Full year results announcement

International Consolidated Airlines Group (IAG) today (February 28, 2020) presented Group consolidated results for the year to December 31, 2019.

IAG period highlights on results (variances against 2018 pro forma[1], unless otherwise noted):

- Fourth quarter operating profit €765 million before exceptional items (2018 pro forma[1]: €715 million, 2018 statutory: €655 million)
- Passenger unit revenue for the quarter up 2.2 per cent, down 0.4 per cent at constant currency
- Airline non-fuel unit costs for the quarter down 1.7 per cent at constant currency
- Fuel unit costs for the quarter up 5.6 per cent, up 2.4 per cent at constant currency
- Operating profit before exceptional items for the year to December 31, 2019 of €3,285 million (2018 pro forma[1]: €3,485 million, 2018 statutory: €3,230 million), down 5.7 per cent
- Passenger unit revenue for the year up 1.0 per cent and down 0.5 per cent at constant currency
- Airline non-fuel unit costs for the year down 0.9 per cent at constant currency
- Fuel unit costs for the year up 9.6 per cent, up 5.7 per cent at constant currency
- Net foreign exchange impact for the quarter favourable €79 million, and for the year favourable €67 million
- Profit after tax before exceptional items €2,387 million down 1.4 per cent (down 40.8 per cent on a statutory basis after exceptional items)
- Final proposed dividend of 17.0 € cents per share

Performance summary:

	Year to December 31				
	Statutory	Pro forma		Statutory	
Highlights € million	**2019**	2018[1]	Higher / (lower)	**2019**	2018 restated[2]
Passenger revenue	**22,468**	21,401	5.0 %	**22,468**	21,401
Total revenue	**25,506**	24,258	5.1 %	**25,506**	24,258
Operating profit before exceptional items	**3,285**	3,485	(5.7)%	**3,285**	3,230
Exceptional items	**(672)**	448	nm	**(672)**	448
Operating profit after exceptional items	**2,613**	3,933	(33.6)%	**2,613**	3,678
Available seat kilometres (ASK million)	**337,754**	324,808	4.0 %		
Passenger revenue per ASK (€ cents)	**6.65**	6.59	1.0 %		
Non-fuel costs per ASK (€ cents)	**4.80**	4.77	0.6 %		

Alternative performance measures	**2019**	2018[1]	Higher/ (lower)
Profit after tax before exceptional items (€ million)	**2,387**	2,422	(1.4)%
Adjusted earnings per share (€ cents)	**116.8**	114.9	1.7 %
Net debt (€ million)	**7,571**	6,430	17.7 %
Net debt to EBITDA	**1.4**	1.2	0.2x

Statutory results € million	**2019**	2018	Higher/ (lower)
Profit after tax and exceptional items	**1,715**	2,897	(40.8)%
Basic earnings per share (€ cents)	**86.4**	142.7	(39.5)%
Cash and interest-bearing deposits	**6,683**	6,274	6.5 %
Interest-bearing long-term borrowings	**14,254**	7,509	89.8 %

For definitions refer to the Alternative performance measures section.

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

2 December 31, 2018 comparatives are the Group's restated statutory results as reported. The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the year to December 31, 2018 was €148 million. Further information is given in Note 2 of the Group financial statements.

Willie Walsh, IAG Chief Executive Officer, said:

"In 2019, we're reporting an operating profit of €3,285 million before exceptional items, down by €200 million compared to last year.

"At constant currency, passenger unit revenue decreased by 0.5 per cent while airline non-fuel unit costs were down 0.9 per cent.

"These are good results in a year affected by disruption and higher fuel prices. We demonstrated our robust and flexible model once again through additional cost control and by reducing capacity growth to reflect market conditions.

"We've increased investment in new aircraft, customer products and operational resilience and this has seen our airlines improve their customer performance scores this year.

"Quarter 4 was strong with an operating profit of €765 million before exceptional items.

"We're pleased to confirm that the Board is proposing a final dividend of 17.0 euro cents per share. This brings the full year dividend to 31.5 euro cents per share, subject to shareholder approval at our AGM in June. In total, we will have returned more than €4.4 billion to our shareholders since 2015."

Trading outlook

The earnings outlook is adversely affected by weaker demand as a result of coronavirus (COVID-19). We are currently experiencing demand weakness on Asian and European routes and a weakening of business travel across our network resulting from the cancellation of industry events and corporate travel restrictions.

In Asia, flights to Mainland China have been suspended. On January 29, British Airways suspended its daily flight to both Beijing and Shanghai and Iberia suspended its three times weekly service to Shanghai on January 31. In addition, some services on other Asian routes have been reduced. From February 13, British Airways reduced its daily Hong Kong service from two to one. From March 13, it will reduce its daily service to Seoul to 3-4 times weekly.

Some of the freed-up longhaul capacity is being redeployed to routes with stronger demand. British Airways has announced additional flights to India, South Africa and the US, while Iberia is increasing capacity on US and domestic routes.

Capacity on Italian routes for March has been significantly reduced through a combination of cancellations and change of aircraft gauge and further capacity reductions will be activated over the coming days. We also expect to make some capacity reductions across our wider shorthaul network. Shorthaul capacity is not being redeployed at this stage.

The net impact of current flight cancellations and redeployed capacity is to lower IAG's FY 2020 planned capacity by approximately 1 per cent in terms of available seat kilometres to 2 per cent for the year. Our operating companies will continue to take mitigating actions to better match supply to demand in line with the evolving situation. Cost and revenue initiatives are being implemented across the business.

IAG is resilient with a strong balance sheet and substantial cash liquidity to withstand the current weakness. We have a management team experienced in similar situations and have demonstrated that we can respond quickly to changing market conditions. We are strongly positioned for the expected recovery in demand.

Given the ongoing uncertainty on the potential impact and duration of COVID-19, it is not possible to give accurate profit guidance for FY 2020 at this stage.

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

Steve Gunning, Chief Financial Officer

Forward-looking statements:

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

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

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

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CONSOLIDATED INCOME STATEMENT

	Year to December 31								
	Statutory			Pro forma				Statutory	
€ million	**Before exceptional items 2019**	**Exceptional items**	**Total 2019**	Before exceptional items 2018[1]	Exceptional items	Total 2018[1]	Higher/ (lower)	**2019**	2018 restated[2]
Passenger revenue	**22,468**		**22,468**	21,401		21,401	5.0 %	**22,468**	21,401
Cargo revenue	**1,117**		**1,117**	1,173		1,173	(4.8)%	**1,117**	1,173
Other revenue	**1,921**		**1,921**	1,684		1,684	14.1 %	**1,921**	1,684
Total revenue	**25,506**		**25,506**	24,258		24,258	5.1 %	**25,506**	24,258
Employee costs	**4,962**	**672**	**5,634**	4,812	(460)	4,352	3.1 %	**5,634**	4,352
Fuel, oil costs and emissions charges	**6,021**		**6,021**	5,283		5,283	14.0 %	**6,021**	5,283
Handling, catering and other operating costs	**2,972**		**2,972**	2,733		2,733	8.7 %	**2,972**	2,740
Landing fees and en-route charges	**2,221**		**2,221**	2,184		2,184	1.7 %	**2,221**	2,184
Engineering and other aircraft costs	**2,092**		**2,092**	1,857		1,857	12.7 %	**2,092**	1,828
Property, IT and other costs	**811**		**811**	789	12	801	2.8 %	**811**	930
Selling costs	**1,038**		**1,038**	1,046		1,046	(0.8)%	**1,038**	1,046
Depreciation, amortisation and impairment	**2,111**		**2,111**	1,996		1,996	5.8 %	**2,111**	1,254
Aircraft operating lease costs	**–**		**–**	–		–	–	**–**	890
Currency differences	**(7)**		**(7)**	73		73	nm	**(7)**	73
Total expenditure on operations	**22,221**	**672**	**22,893**	20,773	(448)	20,325	7.0 %	**22,893**	20,580
Operating profit	**3,285**	**(672)**	**2,613**	3,485	448	3,933	(5.7)%	**2,613**	3,678
Finance costs	**(611)**		**(611)**	(561)		(561)	8.9 %	**(611)**	(231)
Finance income	**50**		**50**	41		41	22.0 %	**50**	41
Net financing credit relating to pensions	**26**		**26**	27		27	(3.7)%	**26**	27
Net currency retranslation credits/(charges)	**201**		**201**	(19)		(19)	nm	**201**	(19)
Other non-operating charges	**(4)**		**(4)**	(9)		(9)	(55.6)%	**(4)**	(9)
Total net non-operating costs	**(338)**		**(338)**	(521)		(521)	(35.1)%	**(338)**	(191)
Profit before tax	**2,947**	**(672)**	**2,275**	2,964	448	3,412	(0.6)%	**2,275**	3,487
Tax	**(560)**	**–**	**(560)**	(542)	(32)	(574)	3.3 %	**(560)**	(590)
Profit after tax for the year	**2,387**	**(672)**	**1,715**	2,422	416	2,838	(1.4)%	**1,715**	2,897

Operating figures	**2019[3]**	2018[1, 3]	Higher/ (lower)
Available seat kilometres (ASK million)	**337,754**	324,808	4.0 %
Revenue passenger kilometres (RPK million)	**285,745**	270,657	5.6 %
Seat factor (per cent)	**84.6**	83.3	1.3pts
Passenger numbers (thousands)	**118,253**	112,920	4.7 %
Cargo tonne kilometres (CTK million)	**5,577**	5,713	(2.4)%
Sold cargo tonnes (thousands)	**682**	702	(2.8)%
Sectors	**775,486**	754,700	2.8 %
Block hours (hours)	**2,272,904**	2,207,374	3.0 %
Average manpower equivalent	**66,034**	64,734	2.0 %
Aircraft in service	**598**	573	4.4 %
Passenger revenue per RPK (€ cents)	**7.86**	7.91	(0.6)%
Passenger revenue per ASK (€ cents)	**6.65**	6.59	1.0 %
Cargo revenue per CTK (€ cents)	**20.03**	20.53	(2.5)%
Fuel cost per ASK (€ cents)	**1.78**	1.63	9.6 %
Non-fuel costs per ASK (€ cents)	**4.80**	4.77	0.6 %
Total cost per ASK (€ cents)	**6.58**	6.40	2.9 %

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

2 The 2018 statutory results for the Group are the restated consolidated results including the impact of the exceptional items. The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the year to December 31, 2018 was €148 million. Further information is given in Note 2 of the Group financial statements.

