLOYEE BENEFIT OBLIGATIONS continued

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 in line with the Government's Pension Increase (Review) Orders (PIRO), which are based on the CPI. The Trustee of APS proposed an additional discretionary increase above CPI for pensions in payment for the year ended March 31, 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The High Court issued a judgment in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors and ignore irrelevant factors. British Airways appealed the judgment to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the judgment, the Trustee was allowed permission to appeal to the Supreme Court; and has appealed. In April 2019, subject to obtaining the approval of the High Court, the Trustee Directors of the Airways Pension Scheme unanimously agreed with British Airways terms for an out-of-court settlement ('the agreement'). This would bring to an end the litigation that commenced in 2013 and which is otherwise due to proceed to appeal at the Supreme Court later this year. Under the terms of the proposed settlement, the Trustee of APS will be permitted, subject to some affordability tests, to award Discretionary Increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases. British Airways will cease paying further deficit recovery contributions, including cash sweep payments, and the APS Trustee will withdraw its appeal to the Supreme Court. British Airways will provide a €45 million indemnity, payable in part or full as appropriate in late 2027/2028, in the event of adverse experience leading to the 2027 valuation showing the scheme is not able to pay pension increases at RPI for the remaining life of the scheme.

The Court process to seek approval for this settlement has started but may not receive court approval until the last quarter of 2019 at the earliest, therefore the assumptions to determine the Defined Benefit Obligation (DBO) for APS at June 30, 2019 do not reflect the agreement and do not make any allowance for the potential additional benefits that may be provided to members. If the High Court approves the proposed settlement the potential IAS 19 past service cost of providing additional benefits to members would be approximately €900 million and would be recognised in the income statement. This is an estimate assuming an effective date of March 31, 2019, based on the assumptions at March 31, 2019. The past service cost will depend on the prevailing assumptions at the date of approval.

€ million	June 30, 2019			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,650	20,882	393	29,925
Present value of scheme liabilities	(7,412)	(19,230)	(652)	(27,294)
Net pension asset/(liability)	1,238	1,652	(259)	2,631
Effect of the asset ceiling	(461)	(1,071)	-	(1,532)
Other employee benefit obligations	-	-	(12)	(12)
June 30, 2019	777	581	(271)	1,087
Represented by:				
Employee benefit assets				1,373
Employee benefit obligations				(286)
				1,087

€ million	December 31, 2018			
	APS	NAPS	Other	Total
Scheme assets at fair value	8,372	18,846	382	27,600
Present value of scheme liabilities	(7,110)	(17,628)	(645)	(25,383)
Net pension asset/(liability)	1,262	1,218	(263)	2,217
Effect of the asset ceiling ¹	(469)	(896)	-	(1,365)
Other employee benefit obligations	-	-	(12)	(12)
December 31, 2018	793	322	(275)	840
Represented by:				
Employee benefit assets				1,129
Employee benefit obligations				(289)
				840

¹ 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.

On October 26, 2018 the High Court's judgment in the Lloyd's Bank case confirmed that pension schemes are required to equalise for the effects of unequal GMPs accrued over the period since May 17, 1990 ("GMP equalisation"). The APS and NAPS estimated DBO as at June 30, 2019 includes allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

15. EMPLOYEE BENEFIT OBLIGATIONS continued

At June 30, 2019, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect the market condition at that date. Key assumptions were as follows:

Per cent per annum	June 30, 2019		December 31, 2018	
	APS	NAPS	APS	NAPS
Inflation (CPI)	2.25	2.15	2.10	2.05
Inflation (RPI)	3.25	3.15	3.20	3.15
Salary increases (as RPI)	3.25	n/a	3.20	n/a
Discount rate	2.15	2.35	2.65	2.85

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, 2018.

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2012 and March 31, 2015 respectively, using assumptions and methodologies agreed between the Company and Trustees of each scheme.

