Full year results announcement

International Consolidated Airlines Group (IAG) today (February 28, 2019) presented Group consolidated results for the year to December 31, 2018.

IAG period highlights on results:

- Fourth quarter operating profit €655 million before exceptional items (2017 restated[1]: €550 million)
- Net foreign exchange operating profit impact for the quarter adverse €9 million
- Passenger unit revenue for the quarter up 1.6 per cent, up 1.5 per cent at constant currency
- Non-fuel unit costs before exceptional items for the quarter up 0.9 per cent, up 0.5 per cent at constant currency
- Fuel unit costs for the quarter up 9.5 per cent, up 9.2 per cent at constant currency
- Operating profit before exceptional items for the year to December 31, 2018 of €3,230 million (2017 restated[1]: €2,950 million), up 9.5 per cent
- Net foreign exchange impact for the year adverse €129 million
- Passenger unit revenue for the year up 0.1 per cent and up 2.4 per cent at constant currency
- Non-fuel unit costs for the year before exceptional items down 2.2 per cent and down 0.8 per cent at constant currency
- Fuel unit costs for the year up 8.0 per cent, up 12.5 per cent at constant currency
- Cash of €6,274 million at December 31, 2018 was down €402 million on 2017 year end and adjusted net debt to EBITDAR increased 0.1 to 1.6 times
- Profit after tax before exceptional items €2,481 million up 11.2 per cent, and adjusted earnings per share up 15.1 per cent
- Final proposed dividend of 16.5 € cents per share
- Proposed special dividend of 35.0 € cents per share, approximately €700 million

Performance summary:

	Year to December 31		
Highlights € million	**2018**	2017 (restated)[1]	Higher / (lower)
Passenger revenue	**21,549**	20,285	6.2 %
Total revenue	**24,406**	22,880	6.7 %
Operating profit before exceptional items	**3,230**	2,950	9.5 %
Exceptional items	**448**	(288)	nm
Operating profit after exceptional items	**3,678**	2,662	38.2%
Available seat kilometres (ASK million)	**324,808**	306,185	6.1 %
Passenger revenue per ASK (€ cents)	**6.63**	6.63	0.1 %
Non-fuel costs per ASK (€ cents)	**4.89**	5.00	(2.2)%

Alternative performance measures	**2018**	2017 (restated)[1]	Higher / (lower)
Profit after tax before exceptional items (€ million)	**2,481**	2,231	11.2 %
Adjusted earnings per share (€ cents)	**117.7**	102.2	15.1 %
Adjusted net debt (€ million)	**8,355**	7,759	7.7 %
Adjusted net debt to EBITDAR	**1.6**	1.5	0.1x

Statutory results € million	**2018**	2017 (restated)[1]	Higher / (lower)
Profit after tax and exceptional items	**2,897**	2,009	44.2 %
Basic earnings per share (€ cents)	**142.7**	95.2	49.8 %
Cash and interest-bearing deposits	**6,274**	6,676	(6.0)%
Interest-bearing long-term borrowings	**7,509**	7,331	2.4 %

Definitions included in Alternative performance measures section.

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

Willie Walsh, IAG Chief Executive Officer, said:

"In 2018, we're reporting an operating profit of €3,230 million before exceptional items, up 9.5 per cent compared to last year. Yet again, we've improved our operating profit this year and our adjusted earnings per share grew by 15.1 per cent. This was a very good performance despite three significant challenges: fuel prices increasing 30 per cent, considerable Air Traffic Control disruption and an adverse foreign exchange impact of €129 million.

"At constant currency, passenger unit revenue improved by 2.4 per cent while non-fuel unit costs decreased by 0.8 per cent on capacity growth of 6.1 per cent.

"In quarter 4, we reported an operating profit of €655 million before exceptional items, up 19.1 per cent compared to last year. Our strong revenue performance continued with passenger unit revenue up 1.5 per cent at constant currency.

"In 2018, we completed our second share buyback which was worth €500 million. We are also returning more than €1.3 billion to our shareholders via ordinary dividends of €615 million and a special dividend of approximately €700 million. This is around €260 million higher than in the previous year".

Trading outlook

At current fuel prices and exchange rates, IAG expects its 2019 operating profit before exceptional items and impacts of IFRS16 to be in line with €3,230m reported in 2018. Passenger unit revenue is expected to improve at constant currency and non-fuel unit cost is expected to be flat at constant currency.

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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.

Enrique Dupuy, Chief Financial Officer

Forward-looking statements:

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

Forward-looking statements often use words such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the 'Group'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group's business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report and speak as of the date of this report. 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.

There are several factors that could cause actual results to differ from those expressed or implied in forward-looking statements, and it is not reasonably possible to itemise each of them. 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 2017; these documents are available on www.iagshares.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	Before exceptional items 2018	Exceptional items	Total 2018	Before exceptional items 2017 (restated)[1]	Exceptional items	Total 2017 (restated)[1]	Higher/ (lower)
	Year to December 31						
Passenger revenue	**21,549**		**21,549**	20,285		20,285	6.2 %
Cargo revenue	**1,173**		**1,173**	1,132		1,132	3.6 %
Other revenue	**1,684**		**1,684**	1,463		1,463	15.1 %
Total revenue	**24,406**		**24,406**	22,880		22,880	6.7 %
Employee costs	**4,812**	**(460)**	**4,352**	4,740	248	4,988	1.5 %
Fuel, oil costs and emissions charges	**5,283**		**5,283**	4,610		4,610	14.6 %
Handling, catering and other operating costs	**2,888**		**2,888**	2,673	14	2,687	8.0 %
Landing fees and en-route charges	**2,184**		**2,184**	2,151		2,151	1.5 %
Engineering and other aircraft costs	**1,828**		**1,828**	1,773	19	1,792	3.1 %
Property, IT and other costs	**918**	**12**	**930**	915	7	922	0.3 %
Selling costs	**1,046**		**1,046**	982		982	6.5 %
Depreciation, amortisation and impairment	**1,254**		**1,254**	1,184		1,184	5.9 %
Aircraft operating lease costs	**890**		**890**	888		888	0.2 %
Currency differences	**73**		**73**	14		14	421.4 %
Total expenditure on operations	**21,176**	**(448)**	**20,728**	19,930	288	20,218	6.3 %
Operating profit	**3,230**	**448**	**3,678**	2,950	(288)	2,662	9.5 %
Net non-operating costs	**(191)**		**(191)**	(181)		(181)	5.5 %
Profit before tax	**3,039**	**448**	**3,487**	2,769	(288)	2,481	9.8 %
Tax	**(558)**	**(32)**	**(590)**	(538)	66	(472)	3.7 %
Profit after tax for the year	**2,481**	**416**	**2,897**	2,231	(222)	2,009	11.2 %

Operating figures	2018[2]	2017 (restated)[1, 2]	Higher/ (lower)
Available seat kilometres (ASK million)	**324,808**	306,185	6.1 %
Revenue passenger kilometres (RPK million)	**270,657**	252,819	7.1 %
Seat factor (per cent)	**83.3**	82.6	0.7pts
Cargo tonne kilometres (CTK million)	**5,713**	5,762	(0.9)%
Passenger numbers (thousands)	**112,920**	104,829	7.7 %
Sold cargo tonnes (thousands)	**702**	701	0.2 %
Sectors	**754,700**	717,325	5.2 %
Block hours (hours)	**2,207,374**	2,100,089	5.1 %
Average manpower equivalent	**64,734**	63,422	2.1%
Aircraft in service	**573**	546	4.9 %
Passenger revenue per RPK (€ cents)	**7.96**	8.02	(0.8)%
Passenger revenue per ASK (€ cents)	**6.63**	6.63	0.1 %
Cargo revenue per CTK (€ cents)	**20.53**	19.65	4.5 %
Fuel cost per ASK (€ cents)	**1.63**	1.51	8.0 %
Non-fuel costs per ASK (€ cents)	**4.89**	5.00	(2.2)%
Total cost per ASK (€ cents)	**6.52**	6.51	0.2 %

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

2 Financial ratios are before exceptional items.

CONSOLIDATED INCOME STATEMENT

	Three months to December 31						
€ million	**Before exceptional items 2018**	**Exceptional items**	**Total 2018**	Before exceptional items 2017 (restated)[1]	Exceptional items	Total 2017 (restated)[1]	Higher/ (lower)
Passenger revenue	**5,223**		**5,223**	4,778		4,778	9.3 %
Cargo revenue	**326**		**326**	323		323	0.9 %
Other revenue	**511**		**511**	329		329	55.3 %
Total revenue	**6,060**		**6,060**	5,430		5,430	11.6 %
Employee costs	**1,223**	**134**	**1,357**	1,178	(23)	1,155	3.8 %
Fuel, oil costs and emissions charges	**1,349**		**1,349**	1,145		1,145	17.8 %
Handling, catering and other operating costs	**734**		**734**	629	14	643	16.7 %
Landing fees and en-route charges	**515**		**515**	499		499	3.2 %
Engineering and other aircraft costs	**543**		**543**	405	19	424	34.1 %
Property, IT and other costs	**240**	**2**	**242**	259	7	266	(7.3)%
Selling costs	**240**		**240**	242		242	(0.8)%
Depreciation, amortisation and impairment	**326**		**326**	292		292	11.6 %
Aircraft operating lease costs	**227**		**227**	219		219	3.7 %
Currency differences	**8**		**8**	12		12	(33.3)%
Total expenditure on operations	**5,405**	**136**	**5,541**	4,880	17	4,897	10.8 %
Operating profit	**655**	**(136)**	**519**	550	(17)	533	19.1 %
Net non-operating costs	**(70)**		**(70)**	(40)		(40)	75.0 %
Profit before tax	**585**	**(136)**	**449**	510	(17)	493	14.7 %
Tax	**(74)**	**8**	**(66)**	(84)	3	(81)	(11.9)%
Profit after tax for the period	**511**	**(128)**	**383**	426	(14)	412	20.0 %

Operating figures	**2018[2]**	2017 (restated)[1, 2]	Higher/ (lower)
Available seat kilometres (ASK million)	**80,465**	74,768	7.6 %
Revenue passenger kilometres (RPK million)	**65,612**	61,078	7.4 %
Seat factor (per cent)	**81.5**	81.7	(0.2pts)
Cargo tonne kilometres (CTK million)	**1,523**	1,542	(1.2)%
Passenger numbers (thousands)	**26,679**	24,764	7.7 %
Sold cargo tonnes (thousands)	**187**	188	(0.3)%
Sectors	**182,386**	172,106	6.0 %
Block hours (hours)	**540,988**	507,938	6.5 %
Average manpower equivalent	**64,296**	62,196	3.2%
Passenger revenue per RPK (€ cents)	**7.96**	7.82	1.8 %
Passenger revenue per ASK (€ cents)	**6.49**	6.39	1.6 %
Cargo revenue per CTK (€ cents)	**21.41**	20.95	2.2 %
Fuel cost per ASK (€ cents)	**1.68**	1.53	9.5 %
Non-fuel costs per ASK (€ cents)	**5.04**	5.00	0.9 %
Total cost per ASK (€ cents)	**6.72**	6.53	2.9 %

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

2 Financial ratios are before exceptional items.

IATA market growths

The air traffic industry had another strong year. Economic growth is keeping traffic ahead of the industry's 6.1 per cent capacity increase with a slight net gain of 0.3 pts in passenger load factor.

In 2018, airline capacity growth in Europe was one of the highest regions. The growth was 5.8 per cent as it recovered from the impacts of terrorist attacks in 2016. The environment was competitive and passenger load factors increased both of which impacted yields. Europe recorded the highest passenger load factor for the year.

North America's airline capacity growth was 4.7 per cent during the year and the region retained a position of strong financial performance.

Latin America's airline capacity growth was higher than the total market average at 6.6 per cent and ahead of last year's growth of 5.5 per cent. The market environment began to turnaround in 2017 and showed some improvement in 2018, however it remained harsh. Passenger load factor in this region decreased and overall profitability decreased.

Africa was the weakest region for the airline industry with growth of only 1.0 per cent. Despite the low capacity increase, load factors improvement was relatively low and passenger load factor was the lowest of all the regions.

The Middle East's airline industry growth was moderate and lower than the market average. Passenger load factor performance deteriorated from a relatively low base with demand impacted by the political environment.

Airline capacity growth in the Asia Pacific region was high at 7.9 per cent with diverse performance across the region.

IATA market growths

Year to December 31, 2018	Capacity ASKs	Passenger load factor	Higher/ (lower)
Europe	5.8%	84.5	0.6 pts
North America	4.7%	83.8	0.2 pts
Latin America	6.6%	81.6	(0.3)pts
Africa	1.0%	71.4	1.0 pts
Middle East	4.9%	74.8	(0.6)pts
Asia Pacific	7.9%	81.5	0.5 pts
Total market	**6.1%**	**81.9**	**0.3 pts**

Source: IATA Air Passenger Market Analysis

IAG capacity

In 2018, IAG increased capacity by 6.1 per cent, including LEVEL, for the full year. Capacity was increased in all airlines and throughout each region except for Asia Pacific.

The increase partially reflects new longhaul routes at British Airways, Iberia and Aer Lingus and the full year impact of routes launched in 2017. In shorthaul, new routes were launched by LEVEL in Vienna, and frequencies in Domestic and European routes were added by Iberia and Vueling.

IAG passenger load factor reached its highest level since the creation of IAG at 83.3 points, 0.7 points higher than the previous year and 1.4 points higher than the IATA average.

Market segments

IAG capacity

Year to December 31,2018	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	9.1%	85.0	1.8 pts
Europe	6.2%	83.2	1.2 pts
North America	8.0%	82.3	0.0 pts
Latin America and Caribbean	8.7%	84.7	0.7 pts
Africa, Middle East and South Asia	0.8%	82.4	1.6 pts
Asia Pacific	0.0%	84.7	0.1 pts
Total network	**6.1%**	**83.3**	**0.7 pts**

Eurozone

Eurozone inflation reached 2.0 per cent, quantitative easing programmes substantially came to an end, and unemployment reduced throughout the year. However consumer confidence ended the year lower than it began, impacted by protests in France, reduction in the industrial production growth rate in Germany and deterioration in the Italian economy. While the Eurozone GDP grew 2.0 per cent, the airline industry's passenger capacity rate was 5.8 per cent.

IAG's European market, taken together with Domestic, is home to our airline hubs and represents our largest market. We grew slightly ahead of the airline industry average increasing the breadth and depth of our schedules, serving more cities and adding frequencies.

In IAG's Domestic markets capacity was higher by 9.1 per cent with increases at Vueling and Iberia. As part of its NEXT strategy, Vueling increased frequencies on existing routes and launched three new routes. Capacity in Iberia's domestic market was increased with growth in the Balearics and Canaries. Passenger load factor performance was strong, almost two points higher versus last year.

In the Domestic market, the Group's passenger unit revenues were up across all airlines. The Group's domestic performance improved throughout the year and benefited from the Spanish government subsidy to residents in the Balearic and Canaries Islands.

The Group's European capacity increased year on year. LEVEL Vienna started shorthaul services in July 2018 with 14 new destinations from the Austrian capital, including London, Barcelona and Paris. Iberia's capacity increased through higher frequencies in several routes, including Madrid to Milan, Berlin, Paris and Prague. Increases in Vueling came mainly from additional frequencies on routes from France and Italy to Spain. Load factor was also up 1.2 points.

In 2018, the Group's European markets continued to perform strongly with increases at British Airways, Vueling and Aer Lingus. Iberia's passenger unit revenues decreased in Europe following a year of quarter on quarter improvements and on a modest capacity increase.

North America

In 2018, US GDP grew 2.9 per cent which was ahead of last year and forecast. Growth accelerated over the year benefiting from tax rate reductions and lower unemployment supporting consumption. The airline industry's passenger capacity grew 4.7 per cent while IAG grew 8.0 per cent serving a new market segment (low cost longhaul), adding new destinations from Ireland, Spain and the UK and increasing frequencies.

IAG's North American market represents a significant part of the Group's capacity with over 30 per cent of total ASKs. Capacity was increased in British Airways, Iberia, and Aer Lingus. British Airways started operating two new routes, Nashville from London Heathrow and Toronto from Gatwick, as well as growth in several routes including New Orleans, Las Vegas, Boston and Los Angeles. Iberia's capacity increase came mainly from its new route to San Francisco and the full year impact of routes extended from seasonal services, as well as routes launched throughout 2017. Aer Lingus' North American capacity was increased with the launch of new routes to Philadelphia and Seattle and the full year impact of routes launched in 2017. LEVEL's growth reflects the full year impact of its longhaul routes from Paris. Seat factor for the region was maintained at 82.3 per cent. Despite the capacity increase, passenger numbers grew in line with capacity.

North America passenger unit revenues at ccy were broadly flat versus last year. Aer Lingus passenger unit revenues decreased slightly on a capacity increase of 17.2 per cent, while LEVEL expansion had a dilutive impact on the Group's passenger unit revenues due to its lower fares. British Airways and Iberia's performances improved versus last year from higher yields at British Airways and increases in passenger load factor at Iberia.

Latin America and Caribbean

Latin America GDP grew in line with last year but significantly below forecasts. Argentina re-entered recession while Venezuela's recession deepened and Brazil's growth rate was lower than expectations. The airline industry's passenger capacity grew 6.6 per cent while IAG grew 8.7 per cent however from a lower market share position. As with North America, IAG's growth included serving the low cost longhaul market, new destinations and additional frequencies.

IAG's capacity in Latin America and Caribbean was increased with LEVEL's new routes to Guadalupe and Martinique and the full year impact of routes launched in June 2017 from Barcelona. Iberia continued to increase frequencies to Mexico City during the year, continuing its growth from 2017 and adding frequencies to Santiago de Chile, Guatemala and El Salvador. British Airways increased capacity to Santiago de Chile, Sao Paulo and Rio de Janeiro. Passenger load factor in this region improved and was again significantly higher than the industry average.

Latin America and Caribbean passenger unit revenues at ccy increased around 1.5 per cent, with significant improvements in the first half of the year offset by reductions in the latter half. Performance in South America was volatile with economies such as Argentina and Brazil impacted by the political uncertainty driving deterioration through the year. Peru, Ecuador and Colombia performed well. The Caribbean and Mexican routes also saw fluctuations but generally performed well.

Africa, Middle East and South Asia (AMESA)

AMESA capacity increased slightly in 2018 from British Airways' new routes to Durban and Seychelles, and additional capacity to Johannesburg and Marrakech. Iberia increased capacity in Marrakech, partially offset by the cancellation of services to Equatorial Guinea. Passenger load factor was strong and was 0.5 points higher than the industry average. The Group is growing at a slower pace than the airline industry average in these areas reflecting in part the challenging political environment and economic conditions.

Africa, Middle East and South Asia passenger unit revenue performance fluctuated across the routes. Improvements benefited in part from relatively flat capacity versus last year. British Airways passenger unit revenue was up at ccy and Iberia's African routes such as Dakar and Morocco performed well.

Asia Pacific

In Asia Pacific, the Group's capacity was flat versus 2017. Iberia's increased services were offset by decreases in British Airways' capacity. Passenger load factor remained broadly flat and continued to be among the highest in the IAG network. The Group is also growing at a slower pace in the Asia Pacific region reflecting in part the challenging competitive and regulatory environment.

Asia Pacific was broadly flat versus last year on flat capacity with mixed performance across the routes. While demand has been relatively stable industry capacity has risen significantly.

Revenue

€ million	2018	Higher/(lower) Year over year at ccy	Per ASK at ccy
Passenger revenue	**21,549**	8.6%	**2.4%**
Cargo revenue	**1,173**	7.2%	
Other revenue	**1,684**	18.3%	
Total revenue	**24,406**	9.2%	

Passenger revenue

On a reported basis, passenger revenue for the Group rose 6.2 per cent versus the prior year, with 2.4 points of adverse currency, while capacity was increased 6.1 per cent. At constant currency ('ccy'), passenger unit revenue (passenger revenue per ASK) increased 2.4 per cent from higher yields (passenger revenue/revenue passenger kilometre) up 1.5 per cent and a 0.7 point rise in passenger load factor. At the airline level, passenger unit revenue at ccy increased versus last year at each of the Group's airlines. On a quarterly basis, the Group's passenger unit revenue at ccy was also positive in every quarter although at a slower pace as the year progressed.