3 Financial ratios are before exceptional items.

CONSOLIDATED INCOME STATEMENT

€ million	Three months to December 31 — Statutory: Before exceptional items 2019	Exceptional items	Total 2019	Pro forma: Before exceptional items 2018[1]	Exceptional items	Total 2018[1]	Higher/(lower)	Statutory: 2019	2018 restated[2]
Passenger revenue	**5,390**		**5,390**	5,177		5,177	4.1 %	**5,390**	5,177
Cargo revenue	**292**		**292**	326		326	(10.4)%	**292**	326
Other revenue	**532**		**532**	511		511	4.1 %	**532**	511
Total revenue	**6,214**		**6,214**	6,014		6,014	3.3 %	**6,214**	6,014
Employee costs	**1,249**	**672**	**1,921**	1,223	134	1,357	2.1 %	**1,921**	1,357
Fuel, oil costs and emissions charges	**1,452**		**1,452**	1,349		1,349	7.6 %	**1,452**	1,349
Handling, catering and other operating costs	**736**		**736**	687		687	7.1 %	**736**	688
Landing fees and en-route charges	**522**		**522**	515		515	1.4 %	**522**	515
Engineering and other aircraft costs	**505**		**505**	551		551	(8.3)%	**505**	543
Property, IT and other costs	**229**		**229**	209	2	211	9.6 %	**229**	242
Selling costs	**225**		**225**	240		240	(6.3)%	**225**	240
Depreciation, amortisation and impairment	**557**		**557**	517		517	7.7 %	**557**	326
Aircraft operating lease costs	**–**		**–**	–		–	–	**–**	227
Currency differences	**(26)**		**(26)**	8		8	nm	**(26)**	8
Total expenditure on operations	**5,449**	**672**	**6,121**	5,299	136	5,435	2.8 %	**6,121**	5,495
Operating profit	**765**	**(672)**	**93**	715	(136)	579	7.0 %	**93**	519
Finance costs	**(165)**		**(165)**	(147)		(147)	12.2 %	**(165)**	(65)
Finance income	**17**		**17**	11		11	54.5 %	**17**	11
Net financing credit relating to pensions	**7**		**7**	7		7	–	**7**	7
Net currency retranslation credits/(charges)	**108**		**108**	(13)		(13)	nm	**108**	(13)
Other non-operating charges	**(54)**		**(54)**	(10)		(10)	nm	**(54)**	(10)
Total net non-operating costs	**(87)**		**(87)**	(152)		(152)	(42.8)%	**(87)**	(70)
Profit before tax	**678**	**(672)**	**6**	563	(136)	427	20.4 %	**6**	449
Tax	**(105)**	**–**	**(105)**	(71)	8	(63)	47.9 %	**(105)**	(66)
Profit after tax for the period	**573**	**(672)**	**(99)**	492	(128)	364	16.5 %	**(99)**	383

Operating figures	2019[3]	2018[1, 3]	Higher/(lower)
Available seat kilometres (ASK million)	**82,005**	80,465	1.9 %
Revenue passenger kilometres (RPK million)	**69,138**	65,612	5.4 %
Seat factor (per cent)	**84.3**	81.5	2.8pts
Passenger numbers (thousands)	**27,805**	26,679	4.2 %
Cargo tonne kilometres (CTK million)	**1,427**	1,523	(6.3)%
Sold cargo tonnes (thousands)	**175**	187	(6.6)%
Sectors	**183,490**	182,386	0.6 %
Block hours (hours)	**541,874**	540,988	0.2 %
Average manpower equivalent	**65,293**	64,296	1.6 %
Passenger revenue per RPK (€ cents)	**7.80**	7.89	(1.2)%
Passenger revenue per ASK (€ cents)	**6.57**	6.43	2.2 %
Cargo revenue per CTK (€ cents)	**20.46**	21.41	(4.4)%
Fuel cost per ASK (€ cents)	**1.77**	1.68	5.6 %
Non-fuel costs per ASK (€ cents)	**4.87**	4.91	(0.7)%
Total cost per ASK (€ cents)	**6.64**	6.59	0.9 %

1 Pro forma financial information is based on the Group's restated statutory results with an adjustment to reflect the estimated impact of IFRS 16 'Leases' from January 1, 2018. A reconciliation of the pro forma financial information to the Group's statutory results is included in the Alternative performance measures section.
2 The 2018 statutory results for the Group are the restated consolidated results including the impact of the exceptional items. The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the three months to December 31, 2018 was €46 million. Further information is given in Note 2 of the Group financial statements.
3 Financial ratios are before exceptional items.

IATA market growths

The air traffic industry had a positive year; however, performance was impacted by a softer global economic backdrop than previous years, slightly affecting demand. Global capacity grew at a slower pace than demand, which translated into a record load factor of 82.6 per cent, 0.7 points higher than in 2018.

In 2019, airline capacity growth in Europe softened, in line with slowing economic activity, declining business confidence heightened by industrial strikes, Brexit uncertainty and the collapse of several airlines. Capacity still grew 3.6 per cent over the previous year and passenger load factor increased, reaching 85.2 points, the highest throughout all regions.

North America performed slightly better than other regions, sustaining a solid upward trend throughout the year. Despite that, growth eased slightly from softer US economic activity and weaker business confidence. Capacity increased 2.8 per cent, less than the previous year, with passenger load factor up 0.8 points.

Latin America's airline capacity growth slowed versus last year due to social unrest and economic difficulties. Capacity growth of 2.9 per cent was significantly below 2018 growth of 6.6 per cent and passenger load factor in this region increased.

Africa benefited from a generally supportive economic landscape in 2019 and capacity grew significantly more than in 2018 and the highest of all regions at 4.7 per cent, with passenger load factor moderately higher.

Although the Middle East's airline industry growth showed the slowest growth of all the regions year on year, the last quarter of the year saw a sharp increase in capacity, placing the region as the highest in capacity increases globally for these months. Load factor improved 1.4 points on the relatively flat capacity for the year.

Airline capacity growth in the Asia Pacific region was slower than in 2018, but remained relatively high, with an increase of 4.5 per cent, impacted by the economic landscape. Passenger load factor improved 0.4 points.

IATA market growths

Year to December 31, 2019	Capacity ASKs	Passenger load factor	Higher/ (lower)
Europe	3.6%	85.2	0.4 pts
North America	2.8%	84.9	0.8 pts
Latin America	2.9%	82.6	1.0 pts
Africa	4.7%	71.7	0.3 pts
Middle East	0.1%	76.2	1.4 pts
Asia Pacific	4.5%	81.9	0.4 pts
Total market	**3.4%**	**82.6**	**0.7 pts**

Source: IATA Air Passenger Market Analysis

IAG capacity

In 2019, all of IAG's airlines grew capacity, with total Group capacity up 4.0 per cent.

The increase mainly reflects additional frequencies and increased aircraft gauge on longhaul routes and the full-year impact of network changes in 2018 by British Airways, Aer Lingus and Iberia, as well as growth in LEVEL. New routes were added at Aer Lingus, connecting Dublin with Minneapolis; at British Airways, with new routes such as London Heathrow to Charleston, Pittsburgh, Islamabad and Osaka; and Iberia, with a new service from Madrid to Guayaquil. Vueling's capacity grew through additional domestic frequencies, with expansion in the Balearic and Canary Islands. IAG's shorthaul network also saw increases from the new LEVEL base in Amsterdam.

IAG passenger load factor was higher, once again, than any prior year since the creation of IAG, reaching 84.6 points, up 1.3 points from 2018 and higher than the IATA average.

Market segments

IAG capacity

Year to December 31, 2019	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	7.3%	87.2	2.2 pts
Europe	1.7%	83.6	0.4 pts
North America	1.4%	84.1	1.8 pts
Latin America and Caribbean	13.3%	86.4	1.7 pts
Africa, Middle East and South Asia	1.0%	83.0	0.6 pts
Asia Pacific	3.7%	85.8	1.1 pts
Total network	**4.0%**	**84.6**	**1.3 pts**

Europe

Eurozone GDP growth for the year was 1.2 per cent, lower than expected by the IMF at the beginning of the year, and 0.7 points lower than in 2018. As was the case for the UK, GDP growth decelerated through the year, although to a lower extent than in the UK. Like the UK, Eurozone consumer confidence and unemployment remained at multi-year lows.

Together, IAG's European and Domestic markets continue to represent the Group's largest region. Growth comes from both capacity and frequency increases as well as new routes.

Capacity in IAG's Domestic markets was higher by 7.3 per cent, mostly from increases in Vueling and Iberia. Vueling launched a number of new routes, including connections between several cities in mainland Spain with the Canary Islands. Capacity at Iberia was increased through increases in frequencies as well as new routes connecting Melilla with Seville, Granada and Almeria. Passenger load factor in IAG's domestic markets increased by 2.2 points despite the strong increase in capacity.

Passenger unit revenues (passenger revenue per ASK) at constant currency ('ccy') in the Domestic markets were up at British Airways, Iberia and Vueling.

The Group's capacity in Europe was increased 1.7 per cent year on year. LEVEL's operations in Vienna started in July 2018 and therefore 2019 included the full year impact of routes from its base into London, Barcelona and Paris, among others. British Airways launched new routes from London Gatwick to Milan, Bilbao and Almeria as well as new services connecting London City with Munich and London Heathrow with Valencia, among others. Iberia's capacity grew mainly from frequency increases and Vueling launched services from Paris to Mallorca, Copenhagen, Porto and Alicante, among others. Load factor for the Group's European market was up 0.4 points.

The Group's passenger unit revenue performance at constant currency in its European market was weaker driven by Vueling, British Airways and Aer Lingus. Iberia's passenger unit revenue performance was flat on a slight capacity increase.

North America

US GDP growth was 2.3 per cent, only slightly lower than expected by the IMF at the beginning of the year and 0.6 points lower than in 2018. Growth accelerated in Q1 2019, reflecting an upturn in government spending, private inventory investment and in exports, then slowed in Q2 2019 and Q3 2019. The unemployment rate continued to decline, hitting 3.5 per cent in Q4 2019, the lowest rate since 1970.

IAG's North American market accounts for almost 30 per cent of the Group's Available seat kilometres ('ASKs'). Capacity was increased in Iberia, Aer Lingus and LEVEL, with a slight decrease at British Airways, mainly reflecting the pilot's strike. British Airways launched new routes, connecting London Heathrow with Pittsburgh and Charleston and Aer Lingus started operations from Dublin to Minneapolis. Capacity was also increased in Aer Lingus through higher frequencies on several routes, such as Dublin to San Francisco, Seattle and Philadelphia. LEVEL launched a new route in 2019, connecting Barcelona with New York, and increased capacity on its services from Barcelona to Boston and San Francisco. The region's capacity increase also reflects the full year impact of routes launched during 2018. Seat factor for the region was among the best for the Group.

North America passenger unit revenues at ccy were up against last year. Aer Lingus passenger unit revenues were up strongly on a capacity increase of 6.1 per cent. British Airways passenger unit revenues were slightly better, on slightly lower capacity. In 2019, LEVEL's expansion again had a slightly dilutive impact on the Group's passenger unit revenues. Iberia's passenger unit revenues in North America decreased, with a 5.7 per cent capacity increase.

Latin America and Caribbean

Latin America GDP was significantly lower than the IMF expected at the beginning of year, particularly notable for Brazil and Mexico compared to expectations. At a country level, there was a slowdown in growth compared to 2018 in all countries, with Ecuador slipping into recession and both Venezuela and Argentina remaining in recession.