16. PROVISIONS FOR LIABILITIES AND CHARGES

€ 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, 2019	1,359	693	591	112	72	2,827
Adoption of IFRS 16	120	-	-	-	-	120
Net book value January 1, 2019 (restated)	1,479	693	591	112	72	2,947
Provisions recorded during the period	215	1	15	20	56	307
Utilised during the period	(80)	(89)	(12)	(32)	(52)	(265)
Release of unused amounts	(20)	(1)	-	(4)	(6)	(31)
Unwinding of discount	7	2	9	-	-	18
Exchange differences	9	3	-	-	-	12
Net book value June 30, 2019	1,610	609	603	96	70	2,988
Analysis:						
Current	193	207	59	62	37	558
Non-current	1,417	402	544	34	33	2,430
	1,610	609	603	96	70	2,988

17. CONTINGENT LIABILITIES

The Group has certain contingent liabilities which at June 30, 2019 amounted to €88 million (December 31, 2018: €88 million). No material losses are likely to arise from such contingent liabilities. The Group also has the following claims:

Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways was fined €104 million. Following an appeal, the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Court Judgment), and the fine was refunded in full. British Airways appealed the partial annulment to the Court of Justice, but that appeal was rejected.

In parallel, the European Commission chose not to appeal the General Court Judgment, and instead adopted a new decision in March 2017 (New Decision). The New Decision re-issued fines against all the participating carriers, which match those contained in the Original Decision. British Airways was therefore again fined €104 million. British Airways has appealed the New Decision to the GC again (as have other carriers).

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

17. CONTINGENT LIABILITIES continued

A large number of claimants brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claim arise from the alleged cartel activity. British Airways joined the other airlines alleged to have participated in cartel activity to those proceedings to contribute. A number of those claims were concluded in 2018.

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

Pensions

The Trustees of the Airways Pension Scheme (APS) had proposed an additional discretionary increase above CPI for pensions in payment for the year to March 31, 2014. British Airways challenged the decision and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees had the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group appealed the judgment to the Court of Appeal. On July 5, 2018 the Court of Appeal gave its judgment, upholding British Airways' appeal, concluding the amendment was within the scope of the Trustees' power, but was exercised for an improper purpose. The consequence of this is that the Trustees' amendment to introduce the discretionary increase power was invalid. The Trustees appealed to the Supreme Court.

In April 2019, subject to obtaining the approval of the High Court, the Trustee Directors of the Airways Pension Scheme unanimously agreed with British Airways terms for an out-of-court settlement. This would bring to an end the litigation that commenced in 2013 and which is otherwise due to proceed to appeal at the Supreme Court later this year. Under the terms of the proposed settlement, the Trustee of APS will be permitted, subject to some affordability tests, to award Discretionary Increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases. British Airways will cease paying further deficit recovery contributions, including cash sweep payments, and the APS Trustee will withdraw its appeal to the Supreme Court. British Airways will provide a €45 million indemnity, payable in part or full as appropriate in late 2027/2028, in the event of adverse experience leading to the 2027 valuation showing the scheme is not able to pay pension increases at RPI for the remaining life of the scheme.

The Court process to seek approval for this settlement has started but, given the timeline for securing a hearing date, the settlement may not receive approval until the fourth quarter of 2019 at the earliest.

Theft of customer data at British Airways

On September 6, 2018 British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on October 25, 2018 that further personal data had potentially been compromised. On July 4, 2019, British Airways received a Notice of Intent from the Information Commissioner's Office (ICO) in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act.

British Airways will be making representations to the ICO regarding the proposed fine. The ICO will follow its own procedures to seek the views of other EU data protection authorities and, potentially, an external panel of advisers. It has six months from issuing the Notice of Intent to British Airways within which it could issue a penalty notice (subject to any extension agreed by the ICO and British Airways). If a penalty notice is issued, British Airways has 28 days within which to lodge an appeal with the First-tier Tribunal in the General Regulatory Chamber. A decision by the First-tier Tribunal may, with permission, be appealed to the Upper Tribunal. Any appeal of the Upper Tribunal decision would be to the Court of Appeal. It is British Airways' intention to vigorously defend itself in this matter, including using all available appeal routes should they be required.