The Group carried almost 113 million passengers an increase of 7.7 per cent from 2017, with passenger load factor improvement of 0.7 points for the Group and at four of the five airlines. Since April 2017, Net Promoter Score is being measured consistently for British Airways, Iberia, Vueling and Aer Lingus. The Group's Net Promoter Score for 2018 was 16.3 per cent a decrease of 0.5 points versus the reported figure last year (April to December). Product upgrades and service enhancements were well received by customers; however, these improvements were more than offset by the challenging Air Traffic Control environment. The ATC disruption impacted Vueling resulting in both Vueling and the Group missing its 2018 NPS target of 20. Iberia's 2018 score was broadly flat versus its target, while British Airways and Aer Lingus exceeded their 2018 targets.

Cargo revenue

The market in 2018 saw a strong start, but growth then slowed markedly as the year progressed. Cargo revenue for the period increased by 3.6 per cent, excluding currency 7.2 per cent. Volume measured in tonne kilometres (CTK) decreased by 0.9 per cent on a capacity increase of 3.8 per cent. Yield improved by 8.1 per cent at constant currency. Strategic focus continued to be on premium products, investing for growth and continuing to modernise the business. This included the investment in a new Constant Climate Centre in Madrid, a new Critical Service Centre in London with a specialised customer service team and an improving customer experience on IAGCargo.com.

Other revenue

Other revenue rose 15.1 per cent, 18.3 per cent at constant currency from increases in:

- Iberia's third party maintenance (MRO) billings and handling activity,
- BA Holidays bookings,
- Avios revenues from higher points issuance and product redemptions, and
- Rental revenues, primarily at John F Kennedy airport.

Total revenue for the Group rose 6.7 per cent with increases in passenger, cargo and other revenue. At ccy, total revenue was up 9.2 per cent, higher than the Group's ASK growth.

Expenditure before exceptional items

Employee costs

Employee costs increased 1.5 per cent before exceptional items for the year. At constant currency, employee unit costs improved 3.3 per cent with pay increases primarily linked to RPI, offset by efficiency and restructuring initiatives across the Group.

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 reduction in the NAPS IAS 19 defined benefit liability of €872 million, transitional arrangement cash costs of €192 million (recognised as an exceptional) and a reduction in current service cost.

Overall the average number of employees rose by 2.1 per cent for the Group bringing our average workforce to 64,734 and productivity increased 3.9 per cent with improvements at British Airways, Iberia, Vueling and Aer Lingus.

Employee costs

€ million	2018	Higher/(lower) Year over year at ccy	Per ASK at ccy
Employee costs	**4,812**	2.6%	**(3.3)%**

Productivity

	Higher/(lower)	
	2018	Year over year
Productivity	**5,018**	3.9%
Average manpower equivalent	**64,734**	2.1%

Fuel, oil and emissions costs

Fuel, oil and emissions costs rose by 14.6 per cent in 2018 primarily from higher average fuel prices net of hedging, partially offset by a weaker USD and from management efficiencies. Average fuel price rose from approximately $520 per metric tonne in 2017 by 32 per cent to approximately $685 in 2018. The Group gained fuel efficiencies from new aircraft and from improved operational procedures implemented across the airlines. At ccy and on a unit basis, fuel costs were 12.5 per cent higher.

Fuel, oil and emissions costs

		Higher/(lower)	
€ million	**2018**	Year over year at ccy	**Per ASK at ccy**
Fuel, oil costs and emissions charges	**5,283**	19.3%	**12.5%**

Supplier costs

Total supplier costs for the year increased 5.0 per cent with 1.5 points of positive currency impacts. At ccy and on a unit basis, supplier costs rose 0.4 per cent. In 2018, the Group's non-ASK related businesses, such as MRO, BA Holidays and Avios grew. This increased our supplier costs, in particular Handling, catering and other operating costs and Engineering and other aircraft costs with a corresponding increase in Other revenue.

Supplier costs

		Higher/(lower)	
€ million	**2018**	Year over year at ccy	**Per ASK at ccy**
Supplier costs:			**0.4%**
Handling, catering and other operating costs	**2,888**	10.1%	
Landing fees and en-route charges	**2,184**	3.0%	
Engineering and other aircraft costs	**1,828**	7.1%	
Property, IT and other costs	**918**	1.9%	
Selling costs	**1,046**	8.2%	
Currency differences	**73**	0.0%	

British Airways' supplier unit costs at ccy were up slightly. Investments in customer, incremental BA Holiday costs, higher selling costs related to the new distribution model and inflation were mainly offset by lower engineering costs. Iberia supplier unit costs decreased with efficient growth and management initiatives offsetting increases in maintenance costs related to its third-party MRO business and investments in customer. Vueling supplier unit costs were adversely impacted by significant ATC disruption costs. Aer Lingus had a favourable supplier unit cost performance from cost saving initiatives and efficient growth.

By supplier cost category:

Handling, catering and other operating costs rose 8.0 per cent, excluding currency up 10.1 per cent. The year on year comparison is impacted by a €65 million charge in the base related to operational disruption at British Airways in 2017. Otherwise the Group's Handling, catering and other operating costs rose 12.8 per cent at ccy. Half of this increase can be attributed to volume, from a 7.7 per cent rise in passengers carried and from additional activity at BA Holidays. The Group continued its focus on improving the customer proposition by investing in lounges, catering and service delivery. Inflation increases in supplier contracts were partially offset by savings while disruption costs rose significantly. Air traffic control strikes and regulations impacted our operational performance increasing disruption costs throughout 2018, in particular Vueling's.

Landing fees and en-route charges were higher by 1.5 per cent, excluding currency up 3.0 per cent. Costs rose primarily from higher activity, with flying hours up 5.1 per cent and sectors flown up 5.2 per cent. Price increases were broadly net neutral in 2018.

Engineering and other aircraft costs increased 3.1 per cent, excluding currency up 7.1 per cent. Increases were driven by additional third party maintenance activity at Iberia (c.4.8 points) and from higher flying hours. These increases have been partially offset by contractual remedies recognised for an issue with the Rolls-Royce Trent 1000 engines. British Airways received compensation for additional costs incurred due to the reduction in flying hours.

Property, IT and other costs were up 0.3 per cent, excluding currency up 1.9 per cent. The increase reflects higher IT and professional costs and inflation on rent and rates.

Selling costs increased 6.5 per cent, excluding currency up 8.2 per cent. Selling costs rose from higher volumes, point of sale mix and changes in the Group's distribution model. The Group launched a new distribution model in November 2017 increasing our selling costs with a corresponding rise in fares and more direct access to our customers.

Ownership costs

The Group's ownership costs were up 3.5 per cent, excluding currency up 5.7 per cent. The increase reflects higher depreciation charges for the Boeing 747 fleet from lower expected residual values and from new owned aircraft (4 Boeing 787s, 2 Airbus A350s, 3 Airbus A330s, 11 Airbus A320 family). The Group has retired its fully depreciated Boeing 767s. Operating lease costs rose mainly due to incremental wet lease costs incurred to operate the Monarch slots at London Gatwick airport and additional leased aircraft primarily Airbus A320s, A321s and A330s, including the aircraft for LEVEL.

Ownership costs

		Higher/(lower)	
€ million	**2018**	Year over year	**Per ASK at ccy**
Ownership costs	**2,144**	5.7%	**(0.3)%**

Number of fleet

		Higher/(lower)
Number of fleet	**2018**	Year over year
Shorthaul	**380**	6.4%
Longhaul	**193**	2.1%
	573	4.9%

Non-fuel unit costs

At constant currency, total non-fuel unit costs decreased 0.8 per cent. Adjusted by the 'Other revenue' (MRO, BA Holidays, Avios product redemption) category in the income statement and currency, the reduction was 2.5 per cent. Adjusted non-fuel unit cost improved at British Airways, Iberia and Aer Lingus from efficient growth and management initiatives. At Vueling adjusted non-fuel unit costs rose, impacted by the challenging ATC environment increasing disruption costs significantly.

Exchange impact before exceptional items

Exchange rate movements are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by translation currency from converting results from currencies other than euro to the Group's reporting currency of euro, primarily British Airways and Avios. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. At constant currency, the Group's operating profit before exceptional items would have been €129 million higher.

The Group hedges its economic exposure from transacting in foreign currencies. The Group does not hedge the translation impact of reporting in euros.

	2018		
€ million	Translation impact	Transaction impact	Total exchange impact
Total exchange impact on revenue	(183)	(389)	**(572)**
Total exchange impact on operating expenditures	163	280	**443**
Total exchange impact on operating profit	**(20)**	**(109)**	**(129)**

Operating profit before exceptional items

In summary, the Group's operating profit before exceptional items for the year was €3,230 million, a €280 million improvement from last year. The Group's adjusted operating margin also improved 0.2 points to 14.4 per cent. These results reflect a strong revenue performance from a better macro-economic environment with improvements in our main strategic markets. Management continued to focus on customer proposition, operational resilience and delivery of cost savings. This was partially offset by higher costs from ATC disruption, while our non-fuel unit cost trend keeps improving from structural agreements on pensions and productivity. This performance reflects the Group's drive towards achieving a competitive cost base with improved productivity and management initiatives, aligned with an improved focus in customer satisfaction, brand value and resilience of our operational model.

Financial performance by Brand

	British Airways £ million		Aer Lingus € million	
	2018	Higher/ (lower)	**2018**	Higher/ (lower)
ASKs	184,547	2.5%	29,030	10.0%
Seat factor (per cent)	82.5	0.7pts	81.0	(0.1)pts
Passenger revenue	11,620	5.2%	1,952	8.6%
Cargo revenue	769	4.3%	54	14.9%
Other revenue	631	18.4%	14	7.7%
Total revenue	**13,020**	5.7%	**2,020**	8.8%
Fuel, oil costs and emissions charges	2,927	14.7%	382	20.9%
Employee costs	2,535	(1.5%)	373	8.1%
Supplier costs	4,586	2.8%	774	2.7%
EBITDAR	**2,972**	9.0%	**491**	11.1%
Ownership costs	1,020	4.2%	186	6.9%
Operating profit before exceptional items	**1,952**	11.6%	**3**05	13.8%
Adjusted operating margin	15.6%	0.8pts	16.8%	0.6pts
Passenger yield (£ pence or € cents/RPK)	7.64	1.9%	8.30	(1.1%)
Unit passenger revenue (£ pence or € cents/ASK)	6.30	2.7%	6.73	(1.2%)
Total unit revenue (£ pence or € cents/ASK)	**7.06**	3.2%	**6.96**	(1.2%)
Fuel unit cost (£ pence or € cents/ASK)	1.59	11.9%	1.31	9.8%
Non-fuel unit costs (£ pence or € cents/ASK)	4.41	(0.9)%	4.59	(4.8%)
Total unit cost (£ pence or € cents/ASK)	**6.00**	2.2%	**5.91**	(1.9%)

British Airways operating profit was £1,952 million, excluding exceptional items, up £203 million over the prior year on a capacity increase of 2.5 per cent.

Passenger unit revenues rose for the year from higher passenger load factors and yields. Yields improved with strong business sector performance.

British Airways' non-fuel unit costs improved during the year; savings were made in several areas including the head office function, engineering through outsourcing and property rationalisation.

Overall, British Airways' adjusted operating margin improved 0.8 points to 15.6 per cent.

Aer Lingus operating profit was €305 million, a record performance and an improvement of €37 million over last year. Capacity increased 10.0 per cent from additional flying to new routes such as Philadelphia and Seattle.

Despite the significant increase in capacity, Aer Lingus' adjusted operating margin rose 0.6 points to 16.8 per cent. Passenger unit revenues decreased at outturn rates from lower yields, while non-fuel unit costs improved.

Aer Lingus achieved significant cost savings through efficient growth with higher productivity and from cost initiatives. This included areas such as procurement and handling.

Financial performance by Brand

	Iberia € million		Vueling € million	
	2018	Higher/ (lower)	**2018**	Higher/ (lower)
ASKs	68,179	7.1%	37,431	8.9%
Seat factor (per cent)	85.5	1.4pts	85.4	0.7pts
Passenger revenue	3,765	5.9%	2,377	13.0%
Cargo revenue	251	3.7%	–	–
Other revenue	1,166	9.6%	21	(8.7%)
Total revenue	**5,182**	6.6%	**2,398**	12.7%
Fuel, oil costs and emissions charges	1,023	10.5%	489	14.3%
Employee costs	1,091	3.6%	278	19.3%
Supplier costs	2,173	6.2%	1,160	15.0%
EBITDAR	**895**	7.3%	**471**	3.1%
Ownership costs	458	0.0%	271	0.7%
Operating profit before exceptional items	**437**	16.2%	**200**	6.4%
Adjusted operating margin	10.0%	0.4pts	11.8%	(1.0)pts
Passenger yield (€ cents/RPK)	6.50	(2.8)%	7.43	2.9%
Unit passenger revenue (€ cents/ASK)	5.55	(1.1)%	6.35	3.8%
Total unit revenue (€ cents/ASK)	**7.60**	(0.3)%	**6.41**	3.6%
Fuel unit cost (€ cents/ASK)	1.50	3.2%	1.31	4.9%
Non-fuel unit costs (€ cents/ASK)	5.46	(2.2)%	4.57	4.0%
Total unit cost (€ cents/ASK)	**6.96**	(1.1)%	**5.87**	4.2%

Vueling's operating profit was €200 million an increase of €12 million despite facing significant operational disruption from ATC regulations and strikes. Its adjusted operating margin of 11.8 per cent, was 1.0 points down versus last year.

Vueling developed its network strategy throughout 2018 and has strengthened its position in key markets. Demand in these markets remained strong, passenger unit revenues, passenger load factors and yields improved versus last year.

Vueling's non-fuel unit costs increased significantly primarily from ATC disruption. Vueling's NEXT programme continued to target operational improvements and cost saving initiatives to address the challenging ATC environment, however operating margin suffered.

Iberia's operating profit before exceptional items was €437 million, up by €61 million versus last year, achieving an adjusted operating margin of 10.0 per cent. Capacity for the year was up 9.6 per cent, with a reduction in passenger unit revenue from lower yields partially offset by higher passenger load factor.

On the cost side, non-fuel unit costs reduced. Employee unit costs and productivity improved through efficiency initiatives as part of Iberia's Plan de Futuro II.

In 2018, Iberia's Other revenue also increased by 9.6 per cent, primarily from its MRO business.

Exceptional items

For a full list of exceptional items, refer to note 4 of the Financial statements. Below is a summary of the significant exceptional items recorded.

During the year, the Group recognised an exceptional net operating credit of €448 million reflecting:

€678 million net pension credit following the amendments to British Airways' NAPS and BARP pension plans noted previously, reducing the defined benefit liability offset by the related cash costs

€136 million restructuring costs related to British Airways' transformation plan aimed to develop a more efficient and cost effective structure, and

€94 million charge in employee costs to equalise the effects of Guaranteed Minimum Pensions at British Airways.

In 2017, the Group recognised an exceptional charge of €288 million related to restructuring costs at British Airways and Iberia.

Non-operating costs and taxation

Net non-operating costs after exceptional items were €191 million, up from €181 million last year. In 2018, the Group recognised a net financing pension credit relating to defined benefit schemes compared to a charge in 2017. Closure of the British Airways NAPS to future accrual resulted in an accounting surplus and a net financing credit. This €55 million improvement was offset by a €57 million swing in net foreign exchange on the retranslation of monetary non-current assets and liabilities.

Taxation

The vast majority of the Group's activities are taxed in the countries of effective management of the main operations - UK, Spain and Ireland, with corporation tax rates during 2018 of 19 per cent, 25 per cent and 12.5 per cent respectively. The Group's effective tax rate for the year was 16.9 per cent (2017: 19.0 per cent) and the tax charge after exceptional items was €590 million (2017: €472 million).

The Group continues to offset prior year tax losses and other tax assets against its current year taxable profit. In 2018 the Group paid corporation taxes of €343 million (2017: €237 million).

Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €2,481 million, up 11.2 per cent. The increase reflects a strong operating profit performance with higher unit revenues and lower non-fuel unit costs more than offsetting the significant rise in fuel unit costs. Fully diluted earnings per share before exceptional items is one of our key performance indicators and increased by 15.1 per cent also benefitting from the positive impact of the share buyback programme.

Profit after tax and exceptional items was €2,897 million (2017: €2,009 million), up 44.2 per cent.

Dividends

The Board is proposing a final dividend to shareholders of 16.5 euro cents per share, which brings the full year dividend to 31 euro cents per share. Given the Group's strong cash position the Board is also proposing a special dividend of 35 euro cents per share, returning approximately €700 million to shareholders. Subject to shareholder approval at the Annual General Meeting, the final and special dividends will be paid, on July 8, 2019 to shareholders on the register on July 5, 2019.

Dividend policy statement

In determining the level of dividend in any year, the Board considers several factors, including:

- Earnings of the Group;
- On-going cash requirements and prospects of the Group and its operating companies;
- Levels of distributable reserves by operating company and efficiency of upstreaming options;
- Dividend coverage; and
- Its intention to distribute regular returns to its shareholders in the medium and long-term.

The Company received distributions from each of the four main airlines in 2018, although due to accumulated losses in certain companies they were not all recorded as distributable income. Distributions may trigger additional pension contributions if higher than pre-agreed thresholds, see note 30 of the Financial statements.

Notwithstanding these factors, the Company's distributable reserves position was strong, with €5.7 billion available at December 31, 2018 (2017: €6.1 billion).

Liquidity and capital risk management

IAG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide sustainable returns to shareholders. In November 2018, S+P and Moody's assigned IAG with a long-term investment grade credit rating with stable outlook.

The Group monitors capital using adjusted net debt to EBITDAR and liquidity. In 2018, the Group's adjusted net debt to EBITDAR increased slightly to 1.6 from 1.5 in 2017, although well within an acceptable range. EBITDAR improved and adjusted net debt increased. Adjusted net debt rose by €596 million to €8,355 million reflecting a lower cash position from the repayment of perpetual securities and slightly higher long-term borrowings from an increase in debt for fleet. EBITDAR rose €352 million versus last year reflecting the Group's profitable growth as the EBITDAR margin increased 0.1 pts with ASKs up 6.1 per cent.

The Group's equity free cash flow (EqFCF) was €1,801 million in 2018, lower than last year by €819 million and lower than our average long-term planning goals, impacted by the timing of CAPEX. EBITDA generation was strong at €4,484 million while net CAPEX was high at €2,228 million.

In 2018, the Group's net CAPEX included delivery of thirty-two new aircraft, five Boeing 787s, two Airbus A350s, four Airbus A330s and 21 Airbus from the A320 family. This capital expenditure has been partially offset by €574 million of proceeds from the sale and leaseback of thirteen new aircraft (ten Airbus A320 family, one Boeing 787 and two Airbus A330). In 2017, the Group took delivery of 10 new aircraft, partially offset by €287 million of proceeds from the sale and leaseback of seven new aircraft.

During the year, British Airways secured a sale and leaseback by way of a $609 million EETC bond issue to fund aircraft deliveries. The bonds were combined with Japanese Operating Leases with Call Options ("JOLCO") of $259 million. The total sum raised was $868 million. The transaction includes Class AA and Class A Certificates with an underlying collateral pool consisting of 11 aircraft.

Movements in Working capital and other non-cash generated €270 million in free cash flow (2017: €623 million) primarily from the Group's growth with higher sales in advance of carriage and impacted by the timing of prepayments.

Pensions and restructuring reflect payments made to the British Airways APS and NAPS pension plan schemes and restructuring payments for British Airways' and Iberia's transformation plans. In 2018, a €182 million onetime payment was made in relation to the closure of the NAPS scheme to future accrual.