IAG's capacity in Latin America and Caribbean was increased by 13.3 per cent, with the impact of the first full year of Paris operations at LEVEL. Iberia launched a new route, connecting Madrid with Guayaquil, and increased frequencies on its routes from Madrid to San Salvador, Guatemala City, Bogotá and Lima. British Airways capacity was increased through additional capacity from densification of its London Gatwick Boeing 777 fleet and from additional frequencies added on its London Gatwick to Cancún route. Passenger load factor in this region improved and continued to be the highest for the Group, 3.8 points higher than the industry average.

Latin America and Caribbean passenger unit revenues at ccy were down significantly against 2018, partly due to capacity increases and a difficult economic and political landscape.

Africa, Middle East and South Asia (AMESA)

AMESA capacity was increased 1.0 per cent in 2019 primarily from new routes at British Airways. The increase in capacity was mainly due to new routes launched by British Airways, including Dammam via Bahrain and to Islamabad, and increased frequencies in routes from London Heathrow to Mumbai and from London Heathrow and London Gatwick to Marrakech. Iberia increased capacity through higher frequencies on its routes from Madrid to Dakar, Casablanca and Marrakech. Vueling increased capacity on its routes from Barcelona to Algiers, Tangier, Marrakech, Tel Aviv, Beirut and Banjul. Passenger load factor was higher than the previous year once again and was also higher than the industry average.

Africa, Middle East and South Asia passenger unit revenue performance at ccy was better in 2019, with improvements in British Airways and Iberia and a lower performance at Vueling driven by a capacity increase of 12.4 per cent.

Asia Pacific

In Asia Pacific, the Group's capacity was up against last year. Iberia increased capacity significantly by 21.9 per cent, mainly coming from added frequencies on its Madrid-Tokyo route. British Airways increased capacity through a new route connecting London Heathrow with Osaka. Passenger load factor was up 1.1 points on a capacity increase of 3.7 per cent.

Asia Pacific passenger unit revenues at ccy were up against last year. Industry capacity continued to grow over the year following the increases in 2018, but did so at a slower pace, impacted by the economic landscape and challenges coming from US-China trade tensions.

Basis of preparation

The Group has adopted the new accounting standard IFRS 16 'Leases' from January 1, 2019 and has used the modified retrospective transition approach and has not restated comparatives. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. On the Balance sheet, obligations to make future payments under leases, previously classified as operating leases, are recognised as debt with the associated right of use (ROU) assets. In the Income statement, the operating lease costs are replaced with depreciation (within operating expenditure) and lease interest expense (within non-operating expenditure). For further information see note 33 of the Group financial statements.

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

The current year and comparative figures in this report have been prepared on a pre-exceptional and pro forma basis unless otherwise stated.

Revenue

€ million	2019	Higher/(lower) Year over year at ccy	Per ASK at ccy
Passenger revenue	**22,468**	3.5%	**(0.5)%**
Cargo revenue	**1,117**	(7.2)%	
Other revenue	**1,921**	11.3%	
Total revenue	**25,506**	3.5%	

Passenger revenue

Passenger revenue for the Group rose 5.0 per cent versus the prior year, with 1.5 points of positive currency impact, while capacity was increased by 4.0 per cent. At constant currency, passenger unit revenue decreased 0.5 per cent from lower yields (passenger revenue/revenue passenger kilometre), down 2.0 per cent, but with an increase in passenger load factor of 1.3 points. At the airline level, passenger unit revenue at ccy increased in British Airways and Vueling, was flat in Aer Lingus and decreased in Iberia.

The Group carried over 118 million passengers, an increase of 4.7 per cent from last year, with higher passenger load factor across the Group. The Group's Net Promoter Score for 2019 was 25.8 per cent, an improvement of 9.5 points versus last year's figure. This came from better regularity, as well as continued product and service improvements. Vueling made improvements to disruption handling and resilience, which made a significant difference for customers in light of the significant Air Traffic Control ('ATC') disruption again in 2019. Net Promoter Score improved at British Airways, Iberia and Vueling, and was flat at Aer Lingus, in the context of increased punctuality challenges at Dublin Airport.

Cargo revenue

2019 was a difficult year for global airfreight, with industry-wide volumes down 3.3 per cent versus 2018. The reduction in demand reflected US-China trade tensions and weaker manufacturing in Europe, notably in Germany. IAG Cargo's performance was better than the market overall, reflecting its strategy to focus on premium products. IAG volumes were down 2.4 per cent, with yield down 4.9 per cent at constant currency, leading to a decrease in Cargo revenue of 7.2 per cent at constant currency. Premium products, including Constant Climate and Critical, performed better than general freight, with a growth in the Constant Fresh perishable movements, particularly out of Latin America and Africa. Industry sectors such as automotive parts were significantly down. IAG Cargo launched a new temperature-controlled facility in Madrid, which gained Good Distribution Practice certification in February. The new facility has been welcomed by customers and has provided new revenue potential for the Spanish hub.

Other revenue

Other revenue rose 14.1 per cent, 11.3 per cent at constant currency. Revenues grew at Iberia's third party maintenance (MRO) business, assisted by greater engine overhaul activity. BA Holidays continued to grow, benefitting from marketing and a focus on IT improvements, resulting in higher conversions into bookings. Other revenue was also boosted by IAG Loyalty, which increased the sale of Avios points to its partners.

Total revenue

Total revenue for the Group rose 5.1 per cent and was up 3.5 per cent at ccy.

Non-fuel unit costs

At constant currency, total non-fuel unit costs decreased 0.1 per cent. Airline non-fuel unit costs (adjusted by the costs associated with generating 'Other revenue', representing the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams), was down 0.9 per cent. Airline non-fuel unit costs improved at a Group level from cost-saving initiatives and efficient growth, with Vueling's investment in resilience and disruption handling reducing passenger assistance costs linked to continuing Air Traffic Control issues in Europe.

Expenditure before exceptional items

Employee costs

Employee costs increased 3.1 per cent before exceptional items for the year. At constant currency, employee unit costs improved 1.4 per cent primarily linked to management initiatives, productivity improvements, the impact of strikes at British Airways on bonus payments and the final quarter of year-on-year benefit from the NAPS pension closure at British Airways in March 2018. This was partially offset by pay increases at all airlines, generally linked to price inflation.

In 2018 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 in the prior year) and a reduction in current service cost.

Overall, the average number of employees rose by 2.0 per cent for the Group bringing the average workforce to 66,034. Productivity, measured as Available Seat Kilometre ('ASKs') per manpower equivalent, increased 1.9 per cent with improvements at British Airways, Iberia, Vueling and Aer Lingus.

Employee costs

€ million	2019	Higher/(lower) Year over year at ccy	Per ASK at ccy
Employee costs	**4,962**	2.6%	**(1.4)%**

Productivity

	2019	Higher/(lower) Year over year
Productivity	**5,115**	1.9%
Average manpower equivalent	**66,034**	2.0%

Fuel, oil and emissions costs

Fuel, oil and emissions costs rose by 14.0 per cent in 2019, primarily due to hedging profits in 2018 not repeated in 2019, partially offset by a weaker US dollar and operational efficiencies. The Group hedges its fuel purchases in advance, typically gradually building its cover over three years. This hedging programme smooths the effects of rising (or falling) prices and 2018 benefitted particularly from prices locked in at lower rates in previous years. The Group also gained fuel efficiencies from new generation aircraft and fuel consumption was further reduced by improved operational procedures implemented across the airlines. At ccy and on a unit basis, fuel costs were 5.7 per cent higher.

Fuel, oil and emissions costs

€ million	2019	Higher/(lower) Year over year at ccy	Per ASK at ccy
Fuel, oil costs and emissions charges	**6,021**	10.0%	**5.7%**

Supplier costs

Total supplier costs for the year increased 5.1 per cent with 0.9 points of adverse currency impact. At ccy and on a unit basis, supplier costs rose 0.2 per cent.

Supplier costs

€ million	2019	Higher/(lower) Year over year at ccy (proforma)	*Year over year at ccy (statutory)*
Supplier costs per ASK at ccy		0.2%	
Handling, catering and other operating costs	**2,972**	7.4%	*7.1%*
Landing fees and en-route charges	**2,221**	0.8%	*0.8%*
Engineering and other aircraft costs	**2,092**	8.5%	*10.2%*
Property, IT and other costs	**811**	1.9%	*(12.5)%*
Selling costs	**1,038**	(2.8)%	*(2.8)%*
Currency differences	**(7)**	nm	*nm*

British Airways' supplier unit costs at ccy were up due to investment in customer (catering and lounges), incremental BA Holidays costs (impacting Handling, catering and other operating costs) and inflation, partially offset by one-off compensation received in relation to an IT failure in 2017, aircraft delivery delays and engine issues and from cost saving initiatives. Iberia supplier unit costs at ccy were up from increased Engineering and other aircraft costs related to its third-party MRO business, with a corresponding increase in other revenue, partially offset by lower selling costs due to direct channel growth and continued cost saving initiatives. Vueling supplier unit costs at ccy improved significantly from lower disruption costs in line with improved operational performance as well as the introduction of an action plan identifying saving opportunities from the demand slowdown. This was partially offset by investment in operational resilience for the business, aimed at mitigating the impact of ATC disruption. Aer Lingus supplier unit costs at ccy were up from increased maintenance and handling costs, partially offset by continued cost saving initiatives and efficient growth.

By supplier cost category:

Handling, catering and other operating costs rose 8.7 per cent, excluding currency up 7.4 per cent. More than half of this increase was linked to higher capacity, with 4.7 per cent additional passengers carried in the year and higher activity at BA Holidays, with the corresponding increase in Other revenue. Costs also rose from the impact of disruption caused by the pilots strike at British Airways and price increases in supplier contracts. The Group continued its focus on improving the customer proposition by investing in lounges, catering and service delivery.

Landing fees and en-route charges were higher by 1.7 per cent, excluding currency up 0.8 per cent. Costs rose primarily from higher activity, with flying hours up 3.0 per cent and sectors flown up 2.8 per cent, offset by reductions of en-route charges at Vueling and Aer Lingus, and London Gatwick rebates at British Airways.

Engineering and other aircraft costs increased 12.7 per cent, excluding currency up 8.5 per cent. Increases were driven by increased flying hours, up 3.0 per cent, contractual price escalation on maintenance contracts, additional component costs at Aer Lingus and higher costs associated with Iberia's third-party maintenance business. Cost increases were partly offset by negotiated improvements in 'pay-as-you-go' contracts and compensation received from manufacturers linked to aircraft availability issues.

Property, IT and other costs were up 2.8 per cent, excluding currency up 1.9 per cent. The increase is due to higher capacity, with lower costs on a unit basis. The improvement reflects the impact of one-off supplier compensation received from the impact of the IT failure in 2017 at British Airways. This was partially offset by investing in resilience and IT infrastructure and from inflation increases on rent and rates.