It has not been proven that British Airways failed to comply with its obligations under GDPR and the UK Data Protection Act. Further, given the absence of the calculation methodology applied in determining the amount included in the Notice of Intent, the processes available to the company to challenge the Notice and the lack of precedent of final assessments under the new data protection regulations, the Directors do not believe that a fine, should it be issued by the ICO, can be estimated reliably at this stage. As such no provision has been made at June 30, 2019.

Guarantees

British Airways has provided collateral on certain payments amounting to €280 million at June 30, 2019 to the Company's pension scheme, APS and NAPS, which was paid in escrow in January 2019. Under the proposed APS Settlement Agreement (subject to obtaining the approval of the High Court) the full €280 million would be payable to the NAPS scheme.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at June 30, 2019 are not expected to result in material losses for the Group.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2019

18. RELATED PARTY TRANSACTIONS

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

Sales and purchases of goods and services:

€ million	Six months to June 30	
	2019	2018
Sales of goods and services		
Sales to associates	3	4
Sales to significant shareholders	13	15
Purchases of goods and services		
Purchases from associates	33	25
Purchases from significant shareholders	66	52

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

€ million	June 30, 2019	December 31, 2018
Receivables from related parties		
Amounts owed by associates	3	7
Amounts owed by significant shareholders	4	3
Payables to related parties		
Amounts owed to associates	3	3
Amounts owed to significant shareholders	2	7

For the six months to June 30, 2019 the Group has not made any allowance on expected credit losses relating to amounts owed by related parties (2018: nil).

Board of Directors and Management Committee remuneration

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

€ million	Six months to June 30	
	2019	2018
Base salary, fees and benefits		
Board of Directors' remuneration	2	2
Management Committee remuneration	4	4

For the six months to June 30, 2019 the remuneration for the Board of Directors includes three Executive Directors (June 30, 2018: two Executive Directors). The Management Committee includes remuneration for 11 members (June 30, 2018: 11 members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the six months to June 30, 2019 the Company's obligation was €33,000 (2018: €30,000).

At June 30, 2019 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €1 million (2018: €5 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at June 30, 2019 (2018: nil).

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2019

19. POST BALANCE SHEET EVENTS

Redemption on IAG convertible bonds

Following the announcement by the Group that it had exercised its option to redeem all of its outstanding €500 million 0.25 per cent convertible bonds due 2020, the Group has purchased and cancelled 89.44 per cent of the convertible bonds, and has decided to early redeem the remaining 10.56 per cent in accordance with the terms and conditions of the bonds.

Issue of unsecured bonds

On July 4, 2019, the Group announced the issue, full subscription and settlement of two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due July 4, 2023 and €500 million due July 4, 2027. The bonds will bear a fixed rate of interest of 0.5 per cent and 1.5 per cent per annum annually payable in arrears, respectively. The bonds were issued at 99.417 per cent and 98.803 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.

Enhanced Equipment Trust Certificates

After the period, British Airways successfully launched a \$806 million Enhanced Equipment Trust Certificates (EETC) bond issue to fund aircraft deliveries. The bonds are planned to be combined with Japanese Operating Leases with Call Options of \$314 million, bringing the total raised to \$1,120 million. The transaction includes Class AA certificates with an annual coupon of 3.3 per cent and maturity of 13.4 years and Class A Certificates with an annual coupon of 3.35 per cent and a maturity of 9.9 years, supported by a collateral pool of Airbus A320 NEO and Airbus A350-1000 aircraft.

Theft of customer data at British Airways

On September 6, 2018 British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on October 25, 2018 that further personal data had potentially been compromised. On July 4, 2019, British Airways received a Notice of Intent from the ICO in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act. For further information see note 17 'Contingent liabilities'.

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 August 1, 2019, 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, 2019, 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 information required.