In 2018, the cash Dividend paid reflects the 2017 final dividend and the 2018 interim dividend.

Cash flow

€ million	2018	2017	Movement
EBITDAR before exceptional items	**5,374**	5,022	352
Rentals	**(890)**	(888)	(2)
EBITDA before exceptional items	**4,484**	4,134	350
Net interest	**(112)**	(93)	(19)
Taxation	**(343)**	(237)	(106)
Acquisition of PPE and intangible assets	**(2,802)**	(1,490)	(1,312)
Sale of PPE and intangible assets	**574**	306	268
Equity free cash flow	**1,801**	2,620	(819)
Working capital and other non-cash	**270**	623	(353)
Pensions and restructuring	**(1,063)**	(914)	(149)
Proceeds from long-term borrowings	**1,078**	178	900
Repayments of long-term borrowings	**(1,099)**	(973)	(126)
Dividend paid	**(577)**	(512)	(65)
Share buyback	**(500)**	(500)	–
Other investing	**61**	72	(11)
Other financing	**(312)**	(21)	(291)
Cash (outflow)/inflow	**(341)**	573	(914)
Opening cash and deposits	**6,676**	6,428	248
Net foreign exchange	**(61)**	(325)	264
Cash and deposits	**6,274**	6,676	(402)

€ million	2018	2017	Higher/ (lower)
British Airways	**2,780**	3,182	(402)
Iberia	**1,191**	1,167	24
Aer Lingus	**891**	1,025	(134)
Vueling	**564**	681	(117)
IAG and other Group companies	**848**	621	227
Cash and deposits	**6,274**	6,676	(402)

During the year IAG carried out a second share buyback programme as part of the corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage. The programme total was €500 million (2017: €500 million) and IAG acquired 65,956,660 ordinary shares (2017: 74,999,449), which were subsequently cancelled. The Group has returned over €1 billion to shareholders in 2018 and €2.7 billion since 2015.

Taking these factors into consideration, the Group's cash outflow for the year was €341 million and after net foreign exchange differences, the decrease in cash net of exchange was €402 million. Each operating company holds adequate levels of cash with balances exceeding 20 per cent of revenues, sufficient to meet obligations as they fall due.

Net debt and adjusted net debt

Net debt

€ million	2018	2017	Higher / (lower)
Debt	**(7,331)**	(8,515)	(1,184)
Cash and cash equivalents and interest bearing deposits	**6,676**	6,428	248
Net debt at January 1	**(655)**	(2,087)	(1,432)
(Decrease)/increase in cash net of exchange	**(402)**	248	(650)
Net cash outflow from repayments of debt and lease financing	**1,099**	973	126
New borrowings and finance leases	**(1,078)**	(178)	(900)
Decrease/(increase) in net debt from regular financing	**21**	795	(774)
Exchange and other non-cash movements	**(199)**	389	(588)
Net debt at December 31	**(1,235)**	(655)	(580)
Capitalised aircraft lease costs	**(7,120)**	(7,104)	16
Adjusted net debt at December 31	**(8,355)**	(7,759)	596

The Group's net debt position increased by €580 million reflecting a reduction in cash, adverse exchange and a net neutral impact from regular financing with repayments during the year offsetting new borrowings.

Off balance sheet arrangements and capital commitments

The Group has entered into commercial leases on certain property and equipment but primarily for aircraft. Contracts range in duration for up to 13 years for aircraft with total payments of €8,664 million (2017: €7,642 million); see note 23 for further details on the timing. The Group's adjusted net debt metric includes an estimation for the debt related to the aircraft operating leases ('capitalised aircraft lease costs') by taking the current year's aircraft operating lease cost multiplied by 8.

Capital expenditure authorised and contracted for amounted to €10,831 million (2017: €12,137 million) for the Group. Most of this is in US dollars and includes commitments until 2023 for 92 aircraft from the Airbus A320 family, 12 Boeing 787s, 4 Boeing 777s, 41 Airbus A350s, and 4 Airbus A330s.

Overall, the Group maintains flexibility in its fleet plans with the ability to defer, to exercise options and to negotiate different renewal terms. IAG does not have any other off-balance sheet financing arrangements.

Strategic framework

IAG's mission is to be the leading international airline group. This means we will:

- Win the customer through service and value across our global network;
- Deliver higher returns to our shareholders through leveraging cost and revenue opportunities across the Group;
- Attract and develop the best people in the industry;
- Provide a platform for quality international airlines, leaders in their markets, to participate in consolidation; and
- Retain the distinct cultures and brands of the individual airlines.

By accomplishing our mission, IAG will help to shape the future of the industry, set new standards of excellence and provide sustainability, security and growth.

IAG's strategic priorities are as follows:

- Strengthening a portfolio of world-class brands and operations
- Growing global leadership positions
- Enhancing the common integrated platform

Principal risks and uncertainties

During the year we have continued to embed our risk framework, which includes processes to identify, assess and manage risks. The principal risks and uncertainties affecting us, detailed on pages 29 to 34 of the Annual Report and Accounts 2017, remain relevant. In general, the Group's strategic risk was stable during the year. The Group continued to evaluate and prepare for the potential changes following the UK's decision to leave the EU. As we move into 2019, there is continued political uncertainty, fuel price volatility and the ongoing risk of impact to our operations and reputation as the frequency, nature and sophistication of cyber attacks increases.

International Consolidated Airlines Group S.A.

Unaudited full year Consolidated Financial Statements

January 1, 2018 – December 31, 2018

CONSOLIDATED INCOME STATEMENT

€ million	Note	Before exceptional items 2018	Exceptional items	Total 2018	Before exceptional items 2017 (restated)[1]	Exceptional items	Total 2017 (restated)[1]
		Year to December 31					
Passenger revenue		**21,549**		**21,549**	20,285		20,285
Cargo revenue		**1,173**		**1,173**	1,132		1,132
Other revenue		**1,684**		**1,684**	1,463		1,463
Total revenue	3	**24,406**		**24,406**	22,880		22,880
Employee costs	4, 7	**4,812**	**(460)**	**4,352**	4,740	248	4,988
Fuel, oil costs and emissions charges		**5,283**		**5,283**	4,610		4,610
Handling, catering and other operating costs	4	**2,888**		**2,888**	2,673	14	2,687
Landing fees and en-route charges		**2,184**		**2,184**	2,151		2,151
Engineering and other aircraft costs	4	**1,828**		**1,828**	1,773	19	1,792
Property, IT and other costs	4	**918**	**12**	**930**	915	7	922
Selling costs		**1,046**		**1,046**	982		982
Depreciation, amortisation and impairment	5	**1,254**		**1,254**	1,184		1,184
Aircraft operating lease costs	5	**890**		**890**	888		888
Currency differences		**73**		**73**	14		14
Total expenditure on operations		**21,176**	**(448)**	**20,728**	19,930	288	20,218
Operating profit	3	**3,230**	**448**	**3,678**	2,950	(288)	2,662
Finance costs	8	**(231)**		**(231)**	(225)		(225)
Finance income	8	**41**		**41**	45		45
Net financing credit/(charge) relating to pensions	8	**27**		**27**	(28)		(28)
Net currency retranslation (charges)/credits		**(19)**		**(19)**	38		38
Other non-operating charges	8	**(9)**		**(9)**	(11)		(11)
Total net non-operating costs		**(191)**		**(191)**	(181)		(181)
Profit before tax		**3,039**	**448**	**3,487**	2,769	(288)	2,481
Tax	9	**(558)**	**(32)**	**(590)**	(538)	66	(472)
Profit after tax for the year		**2,481**	**416**	**2,897**	2,231	(222)	2,009
Attributable to:							
Equity holders of the parent		**2,469**		**2,885**	2,211		1,989
Non-controlling interest		**12**		**12**	20		20
		2,481		**2,897**	2,231		2,009
Basic earnings per share (€ cents)	10	**122.1**		**142.7**	105.9		95.2
Diluted earnings per share (€ cents)	10	**117.7**		**137.4**	102.2		92.0

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31 2018	2017 (restated)[1]
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity	29	**(517)**	101
Reclassified and reported in net profit	29	**(480)**	28
Fair value movements on cost of hedging		**13**	(41)
Currency translation differences	29	**(80)**	(127)
Items that will not be reclassified to net profit			
Fair value movements on other equity investments		**(5)**	9
Fair value movements on cash flow hedges		**26**	–
Remeasurements of post-employment benefit obligations	29	**(696)**	739
Total other comprehensive (loss)/income for the year, net of tax		**(1,739)**	709
Profit after tax for the year		**2,897**	2,009
Total comprehensive income for the year		**1,158**	2,718
Total comprehensive income is attributable to:			
Equity holders of the parent		**1,146**	2,698
Non-controlling interest	29	**12**	20
		1,158	2,718

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

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

CONSOLIDATED BALANCE SHEET

€ million	Note	**December 31, 2018**	December 31, 2017 (restated)[1]	January 1, 2017 (restated)[1]
Non-current assets				
Property, plant and equipment	12	**12,437**	11,846	12,227
Intangible assets	14	**3,198**	3,018	3,037
Investments accounted for using the equity method	15	**31**	30	29
Other equity investments	16	**80**	79	73
Employee benefit assets	30	**1,129**	1,023	1,028
Derivative financial instruments	26	**221**	145	169
Deferred tax assets	9	**536**	523	561
Other non-current assets	17	**309**	376	499
		17,941	17,040	17,623
Current assets				
Non-current assets held for sale		**–**	–	38
Inventories		**509**	432	458
Trade receivables	17	**1,597**	1,463	1,370
Other current assets	17	**1,175**	958	899
Current tax receivable	9	**383**	258	228
Derivative financial instruments	26	**155**	405	329
Other current interest-bearing deposits	18	**2,437**	3,384	3,091
Cash and cash equivalents	18	**3,837**	3,292	3,337
		10,093	10,192	9,750
Total assets		**28,034**	27,232	27,373
Shareholders' equity				
Issued share capital	27	**996**	1,029	1,066
Share premium	27	**6,022**	6,022	6,105
Treasury shares	27	**(68)**	(77)	(96)
Other reserves	29	**(236)**	(348)	(2,149)
Total shareholders' equity		**6,714**	6,626	4,926
Non-controlling interest	29	**6**	307	308
Total equity		**6,720**	6,933	5,234
Non-current liabilities				
Interest-bearing long-term borrowings	22	**6,633**	6,401	7,589
Employee benefit obligations	30	**289**	792	2,363
Deferred tax liability	9	**453**	526	110
Provisions for liabilities and charges	24	**2,268**	2,113	1,987
Derivative financial instruments	26	**423**	114	20
Other long-term liabilities	21	**198**	222	238
		10,264	10,168	12,307
Current liabilities				
Current portion of long-term borrowings	22	**876**	930	926
Trade and other payables	19	**3,959**	3,723	3,266
Deferred revenue on ticket sales	20	**4,835**	4,742	4,680
Derivative financial instruments	26	**656**	111	88
Current tax payable	9	**165**	78	101
Provisions for liabilities and charges	24	**559**	547	771
		11,050	10,131	9,832
Total liabilities		**21,314**	20,299	22,139
Total equity and liabilities		**28,034**	27,232	27,373

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'; refer to note 33.

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31 2018	2017 (restated)[1]
Cash flows from operating activities			
Operating profit after exceptional items		**3,678**	2,662
Depreciation, amortisation and impairment	5	**1,254**	1,184
Movement in working capital		**(64)**	647
Increase in trade receivables, prepayments, inventories and other current assets		***(650)***	*(287)*
Increase in trade and other payables, deferred revenue on ticket sales and current liabilities		***586***	*934*
Payments related to restructuring	24	**(220)**	(248)
Employer contributions to pension schemes[2]	30	**(898)**	(899)
Pension scheme service costs	30	**55**	233
Provision and other non-cash movements		**(114)**	264
Interest paid		**(149)**	(122)
Interest received		**37**	29
Tax paid		**(343)**	(237)
Net cash flows from operating activities		**3,236**	3,513
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(2,802)**	(1,490)
Sale of property, plant and equipment and intangible assets		**574**	306
Proceeds from sale of investments		**–**	17
Decrease/(increase) in other current interest-bearing deposits		**924**	(432)
Other investing movements		**61**	55
Net cash flows from investing activities		**(1,243)**	(1,544)
Cash flows from financing activities			
Proceeds from long-term borrowings		**1,078**	178
Repayment of borrowings		**(275)**	(148)
Repayment of finance leases		**(824)**	(825)
Acquisition of treasury shares		**(500)**	(500)
Distributions made to holders of perpetual securities		**(312)**	(21)
Dividend paid		**(577)**	(512)
Net cash flows from financing activities		**(1,410)**	(1,828)
Net increase in cash and cash equivalents		**583**	141
Net foreign exchange differences		**(38)**	(186)
Cash and cash equivalents at 1 January		**3,292**	3,337
Cash and cash equivalents at year end	18	**3,837**	3,292
Interest-bearing deposits maturing after more than three months	18	**2,437**	3,384
Cash, cash equivalents and other interest-bearing deposits	18	**6,274**	6,676

1 Restated for new accounting standards IFRS 15 ‘Revenue from contracts with customers’ and IFRS 9 ‘Financial instruments’; refer to note 33.

2 Includes transitional arrangement cash costs associated with changes to the British Airways pension schemes; refer to note 4.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2018

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 29)	**Total equity**
January 1, 2018 (restated)	1,029	6,022	(77)	(2,626)	2,278	**6,626**	307	**6,933**
Profit for the year	–	–	–	–	2,885	**2,885**	12	**2,897**
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	77	–	**77**	–	**77**
Fuel and oil costs	–	–	–	(565)	–	**(565)**	–	**(565)**
Currency differences	–	–	–	4	–	**4**	–	**4**
Finance costs	–	–	–	4	–	**4**	–	**4**
Net change in fair value of cash flow hedges	–	–	–	(491)	–	**(491)**	–	**(491)**
Net change in fair value of equity investments	–	–	–	(5)	–	**(5)**	–	**(5)**
Net change in fair value of cost of hedging	–	–	–	13	–	**13**	–	**13**
Currency translation differences	–	–	–	(80)	–	**(80)**	–	**(80)**
Remeasurements of post-employment benefit obligations	–	–	–	–	(696)	**(696)**	–	**(696)**
Total comprehensive income for the year	–	–	–	(1,043)	2,189	**1,146**	12	**1,158**
Hedges reclassified and reported in property, plant and equipment	–	–	–	(1)	–	**(1)**	–	**(1)**
Cost of share-based payments	–	–	–	–	31	**31**	–	**31**
Vesting of share-based payment schemes	–	–	9	–	(15)	**(6)**	–	**(6)**
Acquisition of treasury shares	–	–	(500)	–	–	**(500)**	–	**(500)**
Dividend	–	–	–	–	(582)	**(582)**	–	**(582)**
Cancellation of share capital	(33)	–	500	33	(500)	**–**	–	**–**
Dividend of a subsidiary	–	–	–	–	–	**–**	(1)	**(1)**
Transfer between reserves	–	–	–	77	(77)	**–**	–	**–**
Distributions made to holders of perpetual securities	–	–	–	–	–	**–**	(312)	**(312)**
December 31, 2018	**996**	**6,022**	**(68)**	**(3,560)**	**3,324**	**6,714**	**6**	**6,720**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year to December 31, 2017

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 29)	Total equity
January 1, 2017	1,066	6,105	(96)	(2,671)	952	5,356	308	5,664
Restatement for adoption of new standards	–	–	–	38	(468)	(430)	–	(430)
January 1, 2017 (restated)	1,066	6,105	(96)	(2,633)	484	4,926	308	5,234
Profit for the year	–	–	–	–	1,989	1,989	20	2,009
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	84	–	84	–	84
Fuel and oil costs	–	–	–	(38)	–	(38)	–	(38)
Currency differences	–	–	–	(18)	–	(18)	–	(18)
Net change in fair value of cash flow hedges	–	–	–	101	–	101	–	101
Net change in fair value of equity investments	–	–	–	9	–	9	–	9
Net change in fair value of cost of hedging	–	–	–	(41)	–	(41)	–	(41)
Currency translation differences	–	–	–	(127)	–	(127)	–	(127)
Remeasurements of post-employment benefit obligations	–	–	–	–	739	739	–	739
Total comprehensive income for the year	–	–	–	(30)	2,728	2,698	20	2,718
Cost of share-based payments	–	–	–	–	34	34	–	34
Vesting of share-based payment schemes	–	–	19	–	(33)	(14)	–	(14)
Acquisition of treasury shares	–	–	(500)	–	–	(500)	–	(500)
Dividend	–	–	–	–	(518)	(518)	–	(518)
Cancellation of share capital	(37)	–	500	37	(500)	–	–	–
Dividend of a subsidiary	–	–	–	–	–	–	(1)	(1)
Transfer between reserves	–	(83)	–	–	83	–	–	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)	(20)
December 31, 2017	1,029	6,022	(77)	(2,626)	2,278	6,626	307	6,933

1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG 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. A list of the subsidiaries of the Group is included in the Group investments section.

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

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements herein are not the Group's statutory accounts and are unaudited. The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and other equity investments that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. In order to improve the presentation of the Income statement, certain non-operating items have been aggregated into a new line, 'Other non-operating (charges)/credits', with further analysis provided in note 8 to the accounts.

The Group's financial statements for the year to December 31, 2018 were authorised for issue, and approved by the Board of Directors on February 27, 2019.

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

Consolidation

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

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

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

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

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

All intra-group account balances, including intra-group profits, are eliminated in preparing the consolidated financial statements.

Segmental reporting

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

Foreign currency translation

a Functional and presentation currency

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

2 Significant accounting policies continued

b Transactions and balances

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

c Group companies

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

Property, plant and equipment

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

a Capitalisation of interest on progress payments

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

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or held on finance leases are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and 5 per cent residual value for shorthaul aircraft and 25 years and 5 per cent residual value for longhaul aircraft.

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

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

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

c Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

d Leased assets

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings.

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs on fleet and the interest element of lease payments made is included as an interest expense in the Income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the Income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

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

Intangible assets

a Goodwill

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

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

2 Significant accounting policies continued

b Brands

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

c Customer loyalty programmes

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

d Landing rights

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

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

e Contract based intangibles

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

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to 10 years.

g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

Impairment of non-financial assets

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

a Property, plant and equipment

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

b Intangible assets

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

Investments in associates and joint ventures

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

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

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

Financial instruments

a Other equity investments

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

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

2 Significant accounting policies continued

b Other interest-bearing deposits

Other interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are solely payments of principal and interest, are carried at amortised cost using the effective interest method.

c Derivative financial instruments and hedging activities

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

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

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

d Cash flow hedges

Changes in the fair value of derivative financial instruments designated as a hedge of a highly probable expected future cash flow and assessed as effective are recorded in equity. Gains and losses on derivative instruments not designated as a cash flow hedge are reported in the Income statement. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts the Income statement or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euros, Japanese yen and Chinese yuan are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

e Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Interest-bearing borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

f Impairment of financial assets

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

2 Significant accounting policies continued

Employee benefit plans

a Pension obligations

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

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

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

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

b Severance obligations

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

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

Taxation

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

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

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

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

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

Inventories

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

Cash and cash equivalents

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

Share-based payments

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

2 Significant accounting policies continued

Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated.

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

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

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue recognition

The Group's revenue primarily derives from transportation services for both passengers and cargo. Revenue is recognised when the transportation service has been provided. Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts, as deferred revenue on ticket sales in current liabilities until the customer has flown. Unused tickets are recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligation is satisfied (over time) using an appropriate methodology which reflects the activity that has been undertaken to satisfy the related obligation.

Customer loyalty programmes

The Group's main loyalty programmes are Executive Club, Iberia Plus, Avios, Vueling Club and Aer Club. The customer loyalty programmes award travellers Avios points to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. Avios points are also sold to commercial partners to use in loyalty activity.