Selling costs decreased 0.8 per cent, excluding currency down 2.8 per cent. Selling costs benefited from reduced commissions, linked to growth of the new distribution model, together with benefits from the mix of selling channels, with an increase in direct sales. British Airways benefited from an initiative to reduce credit card costs. Iberia achieved efficiencies from targeted marketing spend, which was partially offset by British Airways' investment in its centenary year and new uniform development.

Ownership costs

The Group's ownership costs were up 5.8 per cent, excluding currency up 5.4 per cent. The increase reflects additional depreciation on new aircraft, as well as depreciation on densification and connectivity investments and from the New York JFK terminal project. The increase in ownership costs was partially offset by a reduction in engine overhauls in line with retirement of the Boeing 747 fleet at British Airways. New aircraft are contributing to lower carbon emissions and reduced fuel costs.

€ million	2019	Year over year at ccy (proforma)	*Year over year at ccy (statutory)*
Per ASK at ccy		1.4%	
Ownership costs	**2,111**	5.4%	*(1.9)%*

Number of fleet	2019	Higher/(lower) Year over year
Shorthaul	**394**	3.7%
Longhaul	**204**	5.7%
	598	4.4%

Aircraft deliveries	2019	2018
Airbus A320 family	**32**	28
Airbus A330	**3**	6
Airbus A350	**8**	2
Boeing 787	**-**	5
Embraer E190	**2**	1
Total	**45**	42

Exchange impact before exceptional items

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily 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. Overall, in 2019 the Group operating profit before exceptional items benefitted from €67 million of positive foreign exchange impacts.

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

€ million Favourable/(adverse)	2019 Translation impact	 Transaction impact	 **Total exchange impact**
Total exchange impact on revenue	68	325	393
Total exchange impact on operating expenditures	(58)	(268)	(326)
Total exchange impact on operating profit	**10**	**57**	**67**

The exchange rates for the Group were as follows:

	2019	2018	Higher/(lower)
Translation - Balance sheet			
€ to £	**1.18**	1.11	6.3%
Translation - Income statement (weighted average)			
€ to £	**1.13**	1.13	–
Transaction (weighted average)			
€ to £	**1.13**	1.13	–
$ to €	**1.12**	1.18	(5.1)%
$ to £	**1.27**	1.33	(4.5)%

Operating profit before exceptional items

In summary, the Group's operating profit before exceptional items for the year was €3,285 million, a €200 million decrease from last year (on a statutory basis after exceptional items a decrease of €1,065 million mainly due to the exceptional pension credit in 2018 and exceptional pension expense in 2019). The Group's operating margin was lower by 1.5 points to 12.9 per cent. These results reflect the industrial action at British Airways and disruption at London Heathrow in the summer, which had an adverse impact of approximately €170 million. In the second half of the year, weakness and disruption faced by the Group's low-cost segments had a further adverse impact of approximately €45 million.

Operating profit and loss performance of operating companies

	British Airways £ million			Aer Lingus € million			Iberia € million			Vueling € million		
	2019	Higher/ (lower)[1]	*Higher/ (lower)[2]*	2019	Higher/ (lower)[1]	*Higher/ (lower)[2]*	2019	Higher/ (lower)[1]	*Higher/ (lower)[2]*	2019	Higher/ (lower)[1]	*Higher/ (lower)[2]*
ASKs	186,170	0.9%	0.9%	30,255	4.2%	4.2%	73,354	7.6%	7.6%	38,432	2.7%	2.7%
Seat factor (per cent)	83.6	1.1pts	1.1pts	81.8	0.8pts	0.8pts	87.2	1.7pts	1.7pts	86.9	1.5pts	1.5pts
Passenger revenue	11,899	2.9%	2.9%	2,060	6.1%	6.1%	4,053	7.3%	7.3%	2,437	5.2%	5.2%
Cargo revenue	711	(7.6)%	(7.6)%	54	0.6%	0.6%	291	5.8%	5.8%	–	–	
Other revenue	680	7.6%	7.6%	11	(16.8)%	(16.8)%	1,301	16.2%	16.2%	18	(14.8)%	(14.8)%
Total revenue	**13,290**	2.5%	2.5%	**2,125**	5.8%	5.8%	**5,645**	9.2%	9.2%	**2,455**	5.0%	5.0%
Fuel, oil costs and emissions charges	3,237	10.6%	10.6%	460	20.6%	20.6%	1,202	17.6%	17.6%	548	12.1%	12.1%
Employee costs	2,529	(0.2)%	(0.2)%	405	8.8%	8.8%	1,164	6.7%	6.7%	301	8.2%	8.2%
Supplier costs	4,497	2.0%	(0.7)%	854	5.9%	11.9%	2,392	10.5%	10.6%	1,116	3.3%	1.5%
EBITDA	**3,027**	(2.1)%	1.8%	**406**	(9.6)%	(17.3)%	**887**	(0.5)%	(0.9)%	**490**	0.0%	4.0%
Ownership costs	1,106	3.7%	8.5%	130	(5.5)%	(30.1)%	390	8.8%	(14.8)%	250	10.6%	(7.7)%
Operating profit before exceptional items	**1,921**	(5.1)%	(1.6)%	**276**	(11.4)%	(9.5)%	**497**	(6.7)%	13.8%	**240**	(9.3)%	19.7%
Operating margin	14.5%	(1.1)pts	(0.6)pts	13.0%	(2.5)pts	(2.2)pts	8.8%	(1.5)pts	0.4pts	9.8%	(1.5)pts	1.4pts
Pence/€ cents												
Passenger yield per RPK	7.65	0.6%	0.6%	8.32	0.8%	0.8%	6.33	(2.3)%	(2.3)%	7.30	0.7%	0.7%
Passenger revenue per ASK	6.39	2.0%	2.0%	6.81	1.8%	1.8%	5.52	(0.3)%	(0.3)%	6.34	2.4%	2.4%
Total revenue per ASK	**7.14**	1.6%	1.6%	**7.02**	1.5%	1.5%	**7.69**	1.5%	1.5%	**6.39**	2.3%	2.3%
Fuel cost per ASK	1.74	9.6%	9.6%	1.52	15.6%	15.6%	1.64	9.3%	9.3%	1.43	9.2%	9.2%
Non-fuel costs per ASK	4.37	0.6%	(0.3)%	4.59	1.2%	0.8%	5.38	1.4%	(1.2)%	4.34	2.5%	(1.5)%
Total cost per ASK	**6.11**	3.0%	2.3%	**6.11**	4.5%	4.2%	**7.02**	3.2%	1.1%	**5.76**	4.1%	0.9%

1 Proforma
2 Statutory

British Airways' operating profit was £1,921 million, excluding exceptional items, down £104 million over the prior year on a capacity increase of 0.9 per cent.

Passenger unit revenues were up for the year, with higher yields, from strong performance in the North American premium sector, and an increase in load factor.

Non-fuel unit costs were up for the year, due to the growth of BA Holidays. Excluding the impact of BA Holidays, non-fuel unit costs decreased, driven by management initiatives and supplier compensation partly offset by customer investment and contractual price increases.

Overall, British Airways' operating margin declined 1.1 points to 14.5 per cent.

Aer Lingus' operating profit was €276 million, a decrease of €35 million over last year. Capacity increased 4.2 per cent from the addition of a new route connecting Dublin and Minneapolis and increases in capacity to San Francisco, Seattle and Philadelphia.

Aer Lingus' operating margin was 2.5 points lower at 13.0 per cent. Passenger unit revenues were up, with strong longhaul performance and positive retail performance, despite challenging European market conditions.

Aer Lingus non-fuel unit costs were up, primarily driven by increased maintenance and handling costs as well as pay inflation increases, partially offset by continued cost saving initiatives and efficient growth. Fuel unit costs were up versus last year, reflecting higher market fuel prices, with favourable hedge positions having unwound during the year.

Iberia's operating profit before exceptional items was €497 million, down by €36 million versus last year, achieving an operating margin of 8.8 per cent. Capacity for the year was up 7.6 per cent, with a slight reduction in passenger unit revenue from lower yields partially offset by higher passenger load factor.

Iberia's total unit cost performance was up but improved at constant currency. Higher costs were mainly from CPI related price increases and higher maintenance works performed by Iberia's third-party MRO business, as well as higher fuel costs. This was partially offset by decreases in selling costs from direct channel growth and other marketing cost saving initiatives. Employee unit costs continued to improve, with strong increases in productivity through efficiency initiatives.

In 2019, Iberia's Other revenue also increased by 16.2 per cent, primarily from its MRO business.

Vueling's operating profit was €240 million, a decrease of €24 million. Its operating margin of 9.8 per cent was 1.5 points down versus last year.

Vueling adjusted its capacity to offset demand slowdown, however the impact of incidents in Barcelona and strikes impacted revenues. A new disruption protection plan was put in place, contributing to higher costs but offset by Vueling's action plan to identify saving opportunities to cope with demand slowdown. Further cost increases came from a higher fuel bill and inflation-linked price increases in supplier costs.

Vueling invested in an ATC protection plan to safeguard its operations from the impact of future disruption in line with its NEXT strategy and in order to reduce possible future disruption related costs, such as compensation, and impact to revenues.

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.

Following British Airways reaching a settlement agreement with the Trustee Directors of its APS pension scheme, the Group recognised an exceptional non-cash net operating charge of €672 million, reflecting the associated increased IAS 19 defined benefit liability of APS. The settlement, approved by the High Court in November 2019, puts an end to a legal dispute over pension increases, which started in 2013.

In 2018 British Airways closed its NAPS pension scheme to future accrual and its BARP pension scheme to future contributions, replacing them with a new defined contribution scheme. The changes led to an exceptional net credit of €678 million. British Airways also reflected the cost of equalising the effects of Guaranteed Minimum Pensions, leading to €94 million charge to employee costs and had restructuring costs of €136 million.

Non-operating costs

Net non-operating costs after exceptional items were €338 million, down from €521 million last year. The translation of non-hedged balance sheet items and movement on US dollar denominated aircraft debt and hedging resulted in a net credit. This was partially offset by higher finance costs due to accelerated bond redemption and interest accrued on bonds issued in 2019.

Taxation

The substantial majority of the Group's activities are taxed where the main operations are based, UK, Spain and Ireland, with corporation tax rates during 2019 of 19 per cent, 25 per cent and 12.5 per cent respectively. The Group's effective tax rate for the year before exceptional items was 19 per cent (2018: 18 per cent) and the income statement tax charge was €560 million (2018: €542 million).

There is no associated Income statement tax credit linked to the 2019 exceptional item, as the value of the accounting surplus is net of 35 per cent tax at source.

Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €2,387 million, down 1.4 per cent. The decrease reflects a lower operating profit from the effect of the pilot strike at British Airways and from significantly higher fuel costs, partially offset by continued cost saving initiatives and capacity adjustments in the face of slower demand. Adjusted earnings per share before exceptional items is a key performance indicator and increased by 1.7 per cent in the year, reflecting the lower operating profit, offset by a lower share base, following the share buyback programme in 2018 and convertible bond redemption in 2019.