August 1, 2019

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Margaret Ewing

Francisco Javier Ferrán Larraz

Stephen William Lawrence Gunning

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

Alberto Terol Esteban

REPORT ON LIMITED REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Report on the condensed consolidated interim financial statements

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (hereinafter the interim financial statements) of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. (hereinafter the parent) and subsidiaries (hereinafter the Group), which comprise the balance sheet at June 30, 2019, the income statement, the statement of other comprehensive income, the cash flow statement, the statement of changes in equity, and the explanatory notes, all of which have been condensed and consolidated for the six-month period then ended. The parent's directors are responsible for the preparation of said interim financial statements in accordance with the requirements established by IAS 34, "Interim Financial Reporting", adopted by the European Union for the preparation of interim condensed financial reporting in conformity with article 12 of Royal Decree 1362/2007 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of review

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

Conclusion

During the course of our limited review, which under no circumstances can be considered an audit of accounts, no matter came to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended June 30, 2019 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation of interim financial statements and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Emphasis paragraph

We draw attention to the matter described in the accompanying explanatory Note 1 in the interim financial statements, which indicates that the abovementioned accompanying interim financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2018.

Report on other legal and regulatory reporting requirements

The accompanying consolidated interim management report for the six-month period ended June 30, 2019 contains such explanations as the parent's directors consider necessary regarding significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the interim financial statements for the six-month period ended on June 30, 2018. Our work is limited to verifying the consolidated interim management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. and its subsidiaries.

Paragraph on other issues

This report has been prepared at the request of management with regard to the publication of the semi-annual financial report required by article 119 of Royal Legislative Decree 4/2015, of October 23, which approves the consolidated text of the Securities Market Law developed by Royal Decree 1362/2007, of October 19 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

ERNST & YOUNG, S.L.

August 1, 2019

Hildur Eir Jónsdóttir

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. The Group's results are presented both before and after exceptional items. Exceptional items are those that in management's view need to be separately disclosed by virtue of their size and incidence. Exceptional items are disclosed in note 3 of the condensed consolidated interim financial statements. In addition, the Group's results are described using certain measures that are not defined under IFRS and are therefore considered to be APMs. These APMs 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 Key Performance Indicators section in IAG's 2018 Annual Report and Accounts. The definition of each APM presented in this report, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

Pro forma financial information

The Group elected to apply the modified retrospective approach on transition to IFRS 16 'Leases' to reduce complexity on transition arising from the volume and nature of the leases held by the Group. The modified transition approach does not allow restatement of comparatives. To aid users of the financial statements, the Group has provided pro forma information for 2018 to provide a consistent basis for comparison with 2019 results. Pro forma results for 2018 are the Group's statutory results with an adjustment to reflect the estimated impact of IFRS 16 as if it had applied from January 1, 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at January 1, 2019 (set out in note 2) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at January 1, 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date.

Consolidated Income Statement 2018 € million ¹	Three months to March 31			Three months to June 30			Six months to June 30		
	Reported	Pro forma	Change	Reported	Pro forma	Change	Reported	Pro forma	Change
Total revenue	5,022	5,022	-	6,184	6,184	-	11,206	11,206	-
Employee costs	1,154	1,154	-	1,219	1,219	-	2,373	2,373	-
Fuel, oil costs and emissions charges	1,112	1,112	-	1,325	1,325	-	2,437	2,437	-
Handling, catering and other operating costs	645	643	(2)	719	718	(1)	1,364	1,361	(3)
Landing fees and en-route charges	472	472	-	579	579	-	1,051	1,051	-
Engineering and other aircraft costs	391	388	(3)	431	438	7	822	826	4
Property, IT and other costs	207	176	(31)	239	205	(34)	446	381	(65)
Selling costs	271	271	-	263	263	-	534	534	-
Depreciation, amortisation and impairment	307	485	178	311	494	183	618	979	361
Aircraft operating lease costs	202	-	(202)	220	-	(220)	422	-	(422)
Currency differences	(19)	(19)	-	43	43	-	24	24	-
Operating profit	280	340	60	835	900	65	1,115	1,240	125
Finance costs	(48)	(132)	(84)	(63)	(147)	(84)	(111)	(279)	(168)
Other non-operating items	14	14	-	17	17	-	31	31	-
Profit before tax	246	222	(24)	789	770	(19)	1,035	992	(43)
Tax	(40)	(35)	5	(160)	(154)	6	(200)	(189)	11
Profit after tax for the period	206	187	(19)	629	616	(13)	835	803	(32)

¹ Before exceptional items.