The Group has identified several performance obligations associated with the sale of Avios points. Revenue associated with brand and marketing services and revenue associated with Avios points has been determined based on the relative stand-alone selling price of each of the performance obligations. Revenue associated with brand and marketing services is recognised as the points are issued. Revenue allocated to the Avios points is deferred on the balance sheet as a current liability, and recognised when the points are redeemed. When the points are redeemed for products provided by suppliers outside the Group, revenue is recognised in the Income statement net of related costs, as the Group is considered to be an agent in these redemption transactions.

The Group estimates the stand-alone selling price of the brand and marketing performance obligations by reference to the amount that a third party would be prepared to pay in an arm's length transaction for access to comparable brands for the period over which they have access. The stand-alone selling price of Avios points is based on the value of the awards for which the points could be redeemed. The Group also recognises revenue associated with the proportion of award credits which are not expected to be redeemed, based on the results of statistical modelling.

Exceptional items

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

Business combination transactions include cash items such as the costs incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the Income statement, such as bargain purchase gains and step acquisition losses.

Critical accounting judgements, estimates and assumptions

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

2 Significant accounting policies continued

Estimates

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

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

At December 31, 2018 the Group recognised €1,129 million in respect of employee benefit assets (2017: €1,023 million) and €289 million in respect of employee benefit obligations (2017: €792 million). Further information on employee benefit obligations is disclosed in note 30.

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 24 and 30. The Group determines the assumptions to be adopted in discussion with qualified actuaries. In respect of future pension increases in the Airways Pension Scheme, on July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Further information on these proceedings is disclosed in note 31. The sensitivity to changes in pension increase assumptions is disclosed in note 30.

On October 26, 2018 the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited as claimant and Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment affects some of the occupational pension schemes of the Group as set out in note 30.

Whilst the Lloyds judgement has brought some clarity to the issue, there remains some uncertainty over how the calculation of the obligation for Guaranteed Minimum Pension (GMP) equalisation should be performed. The UK Government may also produce guidance on the application of GMP equalisation. In determining the obligation for these consolidated financial statements, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgement as the 'minimum interference' method which could be implemented without sponsor agreement. The final cost of GMP equalisation will be determined when further guidance is available and may be higher or lower than the current estimate.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

b Revenue recognition

At December 31, 2018 the Group recognised €4,835 million in respect of deferred revenue on ticket sales (2017: €4,742 million) of which €1,769 million (2017: €1,752 million) related to customer loyalty programmes.

Passenger revenue is recognised when the transportation is provided. At the time of transportation, revenue is also recognised in respect of tickets that are not expected to be used ('unused tickets'). Revenue associated with unused tickets is estimated based on the terms and conditions of the tickets and historical trends.

Revenue associated with the issuance of points under customer loyalty programmes is based on the relative stand-alone selling prices of the related performance obligations (brand, marketing and points), determined using estimation techniques. The transaction price of brand and marketing services is determined using specific brand valuation methodologies. The transaction price of the points is based on the value of the awards for which the points can be redeemed and is reduced to take account of the proportion of the award credits that are not expected to be redeemed by customers. The Group estimates the number of points not expected to be redeemed (using statistical modelling and historical trends) and the mix and fair value of the award credits. A one percentage point change in the assumption of points not expected to be redeemed will result in an adjustment to deferred revenue of €100 million, with an offsetting adjustment to revenue and operating profit recognised in the year.

The following three accounting estimates involve a higher degree of judgement or complexity, or are areas where assumptions are significant to the financial statements however these accounting estimates are not major sources of estimation uncertainty that have a significant risk of resulting in material adjustment to the carrying amounts of assets and liabilities within the next year.

2 Significant accounting policies continued

c Income taxes

At December 31, 2018 the Group recognised €536 million in respect of deferred tax assets (2017: €523 million). Further information on current and deferred tax liabilities is disclosed in note 9.

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain because it may be unclear how tax law applies to a particular transaction or circumstance. The Group recognises liabilities for anticipated tax audit assessments. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management consider the operating performance in the current year and the future projections of performance laid out in the approved Business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

d Impairment of non-financial assets

At December 31, 2018 the Group recognised €2,403 million in respect of intangible assets with an indefinite life, including goodwill (2017: €2,363 million). Further information on these assets is included in note 14.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions as disclosed in note 14.

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

e Residual values and useful lives of assets

At December 31, 2018 the Group recognised €12,437 million in respect of property, plant and equipment (2017: €11,846 million). Further information on these assets is included in note 12.

The Group estimates useful lives and residual values of property, plant and equipment, including fleet assets based on network plans and recoverable values. Useful lives and residual values are reassessed annually, taking into consideration the latest fleet plans and other business plan information.

Judgement

Engineering and other aircraft costs

At December 31, 2018, the Group recognised €1,359 million in respect of maintenance, restoration and handback provisions (2017: €1,125 million). Information on movements on the provision is disclosed in note 24.

The Group has a number of contracts with service providers to replace or repair engine parts and for other maintenance checks. These agreements are complex and generally cover a number of years. The Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition.

Changes in accounting policy and disclosures

a New and amended standards adopted by the Group

The Group has applied IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' for the first time for the year to December 31, 2018. Further details on the impact of these standards on the Group accounting policies and financial position and performance are provided in note 33.

Other amendments to accounting standards, adopted for the first time in the year to December 31, 2018 have not resulted in a significant change to the financial position or performance of the Group, or to presentation and disclosures in the Group financial statements.

2 Significant accounting policies continued

b New standards, amendments and interpretations not yet effective

The IASB issued IFRS 16 'Leases' with an effective date after the year end of these financial statements. This standard will impact the Group from January 1, 2019. Further information on the requirements of the standard is provided in note 33.

In addition the IASB's Interpretations Committee has issued IFRIC Interpretation 23 'Uncertainty over tax treatments'; effective for periods beginning on or after January 1, 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The Group has assessed the impact of the interpretation and it is not expected to have a material effect on the reported income or net assets of the Group.

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

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

3 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 year to December 31, 2018

	2018					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	**Total**
Revenue						
Passenger revenue	12,972	3,765	2,377	1,952	483	**21,549**
Cargo revenue	867	251	–	54	1	**1,173**
Other revenue	682	749	20	9	224	**1,684**
External revenue	14,521	4,765	2,397	2,015	708	**24,406**
Inter-segment revenue	508	417	1	5	538	**1,469**
Segment revenue	15,029	5,182	2,398	2,020	1,246	**25,875**
Depreciation, amortisation and impairment	(890)	(207)	(25)	(83)	(49)	**(1,254)**
Operating profit before exceptional items	**2,207**	**437**	**200**	**305**	**81**	**3,230**
Exceptional items (note 4)	448	–	–	–	–	**448**
Operating profit after exceptional items	**2,655**	**437**	**200**	**305**	**81**	**3,678**
Net non-operating costs						**(191)**
Profit before tax						**3,487**
Total assets	18,531	6,829	1,882	1,915	(1,123)	**28,034**
Total liabilities	(12,235)	(5,051)	(1,495)	(1,072)	(1,461)	**(21,314)**

1 Includes eliminations on total assets of €13,681 million and total liabilities of €3,667 million.

3 Segment information continued

For the year to December 31, 2017 (restated)

	2017					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	Total
Revenue						
Passenger revenue	12,470	3,554	2,104	1,797	360	20,285
Cargo revenue	843	242	–	47	–	1,132
Other revenue	589	644	23	11	196	1,463
External revenue	13,902	4,440	2,127	1,855	556	22,880
Inter-segment revenue	482	420	–	2	459	1,363
Segment revenue	14,384	4,860	2,127	1,857	1,015	24,243
Depreciation, amortisation and impairment	(860)	(182)	(20)	(77)	(45)	(1,184)
Operating profit before exceptional items	1,992	376	188	268	126	2,950
Exceptional items (note 4)	(108)	(180)	–	–	–	(288)
Operating profit after exceptional items	1,884	196	188	268	126	2,662
Net non-operating costs						(181)
Profit before tax						2,481
Total assets	18,872	6,079	1,515	1,976	(1,210)	27,232
Total liabilities	(12,117)	(4,358)	(1,253)	(1,055)	(1,516)	(20,299)

1 Includes eliminations on total assets of €13,031 million and total liabilities of €2,744 million.

b Geographical analysis

Revenue by area of original sale

	Year to December 31	
€ million	**2018**	2017 (restated)
UK	**7,982**	7,574
Spain	**4,064**	3,551
USA	**4,093**	3,694
Rest of world	**8,267**	8,061
	24,406	22,880

Assets by area

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**

December 31, 2017

€ million	Property, plant and equipment	Intangible assets
UK	9,013	1,171
Spain	2,050	1,241
USA	18	6
Rest of world	765	600
	11,846	3,018

4 Exceptional items

€ million	Year to December 31 2018	2017
Restructuring costs[1]	**136**	288
Employee benefit obligations[2]	**(584)**	–
Recognised in expenditure on operations	**(448)**	288
Total exceptional (credit)/charge before tax	**(448)**	288
Tax on exceptional items	**32**	(66)
Total exceptional (credit)/charge after tax	**(416)**	222

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 comprise employee severance costs and include other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year to December 31, 2018 in respect of this programme amount to €136 million (2017: €108 million), with a related tax credit of €26 million (2017: €21 million).

In the year to December 31, 2017, €180 million of restructuring costs were recognised at Iberia, related to the announcement of a new Transformation Plan. A related tax credit of €45 million was also recognised.

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 within the Income Statement of €678 million, with a related tax charge of €58 million.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgement in a claim by Lloyds Banking Group Pension Trustees Limited as claimant to Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgement concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to Guaranteed Minimum Pension (GMP) benefits. The judgement affects some of the occupational pension schemes of British Airways as set out in note 30. The estimated increase in IAS 19 liabilities as a result of the High Court judgement has been recorded as an exceptional charge of €94 million.

5 Expenses by nature

Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2018	2017
Owned assets	**711**	641
Finance leased aircraft	**371**	382
Other leasehold interests	**40**	41
Amortisation of intangible assets	**132**	120
	1,254	1,184

Operating leases costs:

€ million		2018	2017
Minimum lease rentals	– aircraft	**890**	888
	– property and equipment	**236**	224
Sub-lease rentals received		**(12)**	(1)
		1,114	1,111

Cost of inventories:

€ million	2018	2017
Cost of inventories recognised as an expense, mainly fuel	**3,165**	3,176

6 Auditors' remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, were as follows:

€'000	2018	2017
Fees payable for the audit of the Group and individual accounts	**4,328**	3,648
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	**634**	569
Other services pursuant to legislation	**436**	465
Other assurance services	**506**	467
Services relating to corporate finance transactions	**191**	296
All other services	**305**	3
	6,400	5,448

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

7 Employee costs and numbers

€ million	2018	2017
Wages and salaries	**3,240**	3,155
Social security costs	**516**	486
(Credits)/costs related to pension scheme benefits	**(317)**	370
Other post-retirement benefit costs	**5**	–
Cost of share-based payments	**31**	34
Other employee costs[1]	**877**	943
Total employee costs	**4,352**	4,988

1 Other employee costs include allowances and accommodation for crew.

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

	2018			2017		
		December 31, 2018			December 31, 2017	
	Average number of employees	Number of employees	Percentage of women	Average number of employees	Number of employees	Percentage of women
Senior executives	**196**	**208**	**27%**	166	190	24%
Ground employees:						
Managerial	**1,829**	**1,906**	**41%**	2,334	2,296	43%
Non-managerial	**33,230**	**32,161**	**35%**	32,572	32,877	35%
Technical crew:						
Managerial	**6,673**	**6,726**	**17%**	6,644	6,595	11%
Non-managerial	**22,806**	**22,530**	**66%**	21,706	22,036	68%
	64,734	**63,531**		63,422	63,994	

8 Finance costs, income and other non-operating (charges)/credits

a Finance costs

€ million	2018	2017
Interest expense on:		
Bank borrowings	**(17)**	(20)
Finance leases	**(144)**	(116)
Provisions unwinding of discount	**(27)**	(20)
Other borrowings	**(56)**	(75)
Capitalised interest on progress payments	**13**	7
Change in fair value of cross currency swaps	**–**	(1)
	(231)	(225)

b Finance income

€ million	2018	2017
Interest on other interest-bearing deposits	**33**	28
Other finance income	**8**	17
	41	45

c Net financing credit/(charge) relating to pensions

€ million	2018	2017
Net financing credit/(charge) relating to pensions	**27**	(28)

d Other non-operating (charges)/credits

€ million	2018	2017
Loss on sale of property, plant and equipment and investments	**(29)**	(30)
Gain related to equity investments (note 16)	**5**	7
Share of profits in investments accounted for using the equity method (note 15)	**5**	3
Realised gain/(losses) on derivatives not qualifying for hedge accounting	**20**	(19)
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	**(10)**	28
	(9)	(11)

9 Tax

a Tax charges

Tax (charge)/credit in the Income statement, Other comprehensive income and Statement of changes in equity:

For the year to December 31, 2018

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	4	–	–	**4**
Movement in respect of current year	(475)	162	–	**(313)**
Total current tax	(471)	162	–	**(309)**
Deferred tax				
Movement in respect of prior years	22	–	–	**22**
Movement in respect of current year	(144)	206	–	**62**
Tax rate change	3	(13)	–	**(10)**
Total deferred tax	(119)	193	–	**74**
Total tax	(590)	355	–	**(235)**

Current tax in Other comprehensive income relates to employee retirement benefit plans, (€136m) and cash flow hedges (€26m).

9 Tax continued

For the year to December 31, 2017 (restated)

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	12	–	–	12
Movement in respect of current year	(319)	126	1	(192)
Total current tax	(307)	126	1	(180)
Deferred tax				
Movement in respect of prior years	(8)	–	–	(8)
Movement in respect of current year	(155)	(307)	2	(460)
Tax rate change	(2)	12	–	10
Total deferred tax	(165)	(295)	2	(458)
Total tax	(472)	(169)	3	(638)

Current tax in Other comprehensive income relates to employee retirement benefit plans and current tax in the Statement of changes in equity relates to share-based payment schemes.

Current tax account

€ million	Restated opening balance	Income statement	Other comprehensive income	Statement of changes in equity	Cash	Exchange movements	Closing balance
2018	**180**	**(471)**	**162**	**–**	**343**	**4**	**218**
2017	127	(307)	126	1	237	(4)	180

Current tax asset is €383 million (2017 restated: €258 million) and current tax liability is €165 million (2017 restated: €78 million).

b Deferred tax

For the year to December 31, 2018

€ million	Restated opening balance	Income statement	Other comprehensive income	Statement of changes in equity	Exchange movements and other	Closing balance
Property, plant and equipment	(1,029)	19	–	–	11	(999)
Employee leaving indemnities and other employee related provisions	374	(25)	–	–	(1)	348
Tax losses carried forward	352	(15)	–	–	–	337
Fair value losses recognised on cash flow hedges	39	–	195	–	–	234
Employee benefit plans	140	(96)	(2)	–	–	42
Tax assets in relation to tax credits and deductions	78	(3)	–	–	(1)	74
Share-based payment schemes	15	2	–	–	(1)	16
Foreign exchange	2	(3)	–	–	–	(1)
Deferred revenue	7	2	–	–	–	9
Other items	19	–	–	–	4	23
Total deferred tax	**(3)**	**(119)**	**193**	**–**	**12**	**83**

The deferred tax asset is €536 million (2017 restated: €523 million) and mainly arises in Spain. A reversal of €87 million on the deferred tax asset is expected within one year and the remainder beyond one year.

The deferred tax liability is €453 million (2017 restated: €526 million).

Within tax in Other comprehensive income is a tax credit of €222 million (2017: tax charge of €9 million) that may be reclassified to the Income statement and a tax credit of €133 million (2017 restated: tax charge of €160 million) that may not.

9 Tax continued

For the year to December 31, 2017

€ million	Restated opening balance	Income statement	Other comprehensive income	Statement of changes in equity	Exchange movements and other	Restated closing balance
Property, plant and equipment	(1,065)	4	–	–	32	(1,029)
Employee leaving indemnities and other employee related provisions	372	3	–	–	(1)	374
Tax losses carried forward	407	(59)	–	–	4	352
Fair value losses recognised on cash flow hedges	68	–	(21)	–	(8)	39
Employee benefit plans	441	(14)	(274)	–	(13)	140
Tax assets in relation to tax credits and deductions	78	–	–	–	–	78
Share-based payment schemes	13	1	–	2	(1)	15
Foreign exchange	9	(6)	–	–	(1)	2
Deferred revenue	101	(94)	–	–	–	7
Other items	27	–	–	–	(8)	19
Total deferred tax	451	(165)	(295)	2	4	(3)

c Reconciliation of the total tax charge in the Income statement

The tax charge is calculated at the domestic rates applicable to profits or losses in the Group's main countries of operation. The tax charge on the profit for the year to December 31, 2018 is lower than the notional tax charge.

The differences are explained below:

€ million	2018	2017 (restated)
Accounting profit before tax	**3,487**	2,481
Tax calculated at 25 per cent in Spain (2017: 25 per cent), 19.00 per cent in the UK (2017: 19.25 per cent) and 12.5 per cent in Ireland (2017: 12.5 per cent)[1]	**671**	480
Effects of:		
Tax rate changes	**(3)**	2
Employee benefit plans accounted for net of withholding tax- recurring	**(1)**	(4)
Employee benefit plans accounted for net of withholding tax - non-recurring	**(53)**	–
Euro preferred securities accounted for as non-controlling interests	**(2)**	(4)
Investment credit	**(10)**	(7)
Movement in respect of prior years	**(26)**	(4)
Current year tax assets not recognised	**9**	4
Disposal and write down of investments	**(1)**	–
Non-deductible expenses - recurring items	**7**	6
Other items	**(1)**	(1)
Tax charge in the income statement	**590**	472

1 The expected tax charge is arrived at by aggregating the expected tax charges arising in each company in the Group. It changes each year as tax rates and profit mix change.

d Other taxes

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

€ million	2018	2017
Payroll related taxes	**509**	478
UK Air Passenger Duty	**885**	838
Other ticket taxes and charges	**1,758**	1,694
	3,152	3,010

9 Tax continued

e Factors that may affect future tax charges

Unrecognised temporary differences - losses

€ million	2018	2017
Spanish corporate income tax losses and other temporary differences	**47**	47
UK capital losses arising:		
Before the change in ownership of the UK Group in 2011	**36**	36
After the change in ownership of the UK Group in 2011	**8**	8
On properties that were eligible for Industrial Buildings Allowances	**272**	283
Irish capital losses	**25**	25
Corporate income tax losses outside of the Group's main countries of operation	**210**	179

None of the unrecognised temporary differences have an expiry date.

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €2,826 million (2017 restated: €1,905 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

Tax rate changes

Reductions in the UK corporation tax rate to 19% (effective from April 1, 2017) and to 18% (effective April 1, 2020) were substantively enacted on October 26, 2015, and an additional reduction to 17% (effective April 1, 2020) was substantively enacted on September 6, 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax on temporary differences and tax losses at December 31, 2018 has been calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

Tax audits

The Group files income tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to potentially differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

10 Earnings per share

€ million	2018	2017 (restated)
Earnings attributable to equity holders of the parent for basic earnings	**2,885**	1,989
Interest expense on convertible bonds	**18**	17
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	**2,903**	2,006

	2018 Number '000	2017 Number '000
Weighted average number of ordinary shares in issue[1]	**2,021,622**	2,088,489
Assumed conversion on convertible bonds	**72,944**	72,418
Dilutive employee share schemes outstanding	**18,515**	18,446
Weighted average number for diluted earnings per share	**2,113,081**	2,179,353

€ cents	2018	2017 (restated)
Basic earnings per share	**142.7**	95.2
Diluted earnings per share	**137.4**	92.0

1 Includes 27 million as the weighted average impact for 65,956,660 treasury shares purchased in the share buyback programme (note 27).