Profit after tax and exceptional items was €1,715 million (2018 pro forma: €2,838 million, 2018 statutory: €2,897 million), down 39.6 per cent, due to the exceptional pension charge in 2019 versus an exceptional net gain in 2018.

Dividends

The Board is proposing a final dividend to shareholders of 17.0 euro cents per share, which brings the full year dividend to 31.5 euro cents per share. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on July 6, 2020 to shareholders on the register on July 3, 2020.

Dividend policy statement

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

- Earnings of the Group;
- Ongoing 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 2019. Distributions from British Airways may trigger additional pension contributions if higher than pre-agreed thresholds and in 2019 an increased threshold of 50 per cent of after-tax profit was agreed until September 2022; see note 30 of the Financial statements.

The Company's distributable reserves position was strong, with €5.2 billion available at December 31, 2019 (2018: €5.7 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 net debt to EBITDA and liquidity. In 2019, the Group's net debt to EBITDA ratio increased to 1.4 from 1.2 times, well within the Group's target ceiling of 1.8 times. EBITDA was slightly lower, with the reduction in operating profit partially offset by lower non-operating expenditure. Net debt increased by €1.1 billion, mainly due to higher capital expenditure as the Group continues to invest in the customer experience and in new, fuel-efficient aircraft.

In 2019 the Group financed 41 of the new aircraft delivered during the year, using a range of aircraft-specific financing instruments, including an EETC bond issue by British Airways of $806 million, which were combined with Japanese Operating Leases with Call Options ("JOLCO") as in previous years, bringing the total financing raised to $1,120 million. The Group redeemed outstanding convertible bonds of €500 million and in July issued its first unsecured bonds for an aggregate principal amount of €1 billion, split into two tranches of €500 million due in 2023 and 2027.

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. Deficit payments to the APS plan ceased effective from January 1, 2019, following an out-of-court settlement which put an end to litigation regarding pension increases that had started in 2013. The full triennial valuation for the NAPS plan, based on the position at March 31, 2018, was agreed during the year, with deficit payments set at €532 million per annum (equivalent to the €354 million plus a cash sweep of up to €177 million under the previous plan), an overfunding protection mechanism and an increased dividend mitigation threshold, whereby, up to September 2022, if British Airways pays dividends in excess of 50 per cent of after-tax profits (previously 35 per cent) additional pension contributions will be made, or a guarantee provided.

Tax cash flows were €224 million lower than in 2018 principally reflecting the early receipt in Spain of a refund for a previous tax deposit, and the receipt in the UK of a one-off repayment following the reassessment of Avios' deferred revenue upon adoption of IFRS 15 'Revenue recognition'.

Shareholder returns reflect cash payments for dividends, buyback programmes and special dividends. In 2018 a buyback programme of €500 million was completed. In 2019 the Group paid a special dividend of €695 million, in addition to normal dividends equivalent to 25 per cent of pre-exceptional profit after tax.

Cash flow

€ million	**2019**	2018 (statutory)	Movement
Operating profit before exceptional items	**3,285**	3,230	55
Depreciation, amortisation and impairment	**2,111**	1,254	857
Pensions	**(865)**	(843)	(22)
Payments related to restructuring	**(180)**	(220)	40
Movement in working capital	**(70)**	(64)	(6)
Other operating movements	**279**	334	(55)
Interest received	**42**	37	5
Interest paid	**(481)**	(149)	(332)
Tax paid	**(119)**	(343)	224
Cash flow from operating activities	**4,002**	3,236	766
Acquisition of PPE and intangible assets	**(3,465)**	(2,802)	(663)
Sale of PPE and intangible assets	**911**	574	337
Other investing movements	**(1)**	(251)	250
Cash flow from investing activities	**(2,555)**	(2,479)	(76)
Proceeds from long-term borrowings	**2,286**	1,078	1,208
Repayments of borrowings and lease liabilities	**(2,237)**	(1,099)	(1,138)
Net cash flows from financing activities before shareholder returns	**49**	(21)	70
Levered free cash flow for the year	**1,496**	736	760
Shareholder returns	**(1,308)**	(1,077)	(231)
Cash inflow/(outflow) for the year	**188**	(341)	529
Opening cash and interest-bearing deposits	**6,274**	6,676	(402)
Net foreign exchange differences	**221**	(61)	282
Closing cash and interest-bearing deposits	**6,683**	6,274	409

Taking these factors into consideration, the Group's cash inflow for the year was €188 million and after net foreign exchange differences, the increase in cash net of exchange was €409 million. Each operating company holds adequate levels of cash with balances approximately 20 per cent of revenues or higher, sufficient to meet obligations as they fall due.

€ million	**2019**	2018	Higher/ (lower)
British Airways	**3,055**	2,780	275
Iberia	**1,121**	1,191	(70)
Aer Lingus	**580**	891	(311)
Vueling	**820**	564	256
IAG and other Group companies	**1,107**	848	259
Cash and deposits	**6,683**	6,274	409

The implementation of IFRS 16, whilst not changing cash, altered where certain items appear on the cash flow statement, notably resulting in higher depreciation, higher interest paid and higher repayment of borrowings. On a like-for-like basis, depreciation was up approximately €115 million, interest paid unchanged and repayment of borrowings up €471 million, mainly linked to the repayment of the IAG 2020 convertible bond.

Net debt (and Adjusted net debt for 2018)

€ million	2019	2018 (statutory)	Higher / (lower)
Debt	**7,509**	7,331	178
Cash and cash equivalents and interest-bearing deposits	**(6,274)**	(6,676)	402
Net debt at January 1	**1,235**	655	580
Adoption of IFRS 16 January 1, 2019	**5,195**	–	5,195
Net debt at January 1 after adoption of IFRS 16	**6,430**	655	5,775
(Increase)/decrease in cash net of exchange	**(409)**	402	(811)
Net cash outflow from repayments of borrowings and lease liabilities	**(2,237)**	(1,099)	(1,138)
Net cash inflow from new borrowings	**2,286**	1,078	1,208
New leases	**1,199**	–	1,199
(Increase)/decrease in net debt from regular financing	**1,248**	(21)	1,269
Exchange and other non-cash movements	**302**	199	103
Net debt at December 31	**7,571**	1,235	6,336
Capitalised aircraft lease costs	**–**	7,120	(7,120)
Adjusted net debt at December 31	**7,571**	8,355	(784)

The Group's net debt position after the adoption of IFRS 16 increased by €1.1 billion over the year from €6,430 million at January 1, 2019 to €7,571 million at the end of the year, mainly due to increased capital expenditure as the Group invested in new fuel-efficient fleet.

Capital commitments

Capital expenditure authorised and contracted for amounted to €12,830 million (2018: €10,831 million) for the Group. Most of this is in US dollars and includes commitments until 2025 for 79 aircraft from the Airbus A320 family, 12 Boeing 787s, 22 Boeing 777s, 33 Airbus A350s, and one Airbus A330.

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.
- Lead the industry in environmental sustainability.

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 IAG and its operating companies have continued to further embed the risk framework, which includes processes to identify, assess and manage risks, including emerging risks. The principal risks and uncertainties affecting IAG, detailed on pages 30 to 36 of the Annual Report and Accounts 2018, remain relevant. In general, the Group's strategic risk was stable during the year. As the Group moves into 2020, there is continued political uncertainty, fuel price volatility and the ongoing risk of impact to our operations and reputation from events outside of the Group's control.

International Consolidated Airlines Group S.A.

Unaudited full year Consolidated Financial Statements

January 1, 2019 – December 31, 2019

CONSOLIDATED INCOME STATEMENT

€ million	Note	Before exceptional items 2019	Exceptional items	Total 2019	Before exceptional items 2018 (Restated)	Exceptional items	Total 2018 (Restated)
		Year to December 31					
Passenger revenue		**22,468**		**22,468**	21,401		21,401
Cargo revenue		**1,117**		**1,117**	1,173		1,173
Other revenue		**1,921**		**1,921**	1,684		1,684
Total revenue	3	**25,506**		**25,506**	24,258		24,258
Employee costs	4, 7	**4,962**	**672**	**5,634**	4,812	(460)	4,352
Fuel, oil costs and emissions charges		**6,021**		**6,021**	5,283		5,283
Handling, catering and other operating costs		**2,972**		**2,972**	2,740		2,740
Landing fees and en-route charges		**2,221**		**2,221**	2,184		2,184
Engineering and other aircraft costs		**2,092**		**2,092**	1,828		1,828
Property, IT and other costs		**811**		**811**	918	12	930
Selling costs		**1,038**		**1,038**	1,046		1,046
Depreciation, amortisation and impairment	5	**2,111**		**2,111**	1,254		1,254
Aircraft operating lease costs		**-**		**-**	890		890
Currency differences		**(7)**		**(7)**	73		73
Total expenditure on operations		**22,221**	**672**	**22,893**	21,028	(448)	20,580
Operating profit		**3,285**	**(672)**	**2,613**	3,230	448	3,678
Finance costs	8	**(611)**		**(611)**	(231)		(231)
Finance income	8	**50**		**50**	41		41
Net financing credit relating to pensions	8	**26**		**26**	27		27
Net currency retranslation credits/(charges)		**201**		**201**	(19)		(19)
Other non-operating charges	8	**(4)**		**(4)**	(9)		(9)
Total net non-operating costs		**(338)**		**(338)**	(191)		(191)
Profit before tax		**2,947**	**(672)**	**2,275**	3,039	448	3,487
Tax	9	**(560)**	**-**	**(560)**	(558)	(32)	(590)
Profit after tax for the year		**2,387**	**(672)**	**1,715**	2,481	416	2,897
Attributable to:							
Equity holders of the parent		**2,387**		**1,715**	2,469		2,885
Non-controlling interest		**-**		**-**	12		12
		2,387		**1,715**	2,481		2,897
Basic earnings per share (€ cents)	10	**120.3**		**86.4**	122.1		142.7
Diluted earnings per share (€ cents)	10	**116.8**		**84.3**	117.7		137.4

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31 2019	2018
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity		**610**	(517)
Reclassified and reported in net profit		**141**	(480)
Fair value movements on cost of hedging		**36**	13
Cost of hedging reclassified and reported in net profit	29	**(10)**	–
Currency translation differences	29	**296**	(80)
Items that will not be reclassified to net profit			
Fair value movements on other equity investments	29	**(8)**	(5)
Fair value movements on cash flow hedges		**(70)**	26
Fair value movements on cost of hedging		**32**	–
Remeasurements of post-employment benefit obligations	29	**(788)**	(696)
Total other comprehensive income/(loss) for the year, net of tax		**239**	(1,739)
Profit after tax for the year		**1,715**	2,897
Total comprehensive income for the year		**1,954**	1,158
Total comprehensive income is attributable to:			
Equity holders of the parent		**1,954**	1,146
Non-controlling interest	29	**–**	12
		1,954	1,158