Adjusted earnings per share

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. Pro forma earnings are the statutory results adjusted for IFRS 16 (see above).

€ million	June 30, 2019	June 30, 2018	
		Pro forma	Statutory
Earnings attributable to equity holders of the parent	806	1,366	1,398
Exceptional items	-	(573)	(573)
Earnings attributable to equity holders of the parent before exceptional items	806	793	825
Interest expense on convertible bonds	9	9	9
Adjusted earnings	815	802	834
Weighted average number of shares used for diluted earnings per share	2,080	2,135	2,135
Weighted average number of shares used for basic earnings per share	1,984	2,046	2,046
Adjusted earnings per share (€ cents)	39.2	37.6	39.1
Basic earnings per share before exceptional items (€ cents)	40.6	38.8	40.3

EBITDA and EBITDAR

EBITDA is calculated as the rolling four quarter operating profit before exceptional items, depreciation, amortisation and impairment. EBITDAR is calculated as EBITDA before aircraft operating lease costs. Pro forma information is the statutory result adjusted for IFRS 16 (see above).

€ million	June 30, 2019 Pro forma	December 31, 2018	
		Pro forma	Statutory
Operating profit before exceptional items	3,340	3,485	3,230
Depreciation, amortisation and impairment	2,052	1,996	1,254
EBITDA	5,392	5,481	4,484
Aircraft operating lease costs	-	-	890
EBITDAR	5,392	5,481	5,374

Net debt to EBITDA

Following the adoption of IFRS 16, adjusted net debt to EBITDAR is no longer reported. Net debt is calculated as interest-bearing long-term borrowings (including borrowings on ROU assets) less cash and cash equivalents and other current interest-bearing deposits. This is divided by EBITDA to arrive at net debt to EBITDA.

€ million	June 30, 2019 Pro forma	December 31, 2018	
		Pro forma	Statutory
Interest-bearing long-term borrowings	12,808	12,704	7,509
Cash and cash equivalents	(4,804)	(3,837)	(3,837)
Other current interest-bearing deposits	(3,227)	(2,437)	(2,437)
Aircraft operating lease costs multiplied by 8	-	-	7,120
Net debt	4,777	6,430	8,355
EBITDA	5,392	5,481	5,374
Net debt to EBITDA	0.9	1.2	1.6

AIRCRAFT FLEET

	Owned	Right of use ¹	Total June 30, 2019	Total December 31, 2018	Changes since December 31, 2018	Future deliveries	Options
Airbus A318	-	1	1	1	-	-	-
Airbus A319	18	42	60	61	(1)	-	-
Airbus A320	48	203	251	241	10	43	103
Airbus A321	19	41	60	56	4	49	14
Airbus A330-200	5	17	22	22	-	2	-
Airbus A330-300	2	14	16	16	-	2	-
Airbus A340-600	9	8	17	17	-	-	-
Airbus A350	2	3	5	2	3	38	52
Airbus A380	2	10	12	12	-	-	-
Boeing 747-400	33	-	33	35	(2)	-	-
Boeing 777-200	36	10	46	46	-	-	-
Boeing 777-300	2	10	12	12	-	4	-
Boeing 777-9	-	-	-	-	-	18	24
Boeing 787-8	-	12	12	12	-	-	-
Boeing 787-9	1	17	18	18	-	-	6
Boeing 787-10	-	-	-	-	-	12	-
Embraer E170	6	-	6	6	-	-	-
Embraer E190	9	8	17	16	1	-	-
Group total	192	396	588	573	15	168	199

¹ Includes 108 finance leased aircraft transferred to ROU assets on adoption of IFRS 16.

As well as those aircraft in service the Group also holds 5 aircraft (2018: 5) not in service.
The table above excludes 3 wet leases which are recognised as right of use assets on the Balance sheet.