The calculation of basic and diluted earnings per share before exceptional items is included in the Alternative performance measures section.

11 Dividends

€ million	2018	2017
Cash dividend declared		
Interim dividend for 2018 of 14.5 € cents per share (2017: 12.5 € cents per share)	**288**	256
Final dividend for 2017 of 14.5 € cents per share (2016: 12.5 € cents per share)	**294**	262
Proposed cash dividends		
Final dividend for 2018 of 16.5 € cents per share	**327**	
Special dividend of 35.0 € cents per share	**700**	

The proposed final dividend for 2018 would be distributed from net profit for the year to December 31, 2018.

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and subject to approval are recognised as a liability on that date.

12 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2017	19,739	2,210	1,533	23,482
Additions	1,290	52	102	1,444
Disposals	(532)	(31)	(101)	(664)
Exchange movements	(799)	(88)	(50)	(937)
Balance at December 31, 2017	19,698	2,143	1,484	23,325
Additions	2,255	79	140	**2,474**
Disposals	(1,130)	–	(125)	**(1,255)**
Exchange movements	(310)	(34)	(17)	**(361)**
December 31, 2018	**20,513**	**2,188**	**1,482**	**24,183**
Depreciation and impairment				
Balance at January 1, 2017	9,195	1,053	1,007	11,255
Charge for the year	924	57	83	1,064
Disposals	(242)	(26)	(78)	(346)
Exchange movements	(412)	(44)	(38)	(494)
Balance at December 31, 2017	9,465	1,040	974	11,479
Charge for the year	984	55	83	**1,122**
Disposals	(562)	–	(95)	**(657)**
Exchange movements	(164)	(18)	(16)	**(198)**
December 31, 2018	**9,723**	**1,077**	**946**	**11,746**
Net book values				
December 31, 2018	**10,790**	**1,111**	**536**	**12,437**
December 31, 2017	10,233	1,103	510	11,846
Analysis at December 31, 2018				
Owned	3,935	987	401	**5,323**
Finance leased	5,695	4	68	**5,767**
Progress payments	1,069	118	65	**1,252**
Assets not in current use	91	2	2	**95**
Property, plant and equipment	**10,790**	**1,111**	**536**	**12,437**
Analysis at December 31, 2017				
Owned	3,875	1,027	400	5,302
Finance leased	5,231	4	62	5,297
Progress payments	958	71	47	1,076
Assets not in current use	169	1	1	171
Property, plant and equipment	10,233	1,103	510	11,846

12 Property, plant and equipment continued

The net book value of property comprises:

€ million	2018	2017
Freehold	**448**	464
Long leasehold improvements > 50 years	**330**	315
Short leasehold improvements < 50 years	**333**	324
Property	**1,111**	1,103

At December 31, 2018, bank and other loans of the Group are secured on fleet assets with a cost of €467 million (2017: €938 million) and letters of credit of €256 million in favour of the British Airways Pension Trustees are secured on certain aircraft
(2017: €260 million).

13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €10,831 million (December 31, 2017: €12,137 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €10,716 million for the acquisition of 71 Airbus A320s (from 2019 to 2022), 21 Airbus A321s (from 2019 to 2020), 4 Airbus A330s (in 2019), 41 Airbus A350s (from 2019 to 2022), 4 Boeing 777-300s (in 2020) and 12 Boeing 787s (from 2020 to 2023).

14 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Software	Other	Total
Cost							
Balance at January 1, 2017	598	451	253	1,556	861	99	3,818
Additions	–	–	–	1	131	43	175
Disposals	–	–	–	–	(6)	(18)	(24)
Exchange movements	(2)	–	–	(38)	(38)	4	(74)
Balance at December 31, 2017	596	451	253	1,519	948	128	3,895
Additions	–	–	–	55	195	105	**355**
Disposals	–	–	–	–	(14)	(20)	**(34)**
Exchange movements	(1)	–	–	(15)	(13)	(2)	**(31)**
December 31, 2018	**595**	**451**	**253**	**1,559**	**1,116**	**211**	**4,185**
Amortisation and impairment							
Balance at January 1, 2017	249	–	–	98	387	47	781
Charge for the year	–	–	–	6	110	4	120
Disposals	–	–	–	–	(5)	–	(5)
Exchange movements	–	–	–	(3)	(17)	1	(19)
Balance at December 31, 2017	249	–	–	101	475	52	877
Charge for the year	–	–	–	6	123	3	**132**
Disposals	–	–	–	–	(13)	–	**(13)**
Exchange movements	–	–	–	(1)	(8)	–	**(9)**
December 31, 2018	**249**	**–**	**–**	**106**	**577**	**55**	**987**
Net book values							
December 31, 2018	**346**	**451**	**253**	**1,453**	**539**	**156**	**3,198**
December 31, 2017	347	451	253	1,418	473	76	3,018

1 The net book value includes non-EU based landing rights of €100 million (2017: €106 million) that have a definite life. The remaining life of these landing rights is 17 years.

14 Intangible assets and impairment review continued

b Impairment review

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

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	**Total**
2018					
Iberia					
January 1 and December 31, 2018	–	423	306	–	**729**
British Airways					
January 1, 2018	47	738	–	–	**785**
Additions	–	55	–	–	**55**
Transfer to other Group companies	–	(12)	–	–	**(12)**
Exchange movements	(1)	(14)	–	–	**(15)**
December 31, 2018	46	767	–	–	**813**
Vueling					
January 1 and December 31, 2018	28	89	35	–	**152**
Aer Lingus					
January 1 and December 31, 2018	272	62	110	–	**444**
Avios					
January 1 and December 31, 2018	–	–	–	253	**253**
Other Group companies					
January 1, 2018	–	–	–	–	**–**
Transfer from British Airways	–	12	–	–	**12**
December 31, 2018	–	12	–	–	**12**
December 31, 2018	**346**	**1,353**	**451**	**253**	**2,403**

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2017					
Iberia					
January 1 and December 31, 2017	–	423	306	–	729
British Airways					
January 1, 2017	49	771	–	–	820
Additions	–	1	–	–	1
Exchange movements	(2)	(34)	–	–	(36)
December 31, 2017	47	738	–	–	785
Vueling					
January 1 and December 31, 2017	28	89	35	–	152
Aer Lingus					
January 1 and December 31, 2017	272	62	110	–	444
Avios					
January 1 and December 31, 2017	–	–	–	253	253
December 31, 2017	347	1,312	451	253	2,363

14 Intangible assets and impairment review continued

Basis for calculating recoverable amount

The recoverable amounts of CGUs have been measured based on their value-in-use.

Value-in-use is calculated using a discounted cash flow model. Cash flow projections are based on the Business plan approved by the Board covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Annually the Group prepares and the Board approves five year business plans. Business plans were approved in the fourth quarter of the year. The business plan cash flows used in the value-in-use calculations reflect all restructuring of the business that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions

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

	2018				
Per cent	**British Airways**	**Iberia**	**Vueling**	**Aer Lingus**	**Avios**
Lease adjusted operating margin	**15**	**9-15**	**11-15**	**15**	**21[1]**
Average ASK growth per annum	**3-4**	**5-6**	**9-10**	**7-8**	**n/a[1]**
Long-term growth rate	**2.3**	**2.0**	**1.9**	**1.8**	**1.9**
Pre-tax discount rate	**8.3**	**9.0**	**8.4**	**8.3**	**9.3**

	2017				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin	15	10-14	12-15	15	21[1]
Average ASK growth per annum	2	8	10	5	n/a[1]
Long-term growth rate	2.3	2.0	2.0	2.0	2.0
Pre-tax discount rate	8.5	9.8	10.6	7.8	9.1

1 Operating margin for the Avios loyalty reward business is not adjusted for aircraft leases. ASK growth rate assumption is not applicable for Avios, which conducts business with partners both within and outside IAG.

Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan to 2023. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, based on planned network growth and taking into account Management's expectation of the market.

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The airline's network plans are reviewed annually as part of the Business plan and reflect Management's plans in response to specific market risk or opportunity.

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

Summary of results

In 2018, Management reviewed the recoverable amount of each of its CGUs and concluded the recoverable amounts exceeded the carrying values. Sensitivities have been considered for each CGU. Reducing long-term growth rates to zero, increasing pre-tax discount rates by 4 percentage points, and increasing the fuel price by 40 per cent, does not result in any impairment.

15 Investments

a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2018 are listed in the Group investments section.

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

On August 28, 2018, British Airways exercised its option to redeem its €300 million, 6.75 per cent fixed coupon preferred securities which were previously classified as a non-controlling interest. The total non-controlling interest at December 31, 2018 is €6 million (2017: €307 million).

British Airways Employee Benefit Trustee (Jersey) Limited, a wholly-owned subsidiary of British Airways, governs the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results.

b Investments in associates and joint ventures

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

€ million	**2018**	2017
Total assets	**113**	96
Total liabilities	**(77)**	(68)
Revenue	**75**	86
Profit for the year	**5**	3

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

€ million	**2018**	2017
At beginning of year	**30**	29
Share of retained profits	**5**	3
Additions	**–**	2
Disposals	**–**	(2)
Dividends received	**(2)**	(3)
Exchange movements	**(2)**	1
	31	30

At December 31, 2018 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At both December 31, 2018 and December 31, 2017 the investment in Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

16 Other equity investments

Other equity investments include the following:

€ million	**2018**	2017
Listed securities		
Comair Limited	**17**	23
Unlisted securities	**63**	56
	80	79

The gain relating to other equity investments was €5 million (2017: €7 million).

17 Trade and other receivables

€ million	2018	2017 (restated)
Amounts falling due within one year		
Trade receivables	**1,695**	1,526
Provision for expected credit loss	**(98)**	(63)
Net trade receivables	**1,597**	1,463
Prepayments and accrued income	**823**	764
Other non-trade debtors	**352**	194
	2,772	2,421
Amounts falling due after one year		
Prepayments and accrued income	**298**	297
Other interest-bearing deposits (greater than one year)	**–**	66
Other non-trade debtors	**11**	13
	309	376

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

€ million	2018	2017
At beginning of year	**63**	64
Provision for expected credit loss	**36**	15
Release of unused amounts	**(2)**	(1)
Receivables written off during the year	**1**	(13)
Exchange movements	**–**	(2)
	98	63

Trade receivables are generally non-interest-bearing and on 30 days terms (2017: 30 days).

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

December 31, 2018

€ million	Current	<30 days	30-60 days	>60 days
Trade receivables	**988**	**163**	**135**	**409**
Expected credit loss rate	**0.04%**	**0.29%**	**1.60%**	**23.26%**
Provision for expected credit loss	**1**	**–**	**2**	**95**

December 31, 2017

€ million	Current	<30 days	30-60 days	>60 days
Trade receivables	1,159	119	135	113
Expected credit loss rate	0.05%	1.13%	0.11%	53.92%
Provision for expected credit loss	1	1	–	61

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

€ million	2018	2017
Cash at bank and in hand	**2,453**	1,963
Short-term deposits maturing within three months	**1,384**	1,329
Cash and cash equivalents	**3,837**	3,292
Other current interest-bearing deposits maturing after three months	**2,437**	3,384
Cash, cash equivalents and other interest-bearing deposits	**6,274**	6,676

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

At December 31, 2018 the Group had no outstanding bank overdrafts (2017: nil).

Current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2018 Aer Lingus held €42 million of restricted cash (2017: €43 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

a Net debt

Movements in net debt were as follows:

€ million	Balance at January 1, 2018	Cash flows	Exchange movements	Non-cash	Balance at December 31, 2018
Bank and other loans	(1,824)	275	(4)	(28)	**(1,581)**
Finance leases	(5,507)	(254)	(134)	(33)	**(5,928)**
Interest-bearing borrowings	(7,331)	21	(138)	(61)	**(7,509)**
Cash and cash equivalents	3,292	583	(38)	–	**3,837**
Other current interest-bearing deposits	3,384	(924)	(23)	–	**2,437**
	(655)	(320)	(199)	(61)	**(1,235)**

€ million	Balance at January 1, 2017	Cash flows	Exchange movements	Non-cash	Balance at December 31, 2017
Bank and other loans	(1,913)	138	26	(75)	(1,824)
Finance leases	(6,602)	657	424	14	(5,507)
Interest-bearing borrowings	(8,515)	795	450	(61)	(7,331)
Cash and cash equivalents	3,337	141	(186)	–	3,292
Other current interest-bearing deposits	3,091	432	(139)	–	3,384
	(2,087)	1,368	125	(61)	(655)

19 Trade and other payables

€ million	2018	2017
Trade creditors	**2,079**	2,092
Other creditors	**1,007**	926
Other taxation and social security	**332**	238
Accruals and deferred income	**541**	467
	3,959	3,723

Average payment days to suppliers - Spanish Group companies

Days	2018	2017
Average payment days for payment to suppliers	**37**	37
Ratio of transactions paid	**33**	38
Ratio of transactions outstanding for payment	**119**	35

€ million	2018	2017
Total payments made	**6,306**	4,879
Total payments outstanding	**317**	140

20 Deferred revenue on ticket sales

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2018	1,752	2,990	**4,742**
Changes in estimates	–	(8)	**(8)**
Revenue recognised in the Income statement[1]	(733)	(22,027)	**(22,760)**
Loyalty points issued to customers	781	–	**781**
Cash received from customers	–	22,149	**22,149**
Other movements	(31)	(38)	**(69)**
Balance at December 31, 2018	**1,769**	**3,066**	**4,835**

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at December 31, 2016	1,300	2,845	4,145
Restated for IFRS 15	497	38	535
Balance at January 1, 2017	1,797	2,883	4,680
Changes in estimates	(2)	(43)	(45)
Revenue recognised in the income statement[1]	(704)	(19,803)	(20,507)
Loyalty points issued to customers	735	–	735
Cash received from customers	–	20,050	20,050
Other movements	(74)	(97)	(171)
Balance at December 31, 2017	1,752	2,990	4,742

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

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios points. Avios points are issued by the Group's airlines through their loyalty programmes, or are sold to third parties such as credit card providers, who issue them as part of their loyalty programme. Active customer accounts do not have an expiry date and revenue may therefore be recognised at any time in the future. Deferred revenue in respect of sales in advance of carriage consists of revenue allocated to airline tickets to be used for future travel. Typically these tickets expire within 12 months after the planned travel date, if they are not used within that time period.

21 Other long-term liabilities

€ million	2018	2017
Non-current trade creditors	**6**	3
Accruals and deferred income	**192**	219
	198	222

22 Long-term borrowings

a Current

€ million	2018	2017
Bank and other loans	**153**	183
Finance leases	**723**	747
	876	930

b Non-current

€ million	2018	2017
Bank and other loans	**1,428**	1,641
Finance leases	**5,205**	4,760
	6,633	6,401

Banks and other loans are repayable up to the year 2027. Bank and other loans of the Group amounting to €354 million (2017: €539 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

22 Long-term borrowings continued

c Bank and other loans

€ million	2018	2017
€500 million fixed rate 0.25 per cent convertible bond 2020[1]	**482**	472
€500 million fixed rate 0.625 per cent convertible bond 2022[1]	**460**	450
Floating rate euro mortgage loans secured on aircraft[2]	**252**	278
€200 million fixed rate unsecured bonds[3]	**175**	200
Floating rate euro syndicate loan secured on investments[4]	**99**	148
Fixed rate Chinese yuan mortgage loans secured on aircraft[5]	**53**	68
Fixed rate unsecured US dollar mortgage loan[6]	**43**	49
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[7]	**13**	15
Floating rate pound sterling mortgage loans secured on aircraft[8]	**4**	27
Fixed rate US dollar mortgage loans secured on aircraft[9]	**–**	117
	1,581	1,824
Less current instalments due on bank and other loans	**(153)**	(183)
	1,428	1,641

1 Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0.25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem each convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bonds contain dividend protection, and a total of 73,455,109 options related to the bonds were outstanding from issuance and at December 31, 2018.

2 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.182 and 1.191 per cent. The loans are repayable between 2024 and 2027.

3 Total of €200 million fixed rate unsecured bonds between 2.5 to 3.75 per cent coupon repayable between 2019 and 2027.

4 Floating rate euro syndicate loan secured on investments is secured on specific assets of the Group and bears interest of 1.375 per cent plus 3 month EURIBOR. The loan is repayable in 2020.

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

6 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.98 and 2.37 per cent. The loan is repayable in 2023.

7 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2019 and 2026.

8 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.81 per cent. The loans are repayable in 2019.

9 Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 and 4.76 per cent. The loans were repaid in 2018.

d Total loans and finance leases

Million	2018	2017
Loans		
Bank:		
US dollar	**$49**	$196
Euro	**€364**	€440
Pound sterling	**£4**	£25
Chinese yuan	**CNY 422**	CNY 525
	€465	€702
Fixed rate bonds:		
Euro	**€1,116**	€1,122
	€1,116	€1,122
Finance leases		
US dollar	**$3,259**	$2,882
Euro	**€2,308**	€2,296
Japanese yen	**¥77,379**	¥63,978
Pound sterling	**£134**	£258
	€5,928	€5,507
	€7,509	€7,331

22 Long-term borrowings continued

e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. These leases have both renewal and purchase options, at the option of the Group. Future minimum finance lease payments under finance leases are as follows:

€ million	2018	2017
Future minimum payments due:		
Within one year	**876**	875
Between one and five years	**3,186**	2,783
Over five years	**2,642**	2,464
	6,704	6,122
Less: finance charges	**(776)**	(615)
Present value of minimum lease payments	**5,928**	5,507
The present value of minimum lease payments is analysed as follows:		
Within one year	**723**	747
Between one and five years	**2,734**	2,409
Over five years	**2,471**	2,351
	5,928	5,507

23 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from less than one year to 13 years for aircraft and less than one year to five years for property, plant and equipment. One ground lease has a remaining lease of 127 years. Certain leases contain options for renewal.

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

	2018			2017		
€ million	**Fleet**	**Property, plant and equipment**	**Total**	Fleet	Property, plant and equipment	Total
Within one year	**975**	**148**	**1,123**	802	190	992
Between one and five years	**3,049**	**362**	**3,411**	2,559	340	2,899
Over five years	**2,235**	**1,895**	**4,130**	1,789	1,962	3,751
	6,259	**2,405**	**8,664**	5,150	2,492	7,642

Sub-leasing

The Group entered into subleases for certain surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of one to six years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are €13 million (2017: €8 million) with €4 million (2017: €7 million) falling within one year, €9 million (2017: €1 million) between one and five years and nil (2017: nil) over five years.

24 Provision 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, 2018	1,125	727	599	140	69	**2,660**
Provisions recorded during the year	378	192	223	43	100	**936**
Utilised during the year	(150)	(220)	(202)	(46)	(90)	**(708)**
Release of unused amounts	(42)	(8)	(45)	(26)	(5)	**(126)**
Unwinding of discount	6	4	16	1	–	**27**
Exchange differences	42	(2)	–	–	(2)	**38**
Net book value December 31, 2018	**1,359**	**693**	**591**	**112**	**72**	**2,827**
Analysis:						
Current	148	237	60	78	36	**559**
Non-current	1,211	456	531	34	36	**2,268**
	1,359	**693**	**591**	**112**	**72**	**2,827**

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under operating leases. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provision is a long-term provision, typically covering the leased asset term which is up to 13 years.

Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 0.39 per cent. The payments related to this provision will continue over next ten years. During the year the Group recognised a provision of €136 million in relation to the restructuring plans at British Airways (note 4). The transformation programme has now been completed.

At December 31, 2018, €682 million of this provision related to collective redundancy programmes (2017: €719 million).

Employee leaving indemnities and other employee related provisions

This provision includes employees leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2018 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 1.59 per cent and 0.39 per cent depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 1.50 per cent annual increase in the Consumer Price Index (CPI). This is mainly a long-term provision. The amount relating to this provision was €523 million at December 31, 2018 (2017: €542 million).

Legal claims provisions

Legal claims provisions includes:

- amounts for multi-party claims from groups or employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination;
- provisions related to tax assessments; and
- amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group’s passenger and cargo businesses.