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

CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2019	December 31, 2018
Non-current assets			
Property, plant and equipment	12	**19,168**	12,437
Intangible assets	15	**3,442**	3,198
Investments accounted for using the equity method	16	**31**	31
Other equity investments	17	**82**	80
Employee benefit assets	30	**524**	1,129
Derivative financial instruments	26	**268**	221
Deferred tax assets	9	**546**	536
Other non-current assets	18	**273**	309
		24,334	17,941
Current assets			
Inventories		**565**	509
Trade receivables	18	**2,255**	1,597
Other current assets	18	**1,314**	1,175
Current tax receivable	9	**186**	383
Derivative financial instruments	26	**324**	155
Other current interest-bearing deposits	19	**2,621**	2,437
Cash and cash equivalents	19	**4,062**	3,837
		11,327	10,093
Total assets		**35,661**	28,034
Shareholders' equity			
Issued share capital	27	**996**	996
Share premium	27	**5,327**	6,022
Treasury shares		**(60)**	(68)
Other reserves	29	**560**	(236)
Total shareholders' equity		**6,823**	6,714
Non-controlling interest	29	**6**	6
Total equity		**6,829**	6,720
Non-current liabilities			
Interest-bearing long-term borrowings	23	**12,411**	6,633
Employee benefit obligations	30	**328**	289
Deferred tax liability	9	**572**	453
Provisions	24	**2,416**	2,268
Derivative financial instruments	26	**286**	423
Other long-term liabilities	22	**71**	198
		16,084	10,264
Current liabilities			
Current portion of long-term borrowings	23	**1,843**	876
Trade and other payables	20	**4,344**	3,959
Deferred revenue on ticket sales	21	**5,486**	4,835
Derivative financial instruments	26	**252**	656
Current tax payable	9	**192**	165
Provisions	24	**631**	559
		12,748	11,050
Total liabilities		**28,832**	21,314
Total equity and liabilities		**35,661**	28,034

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31 2019	2018
Cash flows from operating activities			
Operating profit after exceptional items		**2,613**	3,678
Depreciation, amortisation and impairment	5	**2,111**	1,254
Movement in working capital		**(70)**	(64)
Increase in trade receivables, prepayments, inventories and other current assets		*(935)*	*(650)*
Increase in trade and other payables, deferred revenue on ticket sales and current liabilities		*865*	*586*
Payments related to restructuring	24	**(180)**	(220)
Employer contributions to pension schemes		**(870)**	(898)
Pension scheme service costs	30	**5**	55
Provision and other non-cash movements		**951**	(114)
Interest paid		**(481)**	(149)
Interest received		**42**	37
Tax paid		**(119)**	(343)
Net cash flows from operating activities		**4,002**	3,236
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(3,465)**	(2,802)
Sale of property, plant and equipment and intangible assets		**911**	574
(Increase)/decrease in other current interest-bearing deposits		**(103)**	924
Other investing movements		**(1)**	61
Net cash flows from investing activities		**(2,658)**	(1,243)
Cash flows from financing activities			
Proceeds from long-term borrowings		**2,286**	1,078
Repayment of borrowings		**(730)**	(275)
Repayment of lease liabilities (2018: repayment of finance leases)		**(1,507)**	(824)
Acquisition of treasury shares		**–**	(500)
Distributions made to holders of perpetual securities		**–**	(312)
Dividend paid		**(1,308)**	(577)
Net cash flows from financing activities		**(1,259)**	(1,410)
Net increase in cash and cash equivalents		**85**	583
Net foreign exchange differences		**140**	(38)
Cash and cash equivalents at 1 January		**3,837**	3,292
Cash and cash equivalents at year end	19	**4,062**	3,837
Interest-bearing deposits maturing after more than three months	19	**2,621**	2,437
Cash, cash equivalents and other interest-bearing deposits	19	**6,683**	6,274

For details on restricted cash balances refer to note 19 'Cash, cash equivalents and other current interest-bearing deposits'.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2019

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 27)	Other reserves (note 29)	Retained earnings (note 29)	**Total shareholders' equity**	Non-controlling interest (note 29)	**Total equity**
January 1, 2019 as reported	996	6,022	(68)	(3,560)	3,324	**6,714**	6	**6,720**
Adoption of IFRS 16	–	–	–	4	(554)	**(550)**	–	**(550)**
January 1, 2019	996	6,022	(68)	(3,556)	2,770	**6,164**	6	**6,170**
Profit for the year	–	–	–	–	1,715	**1,715**	–	**1,715**
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	55	–	**55**	–	**55**
Fuel and oil costs	–	–	–	106	–	**106**	–	**106**
Currency differences	–	–	–	(26)	–	**(26)**	–	**(26)**
Finance costs	–	–	–	6	–	**6**	–	**6**
Net change in fair value of cash flow hedges	–	–	–	540	–	**540**	–	**540**
Net change in fair value of equity investments	–	–	–	(8)	–	**(8)**	–	**(8)**
Net change in fair value of cost of hedging	–	–	–	68	–	**68**	–	**68**
Cost of hedging reclassified and reported in net profit	–	–	–	(10)	–	**(10)**	–	**(10)**
Currency translation differences	–	–	–	296	–	**296**	–	**296**
Remeasurements of post-employment benefit obligations	–	–	–	–	(788)	**(788)**	–	**(788)**
Total comprehensive income for the year	–	–	–	1,027	927	**1,954**	–	**1,954**
Hedges reclassified and reported in property, plant and equipment	–	–	–	(11)	–	**(11)**	–	**(11)**
Cost of share-based payments	–	–	–	–	33	**33**	–	**33**
Vesting of share-based payment schemes	–	–	8	–	(14)	**(6)**	–	**(6)**
Dividend	–	(695)	–	–	(615)	**(1,310)**	–	**(1,310)**
Redemption of convertible bond	–	–	–	(39)	38	**(1)**	–	**(1)**
December 31, 2019	**996**	**5,327**	**(60)**	**(2,579)**	**3,139**	**6,823**	**6**	**6,829**

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 (note 29)	Total shareholders' equity	Non-controlling interest (note 29)	Total equity
January 1, 2018	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

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 December 17, 2009. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015. 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. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. The amendments have no material impact on the financial statements.

The Group's financial statements for the year to December 31, 2019 were authorised for issue, and approved by the Board of Directors on February 27, 2020.

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.

Changes in accounting policies

The Group has applied IFRS 16 'Leases' and IFRIC 23 'Uncertainty over tax treatments' for the first time for the year to December 31, 2019. There has been no impact arising from the application of IFRIC 23. Further details on the impact of IFRS 16 on the Group accounting policies, financial position and performance are provided in note 33.

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.

In September 2019, the IFRS Interpretations Committee ('IFRIC') clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group has restated the comparative period for 2018 to reflect €148 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The revenue component of segmental reporting has accordingly been restated. Further details are given in note 33.

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.

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 right of use ('ROU') assets are disaggregated into separate components and depreciated at rates calculated to write down the cost of each component to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and 5 per cent residual value for shorthaul aircraft and between 25 and 29 years (depending on aircraft) and 5 per cent residual value for longhaul aircraft. Right of use assets are depreciated over the shorter of the lease term and the aforementioned depreciation rates.

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 Leases

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

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is discussed in note 33.

Policy applicable from January 1, 2019
At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Right of use assets
At the lease commencement date a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs to return the asset to its original condition.

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group entity's incremental borrowing rate is used.

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

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

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

The Group regularly uses sale and lease transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised and a ROU asset and lease liability is recognised. The ROU asset recognised is based on the proportion of the previous carrying amount of the asset that is retained. Any gain or loss is restricted to the amount that relates to the rights that have been transferred to the counter-party to the transaction. Where a sale has not occurred, the asset is retained on the balance sheet within Property, plant and equipment and an asset financed liability recognised equal to the financing proceeds.

Under the transitional requirements of IFRS 16 applying the modified retrospective method, the assets and liabilities on all finance leases prior to January 1, 2019 were transferred into ROU assets and associated lease liabilities. From January 1, 2019 onwards, those new financing arrangements with the following features that do not meet the recognition criteria as a sale under IFRS 15 are therefore not eligible for recognition under IFRS 16: the lessor has legal ownership retention as security against repayment and interest obligations; the Group initially acquired the aircraft or took a major share in the acquisition process from the manufacturer; in view of the contractual conditions, it is virtually certain that the aircraft will be purchased at the end of the lease term. Where new financing arrangements do not meet these recognition criteria due to the fact they are 'in substance purchases' and not leases, the related liability is recognised as an asset financed liability and the assets as an owned asset within Property, plant and equipment.

Policy applicable before January 1, 2019
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 Group by the end of the lease term; the Group 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.

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.

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, and held in order to collect contractual cash flows, 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 the Income statement. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The time value of options is excluded from the designated hedging instrument and accounted for as a cost of hedging. Movements in the time value of options are recognised in Other comprehensive income until the underlying transaction affects the income statement.

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

d Long-term borrowings

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

e 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.

f 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.

g 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.

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.

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. Revenue is stated net of compensation for flight delays and cancellations, taking into consideration the level of expected claims.

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. The Group acts as an agent where (i) it collects various taxes and fees assessed on the sale of tickets to passengers and remits these to the relevant taxing authorities; and (ii) where it provides interline services to airline partners outside of the Group.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised as the related performance obligations are satisfied (over time), being where the control of the goods or services are transferred to the customer.

Customer loyalty programmes

The Group operates five loyalty programmes: 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 settlement agreements with the Group's pension schemes; significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; 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 estimates, assumptions and judgements

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

Estimates

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

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

At December 31, 2019 the Group recognised €524 million in respect of employee benefit assets (2018: €1,129 million) and €328 million in respect of employee benefit obligations (2018: €289 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 estimates are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 30. The Group determines the assumptions to be adopted in discussion with qualified actuaries. Any difference between these assumptions and the actual outcome will impact future net assets and total comprehensive income. The sensitivity to changes in pension increase assumptions is disclosed in note 30.

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

In February 2019, following the UK House of Lords Economic Affairs Committee report on measuring inflation, the National Statistician concluded that the existing methodology was unsatisfactory and proposed a number of options to the UK Statistics Authority (UKSA). In March 2019, the UKSA recommended to the UK Chancellor of the Exchequer that the publication of the RPI cease at a point to be determined in the future and in the intervening period, the RPI be addressed by bringing in the methods of the CPIH (a proposed variant to CPI). In September 2019, the UK Chancellor of the Exchequer announced his intention to consult with the Bank of England and the UKSA on whether to implement these proposed changes to RPI in the period of 2025 to 2030. On January 13, 2020, it was confirmed that the period of consultation will commence on March 11, 2020 for a period of six weeks.

Following the aforementioned announcement in September 2019, market-implied break-even RPI inflation forward rates for periods after 2030 have reduced in the investment market. Therefore, in assessing RPI and CPI from investment market data, allowance has been made for partial alignment between RPI and CPI from 2030 onwards.