The final amount required to pay the remaining claims and fines is subject to uncertainty (note 31).

This provision includes the payment of €104 million for the reissued fine in March 2017 against British Airways, related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses (note 31).

24 Provision for liabilities and charges continued

Other provisions

Other provisions includes:

- amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and is expected to have amounts both utilised and provided for each year. This provision is reassessed based on the historic level of claims;
- a provision for the Emissions Trading Scheme that for CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted; and
- a provision related to unfavourable fleet contracts.

25 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk and liquidity risk. Further information on the Group's financial instruments exposure to these risks is disclosed on note 26. The Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial markets movements.

Financial risks are managed under the oversight of the Group Treasury department. Fuel price fluctuations, euro-US dollar and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other currencies as well as interest rate risk are also the subject of the Financial Risk Management programme. The IAG Management Committee approves the Group hedging profile and delegates to the operating company Risk Committee to agree on the degree of flexibility in applying the levels as defined by the IAG Management Committee. Each operating company Risk Committee meets at least once a month to review and approve a mandate to place hedging cover in the market including the instruments to be used.

The Group Treasury Committee provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy and risk appetite once a year.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The Group strategy is to hedge a proportion of fuel consumption for up to three years, within certain defined limits.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivatives instruments available on over the counter (OTC) markets with approved counterparties.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity:

2018			2017		
Increase/(decrease) in fuel price per cent	**Effect on result before tax € million**	**Effect on equity € million**	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	**0**	**1,613**	30	41	1,142
(30)	**(3)**	**(1,695)**	(30)	(48)	(1,039)

b Foreign currency risk

The Group presents its consolidated financial statements in euros, has subsidiaries with functional currencies in euro and pound sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as fuel purchases, maintenance expenses and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risk. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The Group strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years, within certain defined limits.

British Airways utilises its US dollar, euro, Japanese yen and Chinese yuan debt repayments as a hedge of future US dollar, euro, Japanese yen and Chinese yuan revenues. Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps and US dollar financial assets that eliminate the profit and loss volatility arising from revaluation of these items into euros. Vueling and Aer Lingus manage their net position in US dollars using derivative financial instruments.

25 Financial risk management objectives and policies continued

The following table demonstrates the sensitivity of the Group's foreign exchange exposure to a reasonable possible change in the US dollar, sterling, Japanese yen and Chinese yuan exchange rates, with all other variables held constant, on result before tax and equity:

	Strengthening/(weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in Chinese yuan rate per cent	Effect on result before tax € million	Effect on equity € million
2018	**10**	**(16)**	**(9)**	**10**	**(40)**	**262**	**10**	**(6)**	**(54)**	**10**	**–**	**(6)**
	(10)	**18**	**91**	**(10)**	**41**	**(273)**	**(10)**	**1**	**54**	**(10)**	**–**	**6**
2017	10	(2)	253	10	(36)	232	10	(2)	(45)	10	–	(7)
	(10)	6	(72)	(10)	35	(233)	(10)	2	45	(10)	–	7

c Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits.

Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars. After taking into account the impact of these derivatives, 77 per cent of the Group's borrowings were at fixed rates and 23 per cent were at floating rates.

All cash deposits are generally on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of the Group's interest rate exposure to a reasonable possible change in the US dollar, euro and pound sterling interest rates, on result before tax and equity:

	Strengthening/(weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in pound sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2018	**50**	**(1)**	**20**	**50**	**2**	**16**	**50**	**2**	**–**
	(50)	**1**	**(20)**	**(50)**	**(2)**	**(25)**	**(50)**	**(2)**	**–**
2017	50	(1)	–	50	(6)	–	50	3	–
	(50)	1	–	(50)	6	–	(50)	(3)	–

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through IAG Group Treasury Policies. The Committee also reviews the application of the policies and procedures by British Airways, Iberia, Vueling and Aer Lingus. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits for the counterparty to British Airways, Iberia, Vueling and Aer Lingus. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every Group Treasury Committee meeting.

Operating companies invest cash in interest-bearing accounts, time deposits, and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom. At the reporting date the operating companies held money market funds and other liquid assets that are expected to readily generate cash inflows for managing liquidity risk.

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

At December 31, 2018 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2018**	2017
United Kingdom	**42%**	42%
Spain	**–**	1%
Ireland	**3%**	2%
Rest of Eurozone	**33%**	33%
Rest of world	**22%**	22%

25 Financial risk management objectives and policies continued

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of committed credit facilities and the ability to close out market positions.

At December 31, 2018 the Group had undrawn overdraft facilities of €11 million (2017: €16 million). The Group held undrawn uncommitted money market lines of €28 million (2017: €28 million).

The Group held undrawn general and committed aircraft financing facilities:

	2018	
Million	**Currency**	**€ equivalent**
Euro facilities expiring between January and June 2020	**€131**	**131**
US dollar facility expiring December 2021	**$1,164**	**1,024**
US dollar facility expiring June 2022	**$1,044**	**918**

	2017	
Million	Currency	€ equivalent
Euro facilities expiring between January and October 2018	€217	217
US dollar facility expiring December 2021	$1,164	985
US dollar facility expiring June 2022	$1,053	891

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

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total 2018**
Interest-bearing loans and borrowings:						
Finance lease obligations	(509)	(367)	(882)	(2,304)	(2,642)	**(6,704)**
Fixed rate borrowings	(53)	(18)	(533)	(645)	(58)	**(1,307)**
Floating rate borrowings	(18)	(67)	(80)	(93)	(118)	**(376)**
Trade and other payables	(3,591)	–	(13)	–	–	**(3,604)**
Derivative financial instruments (assets):						
Interest rate derivatives	11	2	2	6	4	**25**
Foreign exchange contracts	69	58	122	72	–	**321**
Fuel derivatives	23	18	15	1	–	**57**
Derivative financial instruments (liabilities):						
Interest rate derivatives	(18)	(7)	(13)	(16)	(1)	**(55)**
Foreign exchange contracts	(16)	(8)	(18)	(16)	–	**(58)**
Fuel derivatives	(342)	(290)	(270)	(110)	–	**(1,012)**
December 31, 2018	**(4,444)**	**(679)**	**(1,670)**	**(3,105)**	**(2,815)**	**(12,713)**

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2017
Interest-bearing loans and borrowings:						
Finance lease obligations	(426)	(449)	(801)	(1,982)	(2,464)	(6,122)
Fixed rate borrowings	(31)	(58)	(99)	(1,224)	(77)	(1,489)
Floating rate borrowings	(29)	(76)	(85)	(144)	(150)	(484)
Trade and other payables	(3,411)	–	(15)	–	–	(3,426)
Derivative financial instruments (assets):						
Interest rate derivatives	–	–	1	–	–	1
Foreign exchange contracts	45	10	10	2	–	67
Fuel derivatives	207	141	112	22	–	482
Derivative financial instruments (liabilities):						
Foreign exchange contracts	(51)	(58)	(78)	(36)	–	(223)
Fuel derivatives	(2)	–	–	–	–	(2)
December 31, 2017	(3,698)	(490)	(955)	(3,362)	(2,691)	(11,196)

25 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities

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

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

December 31, 2018

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	**Net amount**
Financial assets					
Derivative financial assets	363	13	376	(7)	**369**
Financial liabilities					
Derivative financial liabilities	1,092	(13)	1,079	(7)	**1,072**

December 31, 2017

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	551	(1)	550	(5)	545
Financial liabilities					
Derivative financial liabilities	226	(1)	225	(5)	220

g Capital risk management

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

The Group monitors capital on the basis of the adjusted net debt to EBITDAR ratio. For the year to December 31, 2018, the adjusted net debt to EBITDAR was 1.6 times (2017: 1.5 times). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the financial review.

26 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2018 and December 31, 2017 by nature and classification for measurement purposes is as follows:

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**

December 31, 2017

	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	–	79	–	–	79
Derivative financial instruments	–	–	145	–	145
Other non-current assets	200	–	–	176	376
Current assets					
Trade receivables	1,463	–	–	–	1,463
Other current assets	337	–	–	621	958
Derivative financial instruments	–	–	405	–	405
Other current interest-bearing deposits	3,384	–	–	–	3,384
Cash and cash equivalents	3,292	–	–	–	3,292

26 Financial instruments continued

€ million	Financial liabilities				
	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long-term borrowings	6,401	–	–	–	6,401
Derivative financial instruments	–	–	114	–	114
Other long-term liabilities	15	–	–	207	222
Current liabilities					
Current portion of long-term borrowings	930	–	–	–	930
Trade and other payables	3,411	–	–	312	3,723
Derivative financial instruments	–	–	111	–	111

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

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

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

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 December 31, 2018 are as follows:

€ million	Fair value				**Carrying value**
	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Other equity investments	17	–	63	80	**80**
Derivative financial assets:					
Interest rate derivatives[1]	–	12	–	12	**12**
Foreign exchange contracts[1]	–	321	–	321	**321**
Fuel derivatives[1]	–	43	–	43	**43**
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	6,086	–	6,086	**5,928**
Fixed rate borrowings	1,096	113	–	1,209	**1,226**
Floating rate borrowings	–	355	–	355	**355**
Derivative financial liabilities:					
Interest rate derivatives[2]	–	43	–	43	**43**
Foreign exchange contracts[2]	–	54	–	54	**54**
Fuel derivatives[2]	–	982	–	982	**982**

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

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

26 Financial instruments continued

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2017 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Other equity investments	23	–	56	79	79
Derivative financial assets:					
Interest rate derivatives[1]	–	1	–	1	1
Foreign exchange contracts[1]	–	67	–	67	67
Fuel derivatives[1]	–	482	–	482	482
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	5,639	–	5,639	5,507
Fixed rate borrowings	1,079	287	–	1,366	1,371
Floating rate borrowings	–	453	–	453	453
Derivative financial liabilities:					
Foreign exchange contracts[2]	–	223	–	223	223
Fuel derivatives[2]	–	2	–	2	2

1 Current portion of derivative financial assets is €405 million.

2 Current portion of derivative financial liabilities is €111 million.

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

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

c Level 3 financial assets reconciliation

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

€ million	**December 31, 2018**	December 31, 2017
Opening balance for the year	**56**	58
Additions	**8**	1
Exchange movements	**(1)**	(3)
Closing balance for the year	**63**	56

d Hedges

Cash flow hedges

At December 31, 2018 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayments in foreign currency (predominantly US dollar loan repayments), hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the loans are recognised in equity and transferred to the income statement within revenue when the loan is repaid (generally in instalments over the life of the loan).
- Foreign exchange contracts, hedging foreign currency exchange risk on revenue cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement or balance sheet to match against the related cash inflow or outflow.
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel expenditure. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the income statement within fuel, oil costs and emissions charges to match against the related fuel cash outflow.
- Interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments.

26 Financial instruments continued

The amounts included in equity and the related notional amounts are summarised below, along with the analysis of gains and losses recognised in the year associated with these instruments:

(Gains)/losses in respect of cash flow hedges included within equity € million	**December 31, 2018**	December 31, 2017
Loan repayments to hedge future revenue	**682**	586
Foreign exchange contracts to hedge future revenue and expenditure[1]	**(216)**	163
Crude, gas oil and jet kerosene derivative contracts[1]	**933**	(474)
Derivatives used to hedge interest rates[1]	**34**	–
Instruments for which hedge accounting no longer applies[1]	**22**	–
	1,455	275
Related tax credit	**(267)**	(44)
Total amount included within equity	**1,188**	231

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

Notional principal amounts (€ million)	Hedge range	Within 1 year	1-2 years	2-5 years	**Total December 31, 2018**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.22-1.50	1,982	1,858	1,685	**5,525**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.06-1.34	2,299	1,993	2,197	**6,489**

1 Represents the value of the hedged item.

Crude, gas oil and jet kerosene derivative contracts are used to hedge fuel purchases over a period of up to three years. Notional quantities associated with these contracts at December 31, 2018 amounted to 14 million tonnes (2017: 8 million tonnes) with a hedge price range of USD469 – 787 (2017: USD388 – 725).

The Group's loan repayment instalments used to hedge foreign currency risk on future revenue inflows were predominantly in US dollars and euros. At December 31, 2018 the related borrowings were $2,795 million (2017: $2,511 million); and €1,722 million (2017: €1,922 million).

For the year to December 31, 2018 (€ million)	(Gains)/losses recognised in Other comprehensive income[1]	(Gains)/losses associated with ineffectiveness recognised in the Income statement[2]	Total recognised (gains)/ losses	Gains/(losses) reclassified to the Income statement	Gains/(losses) reclassified to the Balance sheet
Loan repayments to hedge future revenue	208	–	208	(82)	–
Foreign exchange contracts to hedge future revenue and expenditure	(387)	–	(387)	10	1
Crude, gas oil and jet kerosene derivative contracts	732	16	748	672	–
Derivatives used to hedge interest rates	37	–	37	(2)	–
Instruments for which hedge accounting no longer applies	6	–	6	(2)	–
	596	16	612	596	1

1 Gains and losses recognised in Other comprehensive income represent gains and losses on the hedged items.

2 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within other non-operating (charges)/credits.

26 Financial instruments continued

Notional principal amounts (€ million)	Hedge range	Within 1 year	1-2 years	2-5 years	Total December 31, 2017
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.22-1.53	1,406	1,097	620	3,123
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.04-1.27	1,212	985	582	2,779

1 Represents the value of the hedged item.

For the year to December 31, 2017 (€ million)	(Gains)/losses recognised in Other comprehensive income[1]	(Gains)/losses associated with ineffectiveness recognised in the Income statement[2]	Total recognised (gains)/ losses	Gains/(losses) reclassified to the Income statement[3]
Loan repayments to hedge future revenue	(111)	–	(111)	(87)
Foreign exchange contracts to hedge future revenue and expenditure	299	1	300	44
Crude, gas oil and jet kerosene derivative contracts	(302)	(9)	(311)	(4)
Derivatives used to hedge interest rates	(1)	–	(1)	2
	(115)	**(8)**	**(123)**	**(45)**

1 Gains and losses recognised in Other comprehensive income represent gains and losses on the hedged items.

2 Ineffectiveness recognised in the Income statement is presented as Realised and Unrealised gains and losses on derivatives not qualifying for hedge accounting within other non-operating (charges)/credits.

3 For the year to December 31, 2017, there were no gains or losses reclassified to the Balance Sheet.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the hedging instruments match the terms of the highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships.

The Group has no significant fair value hedges at December 31, 2018 and 2017.

27 Share capital, share premium and treasury shares

Alloted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
January 1, 2018: Ordinary shares of €0.50 each	2,057,990	1,029	6,022
Cancellation of ordinary shares of €0.50 each	(65,957)	(33)	–
December 31, 2018	**1,992,033**	**996**	**6,022**

During the year IAG carried out a €500 million share buyback programme as part of its corporate finance strategy to return cash to shareholders. The programme was executed between May and October 2018 during which time IAG acquired and subsequently cancelled 65,956,660 ordinary shares. A total of 1.2 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2018 the Group held 8.7 million shares (2017: 9.9 million) which represented 0.44 per cent of the issued share capital of the Company.

28 Share-based payments

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

a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. In 2014, a conditional award of shares was subject to the achievement of a variety of performance conditions, which vest after three years subject to the employee remaining employed by the Group. From 2015, the awards were made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The award made in 2014 vests based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The awards made from 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

b IAG Incentive Award Deferral Plan

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

c Share-based payment schemes summary

	Outstanding at January 1, 2018 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	**Outstanding at December 31, 2018 '000s**	Vested and exercisable December 31, 2018 '000s
Performance Share Plans	14,138	4,615	2,050	154	**16,549**	57
Incentive Award Deferral Plans	4,299	1,986	144	1,903	**4,238**	17
	18,437	**6,601**	**2,194**	**2,057**	**20,787**	**74**

The fair value of equity-settled share-based payment plans determined using the Monte-Carlo valuation model, taking into account the terms and conditions upon which the plans were granted, used the following assumptions:

	December 31, 2018	December 31, 2017
Expected share price volatility (per cent)	**35**	35
Expected comparator group volatility (per cent)	**20**	20
Expected comparator correlation (per cent)	**60**	65
Expected life of options (years)	**4.6**	4.8
Weighted average share price at date of grant (£)	**6.91**	5.46
Weighted average fair value (£)	**4.01**	3.66

Volatility was calculated with reference to the Group's weekly pound sterling share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The fair value of the PSP also takes into account a market condition of TSR as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge of €31 million for the year to December 31, 2018 (2017: €34 million).

29 Other reserves and non-controlling interest

For the year to December 31, 2018

€ million	Retained earnings	Unrealised gains and losses[1]	Time value of options[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Redeemed capital reserve[6]	Total other reserves	Non-controlling interest[7]
	Other reserves								
January 1, 2018	2,278	(161)	(3)	(133)	101	(2,467)	37	**(348)**	307
Profit for the year	2,885	–	–	–	–	–	–	**2,885**	12
Other comprehensive income for the year									
Cash flow hedges reclassified and reported in net profit:									
Passenger revenue	–	77	–	–	–	–	–	**77**	–
Fuel and oil costs	–	(565)	–	–	–	–	–	**(565)**	–
Currency differences	–	4	–	–	–	–	–	**4**	–
Finance costs	–	4	–	–	–	–	–	**4**	–
Net change in fair value of cash flow hedges	–	(491)	–	–	–	–	–	**(491)**	–
Net change in fair value of cost of hedging	–	–	13	–	–	–	–	**13**	–
Net change in fair value of other equity investments	–	(5)	–	–	–	–	–	**(5)**	–
Currency translation differences	–	–	–	(80)	–	–	–	**(80)**	–
Remeasurements of post-employment benefit obligations	(696)	–	–	–	–	–	–	**(696)**	–
Hedges reclassified and reported in property, plant and equipment	–	(1)	–	–	–	–	–	**(1)**	–
Cost of share-based payments	31	–	–	–	–	–	–	**31**	–
Vesting of share-based payment schemes	(15)	–	–	–	–	–	–	**(15)**	–
Dividend	(582)	–	–	–	–	–	–	**(582)**	–
Cancellation of treasury shares	(500)	–	–	–	–	–	33	**(467)**	–
Dividend of a subsidiary	–	–	–	–	–	–	–	**–**	(1)
Transfer between reserves	(77)	–	–	77	–	–	–	**–**	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	–	**–**	(312)
December 31, 2018	**3,324**	**(1,138)**	**10**	**(136)**	**101**	**(2,467)**	**70**	**(236)**	**6**

29 Other reserves and non-controlling interest continued

For the year to December 31, 2017

		Other reserves							
€ million	Retained earnings	Unrealised gains and losses[1]	Time value of options[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Redeemed capital reserve[6]	Total other reserves	Non-controlling interest[7]
January 1, 2017	952	(299)	–	(6)	101	(2,467)	–	(1,719)	308
Restatement for adoption of new standards	(468)	–	38	–	–	–	–	(430)	–
January 1, 2017 (restated)	484	(299)	38	(6)	101	(2,467)	–	(2,149)	308
Profit for the year	1,989	–	–	–	–	–	–	1,989	20
Other comprehensive income for the year									
Cash flow hedges reclassified and reported in net profit:									
Passenger revenue	–	84	–	–	–	–	–	84	–
Fuel and oil costs	–	(38)	–	–	–	–	–	(38)	–
Currency differences	–	(18)	–	–	–	–	–	(18)	–
Net change in fair value of cash flow hedges	–	101	–	–	–	–	–	101	–
Net change in fair value of cost of hedging	–	–	(41)	–	–	–	–	(41)	–
Net change in fair value of other equity investments	–	9	–	–	–	–	–	9	–
Currency translation differences	–	–	–	(127)	–	–	–	(127)	–
Remeasurements of post-employment benefit obligations	739	–	–	–	–	–	–	739	–
Cost of share-based payments	34	–	–	–	–	–	–	34	–
Vesting of share-based payment schemes	(33)	–	–	–	–	–	–	(33)	–
Dividend	(518)	–	–	–	–	–	–	(518)	–
Cancellation of treasury shares	(500)	–	–	–	–	–	37	(463)	–
Dividend of a subsidiary	–	–	–	–	–	–	–	–	(1)
Transfer between reserves	83	–	–	–	–	–	–	83	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	–	–	(20)
December 31, 2017	2,278	(161)	(3)	(133)	101	(2,467)	37	(348)	307

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

2 The time value of options reserve records fair value changes on the cost of hedging.

3 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve in 2018 is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.