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 Banking Group plc and others as defendants (collectively referred to as the 'Lloyds Bank case') regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgment in the Lloyd's Bank case confirmed that all pension schemes were required to equalise, with immediate application, for the effects of unequal Guaranteed Minimum Pension ('GMP') benefits accrued over the period since May 17, 1990 ('GMP equalisation'). As at December 31, 2018, given the limited timescale from the High Court judgment, the Group undertook a simplified approach to estimating the impact of the GMP. The APS and NAPS estimated DBO as at December 31, 2019 includes allowance for the estimated effect of GMP equalisation based on the assessments made by the respective APS and NAPS Scheme Actuaries.

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, 2019 the Group recognised €5,486 million (2018: €4,835 million) in respect of deferred revenue on ticket sales of which €1,917 million (2018: €1,769 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 five percentage point change in the assumption of points outstanding and 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.

c Income taxes

At December 31, 2019 the Group recognised €546 million in respect of deferred tax assets (2018: €536 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. Where the Group determines that it is more likely than not that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability based on either: the Group's judgment of the most likely outcome; or, when there is a wide range of possible outcomes, uses a probability weighted average approach.

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, 2019 the Group recognised €2,460 million (2018: €2,403 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 15.

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 15.

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, 2019 the Group recognised €19,168 million (2018: €12,437 million) in respect of property, plant and equipment, including the ROU assets recognised in the year. 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

a Engineering and other aircraft costs

At December 31, 2019, the Group recognised €1,675 million in respect of maintenance, restoration and handback provisions (2018: €1,359 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.

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans and historic experience regarding the extension of leases. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances and affects the Groups ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 13.

New standards, amendments and interpretations not yet effective

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

- Amendments to references to conceptual framework in IFRS standards, effective for periods beginning on or after January 1, 2020;
- Definition of a business (amendments to IFRS 3), effective for periods beginning on or after January 1, 2020;
- Definition of material (amendments to IAS 1 and IAS 8), effective for periods beginning on or after January 1, 2020; and
- IFRS 17 Insurance contracts, effective for periods beginning on or after January 1, 2021.

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, effective January 1, 2020, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The EU adopted these amendments in January 2020. The Group is currently assessing the impact of these amendments.

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, 2019

	2019					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	**Total**
Revenue						
Passenger revenue	13,307	4,020	2,437	2,060	644	**22,468**
Cargo revenue	805	255	–	54	3	**1,117**
Other revenue	752	912	18	2	237	**1,921**
External revenue	14,864	5,187	2,455	2,116	884	**25,506**
Inter-segment revenue	242	458	–	9	575	**1,284**
Segment revenue	15,106	5,645	2,455	2,125	1,459	**26,790**
Depreciation, amortisation and impairment	(1,258)	(390)	(250)	(130)	(83)	**(2,111)**
Operating profit before exceptional items	**2,182**	**497**	**240**	**276**	**90**	**3,285**
Exceptional items (note 4)	(672)	–	–	–	–	**(672)**
Operating profit after exceptional items	**1,510**	**497**	**240**	**276**	**90**	**2,613**
Net non-operating costs						**(338)**
Profit before tax						**2,275**
Total assets	22,312	8,733	3,756	2,131	(1,271)	**35,661**
Total liabilities	(15,445)	(6,940)	(3,354)	(1,320)	(1,773)	**(28,832)**

1 Includes eliminations on total assets of €14,982 million and total liabilities of €4,603 million.

For the year to December 31, 2018

€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies[1]	Total
	2018 (restated)					
Revenue						
Passenger revenue	12,909	3,754	2,317	1,941	480	21,401
Cargo revenue	867	251	–	54	1	1,173
Other revenue	682	749	20	9	224	1,684
External revenue	14,458	4,754	2,337	2,004	705	24,258
Inter-segment revenue	215	417	1	5	538	1,176
Segment revenue	14,673	5,171	2,338	2,009	1,243	25,434
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.

b Geographical analysis

Revenue by area of original sale

€ million	Year to December 31 2019	2018 (restated)
UK	**8,362**	7,945
Spain	**4,399**	4,027
USA	**4,379**	4,074
Rest of world	**8,366**	8,212
	25,506	24,258

Assets by area

December 31, 2019

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

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

4 Exceptional items

€ million	Year to December 31 2019	2018
Employee benefit obligations[1]	**672**	(584)
Restructuring costs[2]	**-**	136
Recognised in expenditure on operations	**672**	(448)
Total exceptional charge/(credit) before tax	**672**	(448)
Tax on exceptional items	**-**	32
Total exceptional charge/(credit) after tax	**672**	(416)

1 Employee benefit obligations

The exceptional expense of €672 million relates to the past service cost of the Airways Pension Scheme ('APS') settlement agreement described in note 30. This amount arises from the increase in the IAS 19 defined benefit liability of APS following the settlement agreement between the Trustee Directors of APS and British Airways which was approved by the High Court in November 2019. The settlement agreement established higher pensions in payment growth assumptions in future years, resulting in a non-cash increase to the IAS 19 defined benefit liability.

In the year to December 31, 2018:

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 year to December 31, 2018 Income statement of €678 million, with a related tax charge of €58 million.

On October 26, 2018, the High Court of Justice of England and Wales issued a judgment 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 judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to GMP benefits. The judgment 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 judgment was recorded as an exceptional charge of €94 million in the year to December 31, 2018 Income statement.

2 Restructuring costs

During 2018 British Airways continued to implement the restructuring programme that started in July 2016, to develop a more efficient and cost-effective structure. The overall costs of the programme principally comprised employee severance costs and include other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year to December 31, 2018 in respect of this programme amounted to €136 million, with a related tax credit of €26 million.

5 Expenses by nature

Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2019	2018
Owned assets	**776**	711
Right of use assets (2018: Finance leased aircraft)	**1,153**	371
Other leasehold interests	**40**	40
Amortisation of intangible assets	**142**	132
	2,111	1,254

Operating leases costs:

€ million		2019	2018
Minimum lease rentals	- aircraft	**-**	890
	- property and equipment	**-**	236
Sub-lease rentals received		**-**	(12)
		-	1,114

Cost of inventories:

€ million	2019	2018
Cost of inventories recognised as an expense, mainly fuel	**3,242**	3,165

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	**2019**	2018
Fees payable for the audit of the Group and individual accounts	**3,916**	4,328
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	**632**	634
Other services pursuant to legislation	**496**	436
Other services relating to taxation	**3**	–
Other assurance services	**727**	506
Services relating to working capital review	**1,218**	–
Services relating to corporate finance transactions	**175**	191
All other services	**3**	305
	7,170	6,400

7 Employee costs and numbers

€ million	**2019**	2018
Wages and salaries	**3,334**	3,240
Social security costs	**561**	516
Costs/(credits) related to pension scheme benefits	**932**	(317)
Other post-retirement benefit costs	**–**	5
Cost of share-based payments	**34**	31
Other employee costs[1]	**773**	877
Total employee costs	**5,634**	4,352

1 Other employee costs include allowances and accommodation for crew.

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

	2019			2018		
		December 31, 2019			December 31, 2018	
	Average number of employees	**Number of employees**	**Percentage of women**	Average number of employees	Number of employees	Percentage of women
Senior executives	**201**	**198**	**30%**	196	208	27%
Ground employees:						
Managerial	**2,319**	**1,777**	**41%**	1,857	1,872	40%
Non-managerial	**32,968**	**32,614**	**34%**	33,231	32,159	35%
Technical crew:						
Managerial	**8,136**	**7,885**	**38%**	8,569	8,501	38%
Non-managerial	**22,410**	**22,168**	**59%**	20,881	20,791	61%
	66,034	**64,642**		64,734	63,531	

The number of employees is based on manpower equivalent. The average headcount for 2019 was 73,299 (2018: 71,472).

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

a Finance costs

€ million	**2019**	2018
Interest expense on:		
Bank borrowings	**(12)**	(17)
Asset financed liabilities	**(9)**	–
Lease liabilities (2018: Finance lease obligations)	**(489)**	(144)
Provisions unwinding of discount	**(37)**	(27)
Other borrowings	**(77)**	(56)
Capitalised interest on progress payments	**17**	13
Other finance costs	**(4)**	–
	(611)	(231)

b Finance income

€ million	2019	2018
Interest on other interest-bearing deposits	**47**	33
Other finance income	**3**	8
	50	41

c Net financing credit relating to pensions

€ million	2019	2018
Net financing credit relating to pensions	**26**	27

d Other non-operating charges

€ million	2019	2018
Loss on sale of property, plant and equipment and investments	**(22)**	(29)
Credit related to equity investments (note 17)	**3**	5
Share of profits in investments accounted for using the equity method (note 16)	**6**	5
Realised gain on derivatives not qualifying for hedge accounting	**8**	20
Unrealised gains/(losses) on derivatives not qualifying for hedge accounting	**1**	(10)
	(4)	(9)

9 Tax

a Tax charges

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

€ million	**2019** Income statement	Other comprehensive income	Statement of changes in equity	Total	2018 Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax								
Movement in respect of prior years	26	(8)	–	**18**	4	–	–	4
Movement in respect of current year	(494)	146	–	**(348)**	(475)	162	–	(313)
Total current tax	(468)	138	–	**(330)**	(471)	162	–	(309)
Deferred tax								
Movement in respect of prior years	(14)	–	–	**(14)**	22	–	–	22
Movement in respect of current year	(79)	(160)	(1)	**(240)**	(144)	206	–	62
Rate change / rate differences	1	3	–	**4**	3	(13)	–	(10)
Total deferred tax	(92)	(157)	(1)	**(250)**	(119)	193	–	74
Total tax	(560)	(19)	(1)	**(580)**	(590)	355	–	(235)

The current tax credit in Other comprehensive income relates to employee retirement benefit plans of €154 million (2018: €136 million) and cash flow hedges of €16 million tax charge (2018: €26 million tax credit).

Tax in the Statement of changes in equity relates to share-based payment schemes of €1 million (2018: nil).