4 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2018, this related to the €500 million fixed rate 0.25 per cent convertible bond and the €500 million fixed rate 0.625 per cent convertible bond (note 22).

5 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).

6 The redeemed capital reserve represents the nominal value of the decrease in share capital, relating to cancelled shares.

7 On August 28, 2018, British Airways exercised its option to redeem its €300 million, 6.75 per cent fixed coupon preferred security which was previously classified as a non-controlling interest. The total non-controlling interest at December 31, 2018 is €6 million. At December 31, 2018, non-controlling interests represent the shares in British Airways Plc and IB Opco Holding, S.L. held by UK and Spanish entities respectively, established for the purpose of implementing the British Airways and Iberia nationality structures. The route licences granted by civil aviation authorities in the UK and Spain require that the majority of the voting rights in British Airways and Iberia are held by UK and Spanish nationals. These entities own the majority of the voting rights in British Airways Plc and IB Opco Holding, S.L., with IAG holding 99 per cent of the economic rights in these companies.

30 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 24).

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees. The defined contribution scheme British Airways Retirement Plan (BARP) was closed to future contributions on March 31, 2018. The BARP and NAPS schemes (see below) have been replaced by a flexible benefit scheme, incorporating a new defined contribution scheme that offers a choice of contribution rates and the ability to opt for cash instead of a pension.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2018 were €214 million (2017: €135 million).

Defined benefit schemes

i APS and NAPS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. NAPS was closed to future accrual from March 31, 2018, resulting in a reduction of the defined benefit obligation. Following closure members' deferred pensions will now be increased annually by inflation up to five per cent per annum (measured using CPI), which is generally lower than the previous assumption for pay growth which included pay rises and promotions. NAPS members were offered a choice of transition arrangements, including non-cash options to increase their NAPS pensions prior to closure. The financial effect of the closure and the non-cash transition arrangements was a past service gain of €872 million which has been presented as an exceptional item net of transition costs of €192 million which were paid either directly to members or into their pension accounts. British Airways currently makes deficit contributions to NAPS of €333 million per annum until September 2027 plus additional contributions of up to €167 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.

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 CPI.

The Trustee of APS has proposed an additional discretionary increase above CPI inflation 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 High Court issued a judgement 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 judgement to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the judgement, the Trustee was allowed permission to appeal to the Supreme Court; the Trustee has appealed. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known. British Airways is committed to an existing recovery plan, which sees deficit payments of €61 million per annum until March 2023.

APS and NAPS are governed by separate Trustee Boards, although much of the business of the two schemes is common. Most main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three sub committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed on the March 31, 2012 position with respect to APS and March 31, 2015 with respect to NAPS (note 30i). The actuarial valuations performed at March 31, 2012 and March 31, 2015 are different to the valuation performed at December 31, 2018 under IAS 19 'Employee benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions. For example, IAS 19 requires the discount rate to be based on corporate bond yields regardless of how the assets are actually invested, which may not result in the calculations in this report being a best estimate of the cost to the Company of providing benefits under either Scheme. The investment strategy of each Scheme is likely to change over its life, so the relationship between the discount rate and the expected rate of return on each Scheme's assets may also change.

ii Other plans

British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme. In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

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

iii Cash payments

Cash payments in respect to pension obligations comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2018 net of service costs were €843 million (2017: €666 million) being the employer contributions of €716 million (2017: €899 million) less the current service cost of €55 million (2017: €233 million) (note 30b) and including payments made under transitional arrangements on the closure of NAPS to future accrual of €182 million.

30 Employee benefit obligations continued

a Employee benefit schemes recognised on the Balance Sheet

	2018			
€ million	**APS**	**NAPS**	**Other[1]**	**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[2]	**(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

	2017			
€ million	APS	NAPS	Other[1]	Total
Scheme assets at fair value	9,185	19,558	429	29,172
Present value of scheme liabilities	(7,606)	(20,060)	(697)	(28,363)
Net pension asset/(liability)	1,579	(502)	(268)	809
Effect of the asset ceiling[2]	(570)	–	–	(570)
Other employee benefit obligations	–	–	(8)	(8)
December 31, 2017	1,009	(502)	(276)	231
Represented by:				
Employee benefit assets				1,023
Employee benefit obligations				(792)
				231

1 The present value of scheme liabilities for the US PRMB was €13 million at December 31, 2018 (2017: €15 million).

2 APS and NAPS have an accounting surplus under IAS 19 (2017: APS only), which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	**2018**	2017
Defined benefit plans:		
Current service cost	**55**	233
Past service (credit)/cost[1]	**(586)**	2
	(531)	235
Defined contribution plans	**214**	135
Pension (credits)/costs recorded as employee costs	**(317)**	370

1 Past service net credit in 2018 includes a gain arising on the closure of NAPS to future accrual, resulting in a one-off reduction in the defined benefit obligation of €872 million and associated transitional arrangement cash costs of €192 million. On October 26, 2018 the High Court's judgement in the Lloyds Bank case confirmed that pension schemes are required to equalise for the effects of unequal GMPs accrued over the period since May 17, 1990. The estimated cost of equalising GMPs is €94 million. In determining the cost of equalising for GMPs, the Group has assumed that the Trustees will adopt Method C2 which was identified in the Lloyds judgement as the 'minimum interference' method which could be implemented without sponsor agreement.

30 Employee benefit obligations continued

Pension costs (credited)/charged as finance costs are:

€ million	2018	2017
Interest income on scheme assets	**(731)**	(730)
Interest expense on scheme liabilities	**690**	743
Interest expense on asset ceiling	**14**	15
Net financing (income)/expense relating to pensions	**(27)**	28

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2018	2017
Return on plan assets excluding interest income	**1,313**	(1,698)
Remeasurement of plan liabilities from changes in financial assumptions	**(997)**	530
Remeasurement of experience (gains)/losses	**(297)**	274
Remeasurement of the APS and NAPS asset ceilings	**806**	2
Exchange movements	**5**	(7)
Pension remeasurements charged/(credited) to Other comprehensive income	**830**	(899)

d Fair value of scheme assets

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

€ million	2018	2017
January 1	**29,172**	28,448
Interest income	**731**	730
Return on plan assets excluding interest income	**(1,313)**	1,698
Employer contributions[1]	**716**	881
Employee contributions	**128**	101
Benefits paid	**(1,340)**	(1,324)
Exchange movements	**(494)**	(1,362)
December 31	**27,600**	29,172

1 Includes employer contributions to APS of €111 million (2017: €109 million) and to NAPS of €582 million (2017: €748 million), of which deficit funding payments represented €108 million for APS (2017: €104 million) and €509 million for NAPS (2017: €516 million).

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

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

30 Employee benefit obligations continued

Scheme assets held by all defined benefit schemes operated by the Group at December 31 comprise:

€ million	2018	2017
Return seeking investments – equities		
UK	**1,737**	2,646
Rest of world	**4,602**	6,677
	6,339	9,323
Return seeking investments – other		
Private equity	**931**	777
Property	**1,917**	1,906
Alternative investments	**1,183**	1,023
	4,031	3,706
Liability matching investments		
UK fixed bonds	**4,885**	4,885
Rest of world fixed bonds	**70**	95
UK index-linked bonds	**5,019**	7,614
Rest of world index-linked bonds	**103**	177
	10,077	12,771
Other		
Cash and cash equivalents	**418**	670
Derivatives	**57**	178
Insurance contract	**1,663**	1,770
Longevity swap	**4,321**	(109)
Other	**694**	863
	27,600	29,172

All equities and bonds have quoted prices in active markets.

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

	December 31, 2018		December 31, 2017	
€ million	**APS**	**NAPS**	APS	NAPS
Return seeking investments	**702**	**9,477**	742	12,074
Liability matching investments	**1,538**	**8,457**	6,428	6,240
	2,240	**17,934**	7,170	18,314
Insurance contract and related longevity swap	**5,956**	**–**	1,637	–
Other	**176**	**912**	378	1,244
Fair value of scheme assets	**8,372**	**18,846**	9,185	19,558

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At December 31, 2018, the benchmark for APS was 8 per cent (2017: 9.5 per cent) in return seeking assets and 92 per cent (2017: 90.5 per cent) in liability matching investments; and for NAPS the benchmark was 49 per cent (2017: 65 per cent) in return seeking assets and 51 per cent (2017: 35 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and its investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which covers 24 per cent (2017: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. The Trustee of APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2017: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General and at the same time novated the two longevity swaps established in 2017 one with Canada Life and one with Partner Reinsurance which had covered 13 per cent and 8 per cent respectively of the pensioner liabilities. The buy-in contract covers all members in receipt of pension from APS at March 31, 2018, excluding dependent children receiving a pension at that date and members in receipt of equivalent pension (EPB) only benefits, who are alive on October 1, 2018. Benefits coming into payment for retirements after March 31, 2018 are not covered. The contract covers benefits payable from October 1, 2018 onwards. The policy covers approximately 60 per cent of all benefits APS expects to pay out in future. Along with existing insurance products (the asset swap and longevity swaps with Rothesay Life), APS is now 90 per cent protected against all longevity risk and fully protected in relation to all pensions that were already being paid as at March 31, 2018. It is also more than 90 per cent protected against interest rates and inflation (on a Retail Price Index (RPI) basis).

30 Employee benefit obligations continued

e Present value of scheme liabilities

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

€ million	2018	2017
January 1	**28,363**	29,193
Current service cost	**55**	233
Past service (credit)/cost	**(778)**	2
Interest expense	**690**	743
Remeasurements - financial assumptions	**(997)**	530
Remeasurements of experience (gains)/losses	**(297)**	274
Benefits paid	**(1,340)**	(1,324)
Employee contributions	**128**	101
Exchange movements	**(441)**	(1,389)
December 31	**25,383**	28,363

The defined benefit obligation comprises €36 million (2017: €28 million) arising from unfunded plans and €25,347 million (2017: €28,335 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling used in calculating the IAS 19 irrecoverable surplus in APS and NAPS is set out below:

€ million	2018	2017
January 1	**570**	580
Interest expense	**14**	15
Remeasurements[1]	**806**	2
Exchange movements	**(25)**	(27)
December 31	**1,365**	570

The increase in remeasurements is mainly due to the closure of NAPS to future accrual in 2018. Following this the scheme is now in an IAS 19 accounting surplus, which would be available to the company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee e.g. Actuarial assumptions.

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

	2018			2017		
Per cent per annum	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate[1]	**2.65**	**2.85**	**1.6 - 4.4**	2.45	2.55	1.6 - 3.6
Rate of increase in pensionable pay[2]	**3.20**	**–**	**2.5 - 3.7**	3.15	3.15	2.5 - 3.6
Rate of increase of pensions in payment[3]	**2.10**	**2.05**	**1.5 - 3.8**	2.05	2.05	0.0 - 3.5
RPI rate of inflation	**3.20**	**3.15**	**2.5 - 3.2**	3.15	3.15	2.5 - 3.1
CPI rate of inflation	**2.10**	**2.05**	**1.5 - 3.0**	2.05	2.05	1.75 - 3.0

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.

2 Rate of increase in pensionable pay is assumed to be in line with long-term market inflation expectations. The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds.

3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS and NAPS. The Trustee of the Airways Pension Scheme (APS) had 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 judgement 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 judgement to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. Following the July 2018 judgement, the Trustee has appealed to the Supreme Court. The proposed discretionary increase is not included in the assumptions above.

Rate of increase in healthcare costs is based on medical trend rates of 6.25 per cent grading down to 5.0 per cent over five years (2017: 6.5 per cent to 5.0 per cent over seven years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2018	2017
Life expectancy at age 60 for a:		
– male currently aged 60	**28.5**	28.4
– male currently aged 40	**29.7**	29.7
– female currently aged 60	**30.3**	30.2
– female currently aged 40	**32.9**	32.8

At December 31, 2018, the weighted-average duration of the defined benefit obligation was 11 years for APS (2017: 12 years) and 19 years for NAPS (2017: 20 years).

In the US, mortality rates were based on the RP-14 mortality tables.

30 Employee benefit obligations continued

h Sensitivity analysis

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

	Increase/(decrease) in scheme liabilities		
€ million	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	11	322	13
Future salary growth (increase of 10 basis points)	–	n/a	7
Future pension growth (increase of 10 basis points)	11	322	1
Future mortality rate (one year increase in life expectancy)	(23)	511	2

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

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2012 and March 31, 2015 respectively, using assumptions and methodologies agreed between the Group and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €932 million and €3,818 million respectively. In order to address the deficits in the schemes, the Group has also committed to the following undiscounted deficit payments:

€ million	APS	NAPS
Within 12 months	61	333
2-5 years	199	1,333
5-10 years	–	1,250
Total expected deficit payments for APS and NAPS	**260**	**2,916**

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan, subject to withholding taxes that would be payable by the Trustee.

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

In total, the Group expects to pay €398 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2019. This is made up of €61 million and €333 million of deficit payments for APS and NAPS respectively as agreed at the latest triennial valuations. In addition, ongoing employer contributions for 2019 are expected to be €4 million for APS. This excludes any additional deficit contribution that may become due depending on British Airways' cash balance as at March 31, 2019. The Group also expects to pay €278 million in 2019, having provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which at December 31, 2018 amounted to €278 million (2017: €283 million). This amount is payable because the pension schemes are not fully funded on a conservative basis, with a gilts-based discount rate on January 1, 2019 as determined by the scheme actuary.

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of profit after tax it will either provide the scheme with a guarantee for 100 per cent of the amount above 35 per cent or 50 per cent of that amount as an additional cash contribution.

31 Contingent liabilities and guarantees

The Group has certain contingent liabilities which at December 31, 2018 amounted to €88 million (December 31, 2017: €93 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 Counsel Judgement), 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 Counsel Judgement, 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 has therefore again been fined €104 million. British Airways has appealed the New Decision to the GC again (as have other carriers).

A large number of claimants have 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.

31 Contingent liabilities and guarantees continued

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 judgement to the Court of Appeal. On July 5, 2018 the Court of Appeal released its judgement, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule. British Airways will not have to reflect the increase in liabilities of €13 million that would have applied had the proposed increase for the 2013/14 scheme year been paid by the Trustee. The Trustee has appealed to the Supreme Court.

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. As at the date of this report, BA was not aware of any confirmed cases of fraud. British Airways continues to cooperate with the investigations of the UK Information Commissioner’s Office and other relevant regulators. British Airways has received letters before action from certain UK law firms threatening claims arising from the data breach. Additionally, a putative class action has been filed in the Eastern District of New York, USA. The outcome of the various investigations and litigation, which British Airways will vigorously defend, is uncertain. British Airways holds certain insurance policies.

Guarantees

British Airways has provided collateral on certain payments to its pension schemes, APS and NAPS, which at December 31, 2018 amounted to €278 million (December 31, 2017: €283 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis with a gilts-based discount rate on January 1, 2019 and will be determined by the scheme actuary.

In addition, a guarantee amounting to €256 million (2017: €260 million) was issued by a third party in favour of APS, triggered in the event of British Airways’ insolvency.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2018 are not expected to result in material losses for the Group.

32 Related party transactions

The following transactions took place with related parties for the financial years to December 31:

€ million	2018	2017
Sales of goods and services		
Sales to associates[1]	**7**	7
Sales to significant shareholders[2]	**44**	48
Purchases of goods and services		
Purchases from associates[3]	**55**	58
Purchases from significant shareholders[2]	**121**	109
Receivables from related parties		
Amounts owed by associates[4]	**7**	2
Amounts owed by significant shareholders[5]	**3**	1
Payables to related parties		
Amounts owed to associates[6]	**3**	3
Amounts owed to significant shareholders[5]	**7**	3

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €5 million (2017: €6 million) and €1 million (2017: less than €1 million) to Iberia Cards (Sociedad Conjunta para la Emisión y Gestión de Medios de Pago E.F.C., S.A.) and Serpista, S.A.

2 Sales to and purchases from significant shareholders: Related to interline services and wet leases with Qatar Airways.

3 Purchases from associates: Mainly included €35 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2017: €35 million), €6 million of handling services provided by Dunwoody (2017: €13 million) and €13 million of maintenance services received from Serpista, S.L. (2017: €9 million).

4 Amounts owed by associates: For airline related services rendered, that included balances with Dunwoody of €5 million (2017: €1 million) and €2 million of services provided to Multiservicios Aeroportuarios, S.A., Viajes AME, S.A., Iberia Cards (Sociedad Conjunta para la Emisión y Gestión de Medios de Pago E.F.C., S.A.) and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2017: €1m for Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).

5 Amounts owed by and to significant shareholders: Related to Qatar Airways.

6 Amounts owed to associates: Consisted primarily of less than €1 million due to Dunwoody (2017: €1 million), €3 million to Serpista, S.A. (2017: €2 million) and less than €1 million to Multiservicios Aeroportuarios, S.A. (2017: less than €1 million).

During the year to December 31, 2018 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €9.5 million (2017: €7 million) in relation to the costs of the Pension Protection Fund levy.

The Group has transactions with related parties that are conducted in the normal course of the airline business, which include the provision of airline and related services. All such transactions are carried out on an arm’s length basis.

For the year to December 31, 2018, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2017: nil).

32 Related party transactions continued

Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

At December 31, 2018 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €98 million (2017: €90 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2018 and 2017 is as follows:

	Year to December 31	
€ million	**2018**	2017
Base salary, fees and benefits		
Board of Directors		
Short-term benefits (cash)	**5**	6
Share based payments	**2**	3
Post employment and termination benefits	**-**	-
Management Committee		
Short-term benefits (cash)	**10**	10
Share based payments	**5**	7
Post employment and termination benefits	**-**	-

At December 31, 2018 the Board of Directors includes remuneration for two Executive Directors (December 31, 2017: two Executive Directors). The Management Committee includes remuneration for ten members (December 31, 2017: nine members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2018 the Company's obligation was €58,000 (2017: €38,000).

At December 31, 2018 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €4 million (2017 : €4 million).

No loan or credit transactions were outstanding with Directors or offices of the Group at December 31, 2018 (2017: nil).

33 Changes to accounting policies

The Group has adopted IFRS 15 'Revenue from contracts with customers' from January 1, 2018. The standard establishes a five-step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services have been satisfied.

The Group has identified the following changes to revenue recognition on adoption of the standard:

- Loyalty revenue – revenue associated with performance obligations arising on the sale of loyalty points, including revenue allocated to brand and marketing services and revenue allocated to Avios points, has been determined based on the relative stand-alone selling price of each performance obligation. Revenue associated with brand and marketing services is recognised as the points are issued. Revenue allocated to the Avios points is deferred and recognised when the points are redeemed. The impact of assessing the stand-alone selling prices of the individual performance obligations has resulted in a greater portion of revenue being deferred on issuance, because the stand-alone selling price of the points was higher than the fair value applied under IFRIC 13 'Customer loyalty programmes'.

  On implementation of IFRS 15, the Group assessed all contracts associated with the loyalty programmes at the date of initial application. This resulted in an increase in the number of points deferred in respect of incomplete contracts and which are expected to be redeemed in the future.

  The Group also changed the way that costs associated with the redemption of Avios points with third parties are presented. The revenue arising from these transactions is presented net of the related costs as IAG's obligation is to arrange for goods and services to be provided by third party suppliers.
- Passenger revenue – revenue associated with ancillary services that was previously recognised when paid, such as administration fees, is deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – interline cargo revenue is presented gross rather than net of related costs as IAG is considered to have a performance obligation to provide cargo services to its customers, rather than an obligation to arrange cargo services to be provided by third parties.
- Other revenue – revenue associated with maintenance activities and holiday revenue with performance obligations that are fulfilled over time, is recognised over the performance obligation period using a methodology that reflects the activity undertaken in order to satisfy the obligation.

The Group has applied the standard on a fully retrospective basis and restated prior year comparatives on adoption of IFRS 15. Practical expedients have not been used. The adjustment to opening retained earnings at January 1, 2017 arising from the changes to loyalty revenue recognition amounted to a charge of €403 million. Deferred revenue on ticket sales increased by €497 million and the net tax asset increased by €94 million. Other changes to revenue recognition resulted in a charge to retained earnings at January 1, 2017 of €27 million.

33 Changes to accounting policies continued

The Group has adopted IFRS 9 'Financial Instruments' from January 1, 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategy and objectives. The Group has identified the following changes to the classification and measurement of financial assets and accounting for derivative instruments used for hedging.

- Equity investments, previously classified as available-for-sale, are measured at fair value through Other comprehensive income, with no recycling of gains and losses. In addition, the Group has adopted a new impairment model for trade receivables and other financial assets, with no material adjustment to existing provisions. The Group will continue to recognise most financial assets at amortised cost as the contractual cash flows associated with these assets are solely payments of principal and interest.
- The Group continues to undertake hedging activity in line with its financial risk management objectives and policies. Movements in the time value of options are now classified as cost of hedging and recognised in Other comprehensive income, with prior year comparatives restated. At January 1, 2017 there was a reclassification of €38 million of post-tax gains from retained earnings to unrealised net gains in Other reserves to reflect the reclassification of gains and losses associated with the time value of options. Movements in the time value of options recognised in Other comprehensive income in 2017 are set out in note 29.

Impact on financial statements

The following tables summarise the impact of adopting IFRS 15 and IFRS 9 on the Consolidated income statement for the 12 months to December 31, 2017 and the Consolidated balance sheet as at December 31, 2017 and January 1, 2017.

Consolidated income statement (extract for the 12 months to December 31, 2017)

		IFRS 15			
€ million	Previously reported	Loyalty revenue	Other	IFRS 9 adjustments	**Restated**
Passenger revenue	20,245	51	(11)	–	**20,285**
Cargo revenue	1,084	–	48	–	**1,132**
Other revenue	1,643	(181)	1	–	**1,463**
Total revenue	**22,972**	**(130)**	**38**	**–**	**22,880**
Handling, catering and other operating costs	2,714	(69)	42	–	**2,687**
Other expenditure on operations	17,531	–	–	–	**17,531**
Total expenditure on operations	**20,245**	**(69)**	**42**	**–**	**20,218**
Operating profit	**2,727**	**(61)**	**(4)**	**–**	**2,662**
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	(14)	–	–	42	**28**
Net currency retranslation credits	27	–	–	11	**38**
Other non-operating items	(247)	–	–	–	**(247)**
Profit before tax	**2,493**	**(61)**	**(4)**	**53**	**2,481**
Tax	(472)	11	1	(12)	**(472)**
Profit after tax for the year	**2,021**	**(50)**	**(3)**	**41**	**2,009**
Basic earnings per share (€ cents)	**95.8**	**(2.5)**	**–**	**1.9**	**95.2**
Diluted earnings per share (€ cents)	**92.6**	**(2.4)**	**–**	**1.8**	**92.0**

33 Changes to accounting policies continued

Consolidated balance sheet (extract as at December 31, 2017)

€ million	Previously reported	IFRS 15 Loyalty revenue	IFRS 15 Other	Restated
Non-current assets				
Deferred tax assets	521	–	2	**523**
Other non-current assets	16,517	–	–	**16,517**
	17,038	**–**	**2**	**17,040**
Current assets				
Trade receivables	1,494	–	(31)	**1,463**
Other current assets	8,729	–	–	**8,729**
	10,223	**–**	**(31)**	**10,192**
Total assets	**27,261**	**–**	**(29)**	**27,232**
Total equity	**7,396**	**(432)**	**(31)**	**6,933**
Non-current liabilities				
Deferred tax liability	531	–	(5)	**526**
Other non-current liabilities	9,642	–	–	**9,642**
	10,173	**–**	**(5)**	**10,168**
Current liabilities				
Trade and other payables	3,766	–	(43)	**3,723**
Deferred revenue on ticket sales	4,159	533	50	**4,742**
Current tax payable	179	(101)	–	**78**
Other current liabilities	1,588	–	–	**1,588**
	9,692	**432**	**7**	**10,131**
Total liabilities	**19,865**	**432**	**2**	**20,299**
Total equity and liabilities	**27,261**	**–**	**(29)**	**27,232**

33 Changes to accounting policies continued

Consolidated balance sheet (extract as at January 1, 2017)

€ million	Previously reported	IFRS 15 Loyalty revenue	IFRS 15 Other	Restated
Non-current assets				
Deferred tax assets	526	33	2	561
Other non-current assets	17,062	–	–	17,062
	17,588	33	2	17,623
Current assets				
Trade receivables	1,405	–	(35)	1,370
Other current assets	8,380	–	–	8,380
	9,785	–	(35)	9,750
Total assets	27,373	33	(33)	27,373
Total equity	5,664	(403)	(27)	5,234
Non-current liabilities				
Deferred tax liability	176	(61)	(5)	110
Other non-current liabilities	12,197	–	–	12,197
	12,373	(61)	(5)	12,307
Current liabilities				
Trade and other payables	3,305	–	(39)	3,266
Deferred revenue on ticket sales	4,145	497	38	4,680
Other current liabilities	1,886	–	–	1,886
	9,336	497	(1)	9,832
Total liabilities	21,709	436	(6)	22,139
Total equity and liabilities	27,373	33	(33)	27,373

The Group has not adopted any other standards, amendments or interpretations in the 12 months to December 31, 2018 that have had a significant change to its financial performance or position.

IFRS 16 'Leases' will be adopted by the Group from 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 Group has a number of operating leases for assets including aircraft, property and other equipment.

The main changes arising on the adoption of IFRS 16 will be as follows:

1. Interest-bearing borrowings and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet, along with the related 'right-of-use' (ROU) asset. The Group has opted to use 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 will be recognised in the Income statement on a straight-line basis over the life of the lease.
2. There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense.
3. The adoption of IFRS 16 will require the Group to make a number of judgements, estimates and assumptions. These include:
   - The approach to be adopted on transition. The Group will use the modified retrospective transition approach. Lease liabilities will be determined based on the appropriate incremental borrowing rates and rates of exchange at the date of transition (January 1, 2019). ROU assets in respect of aircraft will be measured at the appropriate incremental borrowing rates at the date of transition and rates of exchange at the commencement of each lease, and will be depreciated from the lease commencement date to the date of transition. Other ROU assets will be measured based on the related lease liability. 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 will be based on the original lease term unless management is 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term includes fleet plans which underpin approved business plans, and historic experience regarding extension options.
   - The discount rate used to determine the lease liability. The rates used on transition to discount future lease payments are 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 has been based on LIBOR rates available in the same currency and over the same term as the lease and has been adjusted for credit risk. For future lease obligations, the Group is proposing to 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 following this review.
   - 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. These have been recognised as part of the ROU asset on transition. Judgement has been used to identify the appropriate obligations and estimation has been used (based 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, will continue to be recognised as a maintenance expense over the lease term.

33 Changes to accounting policies continued

4. For future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, however the ROU asset will be recognised at the historic exchange rate. This will create volatility in the Income statement. The Group intends to manage this volatility as part of its risk management strategy.

The Group expects that the following assets and liabilities will be recognised on the Consolidated balance sheet at January 1, 2019 on adoption of IFRS 16 (rounded to the nearest €5 million):

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

€ Million	As reported	Preliminary 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**

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Avios Group (AGL) Limited * Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
BA and AA Holdings Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New Delhi, 110065		India	100%
BA Cityflyer Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Heathcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number Two Limited IFC 5, St Helier, Jersey, JE1 1ST		Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BritAir Holdings Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways 777 Leasing Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways Avionic Engineering Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%
British Airways E-Jets Leasing Limited * Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft financing	Bermuda	100%
British Airways Holdings BV Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX		Netherlands	100%
British Airways Holdings Limited * IFC 5, St Helier, Jersey, JE1 1ST	Holding company	Jersey	100%
British Airways Holidays Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Package holidays	England	100%
British Airways Interior Engineering Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft financing	England	100%
British Airways Maintenance Cardiff Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	99%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE		Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, Bremen, 28199		Germany	100%

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Illiad Inc Suite 1300, 1105 North Market Street, PO Box 8985, Wilmington, Delaware, 19899		USA	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Speedbird Insurance Company Limited * Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%

Iberia

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027		Spain	100%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Cargo transport	Spain	75%
Sociedad Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%
Iberia Desarrollo Barcelona, S.L.* Avinguda Les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75%
Iberia México, S.A.* Ejército Nacional 439, Ciudad de México, 11510	Storage and custody services	Mexico	100%

Aer Lingus

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Aer Lingus Group DAC * Dublin Airport, Dublin	Holding company	Republic of Ireland	100%
Aer Lingus Limited * Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
ALG Trustee Limited 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB		Isle of Man	100%
Aer Lingus (Ireland) Limited Dublin Airport, Dublin		Republic of Ireland	100%
Shinagh Limited Dublin Airport, Dublin		Republic of Ireland	100%
Santain Developments Limited Dublin Airport, Dublin		Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, Douglas, Isle of Man, IM1 4LZ		Isle of Man	100%
Aer Lingus Northern Ireland Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH		Northern Ireland	100%
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin		Republic of Ireland	100%
Dirnan Insurance Co. Ltd Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12		Bermuda	100%

Subsidiaries

Avios

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Avios South Africa Proprietary Limited Regus, 33 Ballyclare Drive, Cedarwood House, Gauteng, Johannesburg, 2191		South Africa	100%

IAG Cargo Limited

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Zenda Group Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS		England	100%

Vueling

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Anilec Holding GmbH Office Park I Top, Vienna, B041300		Austria	100%
Waleria Beteiligungs GmbH Office Park I Top, Vienna, B041300		Austria	Indirect
Anisec Luftfahrt GmbH Office Park I Top, Vienna, B041300		Austria	Indirect

Level

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Openskies SASU 3 rue le Corbusier, Rungis, 94150	Airline operations	France	100%
FLY LEVEL UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%

International Consolidated Airlines Group S.A.

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
British Airways Plc * Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%1
IB Opco Holding, S.L. Calle de Martínez Villergas 49, Madrid, 28027		Spain	100%2
Iberia Líneas Aéreas de España, S.A. Operadora * Calle de Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%2
IAG GBS Poland sp. z.o.o. * Ul. Opolska 114, Krakow, 31-323	IT, finance, procurement services	Poland	100%
IAG GBS Limited * Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance, procurement services	England	100%
IAG Cargo Limited * Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Air freight operations	England	100%
Veloz Holdco, S.L. Calle de Velázquez 130, Madrid, 28006		Spain	100%
Vueling Airlines, S.A. * Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	Indirect
Aerl Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		Republic of Ireland	100%
FLY LEVEL, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042		Spain	100%

Subsidiaries

Principal subsidiaries

The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, correspond to a trust established for the purposes of implementing the British Airways nationality structure.

The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

Associates

Name and address	Country of Incorporation	Percentage of equity owned
Dunwoody Airline Services Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km. 15, Aeropuerto José Martí, Ciudad de la Habana	Cuba	50%
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Aeropuerto José Martí, Ciudad de la Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Serpista, S.A. Calle del Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
Grupo Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	27%
Viajes Ame, S.A.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	27%
Programa Travel Club Agencia de Seguros Exclusiva, S.L.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	27%

Joint ventures

Name and address	Country of Incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. Calle de José Ortega y Gasset 22, Planta 3ª, Madrid, 28006	Spain	50.5%

Other equity investments

The Group's principal other equity investments are as follows:

Name and address	Country of incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Comair Limited 1 Marignane Drive, Bonaero Park, 1619	South Africa	11.5%	ZAR	1,779	471
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	287	12
Adquira España, S.A. Calle de Julián Camarillo 21A, Planta 4ª, Madrid, 28037	Spain	10.0%	EUR	1	–
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10.0%	EUR	N/A	N/A
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza s/n, El Caserío, Iberia Zona Industrial 2, Madrid, 28042	Spain	19.9%	EUR	10	1
DeepAir Solutions Limited Ground Floor North, 86 Brook Street, London, W1K 5AY	England	10.0%	GBP	N/A	N/A

LIABILITY STATEMENT OF DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 27, 2019, the Directors of International Consolidated Airlines Group, S.A. (the "**Company**") state that, to the best of their knowledge, the consolidated financial statements for the year to December 31, 2018 prepared in accordance with the applicable international accounting standards, offer a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the interim consolidated management report includes a fair review of the required information.

February 27, 2019

Antonio Vázquez Romero Chairman	William Matthew Walsh Chief Executive Officer
Marc Jan Bolland	Patrick Jean Pierre Cescau
Enrique Dupuy de Lôme Chávarri	Deborah Linda Kerr
María Fernanda Mejía Campuzano	Kieran Charles Poynter
Emilio Saracho Rodríguez de Torres	Marjorie Morris Scardino
Lucy Nicola Shaw	Alberto Terol Esteban

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 4 of the consolidated 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. 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. Adjusted gearing is no longer reported as Management do not consider it to be a key performance indicator of the Group.

Operating profit and lease adjusted operating margin

Operating profit is the Group operating result before exceptional items.

Lease adjusted operating margin is operating profit adjusted for leases as a percentage of revenue. The lease adjustment reduces the fleet rental charge to 0.67 of the annual reported charge. This is to reflect the embedded interest expense component in leases; 0.67 is a commonly used ratio in the airline industry.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Operating profit before exceptional items	**3,230**	2,950	2,444
Aircraft operating lease costs	**890**	888	759
Aircraft operating lease costs multiplied by 0.67	**(596)**	(595)	(509)
	3,524	3,243	2,694
Revenue	**24,406**	22,880	22,409
Lease adjusted operating margin	**14.4%**	14.2%	12.0%

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

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.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Earnings attributable to equity holders of the parent	**2,885**	1,989	1,889
Exceptional items	**(416)**	222	38
Earnings attributable to equity holders of the parent before exceptional items	**2,469**	2,211	1,927
Interest expense on convertible bonds	**18**	17	26
Adjusted earnings	**2,487**	2,228	1,953
Weighted average number of shares used for diluted earnings per share	**2,113,081**	2,179,353	2,210,990
Weighted average number of shares used for basic earnings per share	**2,021,622**	2,088,489	2,075,568
Adjusted earnings per share (€ cents)	**117.7**	102.2	88.3
Basic earnings per share before exceptional items (€ cents)	**122.1**	105.9	92.8

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

EBITDAR

EBITDAR is calculated as operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs.

€ million	**2018**	2017 (restated)[1]	2016 (restated)[1]
Operating profit before exceptional items	**3,230**	2,950	2,444
Depreciation, amortisation and impairment	**1,254**	1,184	1,287
Aircraft operating lease costs	**890**	888	759
EBITDAR	**5,374**	5,022	4,490

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

Return on Invested Capital

Return on Invested Capital (RoIC) is defined as EBITDAR, less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage.

The lease adjustment reduces aircraft operating lease costs to 0.67 of the annual reported charge. The inflation adjustment is applied to the fleet depreciation charge and is calculated using a 1.5 per cent inflation rate over the average age of the fleet to allow for inflation and efficiencies of new fleet.

Invested capital is the fleet net book value at the balance sheet date, excluding progress payments for aircraft not yet delivered and adjusted for inflation, plus the net book value of the remaining property, plant and equipment plus annual aircraft operating lease costs multiplied by 8. Intangible assets are excluded from the calculation.

€ million	2018	2017 (restated)[1]	2016 (restated)[1]
EBITDAR	**5,374**	5,022	4,490
Less: Aircraft operating lease costs multiplied by 0.67	**(596)**	(595)	(509)
Less: Depreciation charge for fleet assets multiplied by inflation adjustment	**(1,205)**	(1,133)	(1,231)
Less: Depreciation charge for other property, plant and equipment	**(138)**	(140)	(153)
	3,435	3,154	2,597
Invested capital			
Fleet book value excluding progress payments	**9,721**	9,275	9,930
Inflation adjustment[2]	**1.22**	1.23	1.21
	11,902	11,374	12,048
Net book value of other property, plant and equipment	**1,647**	1,613	1,683
Aircraft operating lease costs multiplied by 8	**7,120**	7,104	6,072
	20,669	20,091	19,803
Return on Invested Capital	**16.6%**	15.7%	13.1%

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

2 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the on balance sheet fleet (2018: 13.6 years, 2017: 13.7 years)

Adjusted net debt to EBITDAR

Adjusted net debt is calculated as long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits, plus annual aircraft operating lease costs multiplied by 8. This is divided by EBITDAR to arrive at adjusted net debt to EBITDAR.

€ million	2018	2017 (restated)[1]	2016 (restated)[1]
Interest-bearing long-term borrowings	**7,509**	7,331	8,515
Cash and cash equivalents	**(3,837)**	(3,292)	(3,337)
Other current interest-bearing deposits	**(2,437)**	(3,384)	(3,091)
Net debt	**1,235**	655	2,087
Aircraft operating lease costs multiplied by 8	**7,120**	7,104	6,072
Adjusted net debt	**8,355**	7,759	8,159
EBITDAR	**5,374**	5,022	4,490
Adjusted net debt to EBITDAR	**1.6**	1.5	1.8

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

Equity free cash flow

Equity free cash flow is EBITDA less cash tax, cash interest paid and received and CAPEX which is cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets. EBITDA is calculated as operating profit before exceptional items, depreciation, amortisation and impairment.

€ million	2018	2017 (restated)[1]	2016 (restated)[1]
Operating profit before exceptional items	**3,230**	2,950	2,444
Depreciation, amortisation and impairment	**1,254**	1,184	1,287
EBITDA	**4,484**	4,134	3,731
Interest paid	**(149)**	(122)	(185)
Interest received	**37**	29	37
Tax paid	**(343)**	(237)	(318)
Acquisition of property plant and equipment and intangible assets	**(2,802)**	(1,490)	(3,038)
Proceeds from sale of property, plant and equipment and intangible assets	**574**	306	1,737
Equity free cash flow	**1,801**	2,620	1,964

1 Restated for new accounting standards IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments'. Further detail on the restatement is provided in note 33.

AIRCRAFT FLEET

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases	**Total December 31, 2018**	Total December 31, 2017	Changes since December 31, 2017	Future deliveries	Options
Airbus A318	1	–	**1**	1	–	–	–
Airbus A319	21	40	**61**	64	(3)	–	–
Airbus A320	82	159	**241**	218	23	71	128
Airbus A321	27	29	**56**	51	5	21	–
Airbus A330–200	9	13	**22**	17	5	2	–
Airbus A330–300	6	10	**16**	15	1	2	–
Airbus A340–600	11	6	**17**	17	–	–	–
Airbus A350	2	–	**2**	–	2	41	52
Airbus A380	12	–	**12**	12	–	–	–
Boeing 747–400	35	–	**35**	36	(1)	–	–
Boeing 757–200	–	–	**–**	3	(3)	–	–
Boeing 767–300	–	–	**–**	8	(8)	–	–
Boeing 777–200	41	5	**46**	46	–	–	–
Boeing 777–300	9	3	**12**	12	–	4	–
Boeing 787–8	11	1	**12**	9	3	–	–
Boeing 787–9	9	9	**18**	16	2	–	6
Boeing 787–10	–	–	**–**	–	–	12	–
Embraer E170	6	–	**6**	6	–	–	–
Embraer E190	9	7	**16**	15	1	–	–
Group total	**291**	**282**	**573**	**546**	**27**	**153**	**186**

As well as those aircraft in service the Group also holds 5 aircraft (2017: 5) not in service.