Within tax in Other comprehensive income is a tax charge of €184 million (2018: tax credit of €222 million) that may be reclassified to the Income statement and a tax credit of €165 million (2018: tax credit of €133 million) that will not.

b Current tax (liability)/asset

€ million	2019	2018
Balance at January 1	**218**	180
Income statement	**(468)**	(471)
Other comprehensive income	**138**	162
Cash	**119**	343
Exchange movements and other	**(13)**	4
Balance at December 31	**(6)**	218
Current tax asset	**186**	383
Current tax liability	**(192)**	(165)
Balance at December 31	**(6)**	218

c Deferred tax asset/(liability)

€ million	Fixed assets	Leases	Deferred tax deductions on IFRS 16 transition	Employee leaving indemnities and others	Employee benefit plans	Fair value gain/ losses	Share-based payment schemes	Tax loss carried forwards and tax credits	Other temporary differences	**Total**
Balance at January 1, 2019	(999)	–	–	348	42	234	16	411	31	**83**
Adjustments arising on adoption of IFRS 16	287	(148)	31	–	–	–	–	–	–	**170**
Income statement	4	(26)	(7)	(52)	(7)	–	5	(10)	1	**(92)**
Other comprehensive income	–	–	–	13	3	(173)	–	–	–	**(157)**
Statement of changes in equity	–	–	–	–	–	–	(1)	–	–	**(1)**
Exchange movements and other	(24)	(21)	–	3	3	9	(1)	–	2	**(29)**
Balance at December 31, 2019	**(732)**	**(195)**	**24**	**312**	**41**	**70**	**19**	**401**	**34**	**(26)**
Balance at January 1, 2018	(1,029)	–	–	374	140	39	15	430	28	(3)
Income statement	19	–	–	(25)	(96)	–	2	(18)	(1)	(119)
Other comprehensive income	–	–	–	–	(2)	195	–	–	–	193
Exchange movements and other	11	–	–	(1)	–	–	(1)	(1)	4	12
Balance at December 31, 2018	(999)	–	–	348	42	234	16	411	31	83

€ million	2019	2018
Deferred tax asset	**546**	536
Deferred tax liability	**(572)**	(453)
Balance at December 31	**(26)**	83

The deferred tax asset mainly arises in Spain. A reversal of €60 million on the deferred tax asset is expected within one year and the remainder beyond one year.

d Reconciliation of the total tax charge in the income statement

The tax charge is calculated at the domestic rates applicable to profits/(losses) in the country in which the profit/(loss) arise. The tax charge on the profit for the year to December 31, 2019 is higher (2018: lower) than the notional tax charge. The differences are explained below:

€ million	2019	2018
Accounting profit before tax	**2,275**	3,487
Weighted average tax charge of the Group[1]	**(440)**	(671)
Current year tax assets not recognised	**(11)**	(9)
Disposal and write down of investments	**-**	1
Effect of tax rate changes	**1**	3
Employee benefit plans accounted for net of withholding tax - recurring	**7**	1
Employee benefit plans accounted for net of withholding tax - non-recurring	**(128)**	53
Euro preferred securities accounted for as non-controlling interests	**-**	2
Investment incentives	**11**	10
Movement in respect of prior years	**12**	26
Non-deductible expenses - recurring items	**(14)**	(7)
Other items	**2**	1
Tax charge in the income statement	**(560)**	(590)

1 The expected tax charge is calculated by aggregating the expected tax charges arising in each company in the Group and changes each year as tax rates and profit mix change. The corporate tax rates for the Group's main countries of operation are Spain 25% (2018: 25%), the UK 19% (2018: 19%) and Ireland 12.5% (2018: 12.5%).

e Payroll related taxes and UK Air Passenger Duty

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

€ million	2019	2018
Payroll related taxes	**555**	509
UK Air Passenger Duty	**967**	885
	1,522	1,394

f Factors that may affect future tax charges

Unrecognised temporary differences - losses

€ million	2019	2018
Spanish corporate income tax losses and other temporary differences	**47**	47
UK capital losses	**335**	316
Irish capital losses	**25**	25
Corporate income tax losses outside of the Group's main countries of operation	**249**	210

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 €2,959 million (2018: €2,826 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 UK temporary differences as at December 31, 2019 is calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

g Tax related contingent liabilities

The Group has certain contingent liabilities, across all taxes, which at December 31, 2019 amounted to €165 million (December 31, 2018: €60 million). No material losses are likely to arise from such contingent liabilities. As such the Group does not consider it appropriate to make a provision for these amounts. Included in the tax related contingent liabilities is the following:

Merger gain

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

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

10 Earnings per share

€ million	2019	2018
Earnings attributable to equity holders of the parent for basic earnings	1,715	2,885
Interest expense on convertible bonds	26	18
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	1,741	2,903

	2019 Number '000	2018 Number '000
Weighted average number of ordinary shares in issue[1]	1,984,073	2,021,622
Assumed conversion on convertible bonds	59,398	72,944
Dilutive employee share schemes outstanding	22,305	18,515
Weighted average number for diluted earnings per share	2,065,776	2,113,081

€ cents	2019	2018
Basic earnings per share	86.4	142.7
Diluted earnings per share	84.3	137.4

1 In 2018 included 27 million as the weighted average impact for 66 million 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	2019	2018
Cash dividend declared		
Interim dividend for 2019 of 14.5 € cents per share (2018: 14.5 € cents per share)	288	288
Final dividend for 2018 of 16.5 € cents per share (2017: 14.5 € cents per share)	327	295
Special dividend for 2018 of 35.0 € cents per share	695	–
Proposed cash dividend		
Final dividend for 2019 of 17.0 € cents per share	337	

The proposed dividend will be distributed from net profit for the year to December 31, 2019.

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, 2018	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)
Balance at December 31, 2018	20,513	2,188	1,482	24,183
Adoption of IFRS 16	4,783	735	23	5,541
Balance at January 1, 2019	25,296	2,923	1,505	**29,724**
Additions	3,946	67	147	**4,160**
Modification of leases	128	94	–	**222**
Disposals	(1,319)	(85)	(71)	**(1,475)**
Reclassifications	44	–	(44)	**–**
Exchange movements	1,287	163	68	**1,518**
December 31, 2019	**29,382**	**3,162**	**1,605**	**34,149**
Depreciation and impairment				
Balance at January 1, 2018	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)
Balance at December 31, 2018	9,723	1,077	946	11,746
Adoption of IFRS 16	1,053	1	2	1,056
Balance at January 1, 2019	10,776	1,078	948	**12,802**
Charge for the year	1,710	169	90	**1,969**
Disposals	(447)	(63)	(57)	**(567)**
Reclassifications	8	–	(8)	**–**
Exchange movements	660	65	52	**777**
December 31, 2019	**12,707**	**1,249**	**1,025**	**14,981**
Net book values				
December 31, 2019	**16,675**	**1,913**	**580**	**19,168**
January 1, 2019	14,520	1,845	557	16,922
December 31, 2018	10,790	1,111	536	12,437
Analysis at December 31, 2019				
Owned	5,321	1,028	460	**6,809**
Right of use assets (note 13)	9,746	774	68	**10,588**
Progress payments	1,525	110	52	**1,687**
Assets not in current use	83	1	–	**84**
Property, plant and equipment	**16,675**	**1,913**	**580**	**19,168**
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

The net book value of property comprises:

€ million	**2019**	2018
Freehold	**560**	448
Right of use assets (note 13)	**774**	–
Long leasehold improvements > 50 years	**321**	330
Short leasehold improvements < 50 years	**258**	333
Property	**1,913**	1,111

At December 31, 2019, bank and other loans of the Group are secured on fleet assets with a net book value of €325 million (2018: €467 million).

13 Leases

a Amounts recognised in the Consolidated balance sheet

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

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2019[1]	12,491	734	119	**13,344**
Additions	1,039	13	16	**1,068**
Modifications of leases	128	94	–	**222**
Disposals	(23)	–	–	**(23)**
Reclassifications[2]	(290)	(4)	(16)	**(310)**
Exchange movements	509	45	4	**558**
December 31, 2019	**13,854**	**882**	**123**	**14,859**
Depreciation				
Balance at January 1, 2019[1]	3,056	–	36	**3,092**
Charge for the year	1,032	104	17	**1,153**
Disposals	(21)	–	–	**(21)**
Reclassifications[2]	(123)	–	–	**(123)**
Exchange movements	164	4	2	**170**
December 31, 2019	**4,108**	**108**	**55**	**4,271**
Net book value				
December 31, 2019	**9,746**	**774**	**68**	**10,588**
January 1, 2019	9,435	734	83	10,252

1 The net book value of ROU assets recognised at January 1, 2019 includes €5,767 million in respect of assets previously leased through finance leases before the adoption of IFRS 16 (split between €7,793 million at cost and €2,026 million of accumulated depreciation). In 2018 the Group recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 'leases'. The assets were presented in property, plant and equipment and the lease liabilities in the Group's long-term borrowings.

2 Amounts with a net book value of €187 million were reclassified from ROU assets to Owned Property, plant and equipment at the cessation of the respective leases.

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

€ million	2019
Finance lease liabilities December 31, 2018	**5,928**
Adoption of IFRS 16 January 1, 2019	**5,195**
Additions	**1,017**
Modifications of leases	**182**
Repayments	**(1,941)**
Interest expense	**489**
Exchange movements	**176**
Lease liability December 31, 2019	**11,046**
Current	**1,694**
Non-current	**9,352**

b Amounts recognised in the Consolidated income statement

€ million	2019
Amounts not included in the measurement of lease liabilities	
Variable lease payments	**28**
Expenses relating to short-term leases	**74**
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	**1**
Amounts expensed as a result of the recognition of ROU assets and lease liabilities	
Interest expense on lease liabilities	**489**
Gain arising from sale and leaseback transactions	**(1)**
Depreciation charge	**1,153**

c Amounts recognised in the Consolidated cash flow statement

The Group had total cash outflows for leases of €2,057 million in 2019.

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2019, for which no amount has been recognised in relation to leases not yet commenced to which the Group is committed of €787 million.

d Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 25e.

e Operating lease commitments

From January 1, 2019, the Group has recognised ROU assets and lease liabilities for the leases it has entered into (except for short-term and low-value leases) and accordingly no longer presents operating lease commitments. Having applied the modified retrospective approach to the implementation of IFRS 16, the Group has continued to present the comparative financial information for the aggregate payments, for which there were commitments under operating leases as follows as at December 31:

	2018		
€ million	Fleet	Property, plant and equipment	Total
Within one year	975	148	1,123
Between one and five years	3,049	362	3,411
Over five years	2,235	1,895	4,130
Total	6,259	2,405	8,664

f Obligations under financing leases

On implementation of IFRS 16, those leases previously recognised as finance leases were reclassified to ROU assets and lease liabilities and are included in section (a) above. Accordingly, the Group no longer presents obligations under finance leases. Having applied the modified retrospective approach to the implementation of IFRS 16, the Group has continued to present the comparative financial information for the aggregate payments, for which there are future minimum lease payments as follows:

€ million	2018
Future minimum payments due	
Within one year	876
Between one and five years	3,186
Over five years	2,642
	6,704
Less: finance charges	(776)
Present value of minimum lease payments	5,928
The present value of minimum lease payments is as follows:	
Within one year	723
Between one and five years	2,734
Over five years	2,471
	5,928

g Extension options

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

The Group is exposed to future cash outflows (on an undiscounted basis) as at December 31, 2019, for which no amount has been recognised, for potential extension options of €871 million due to it not being reasonably certain that these leases will be extended.

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €12,830 million (December 31, 2018: €10,831 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €12,673 million for the acquisition of 34 Airbus A320s (from 2020 to 2022), 45 Airbus A321s (from 2020 to 2024), one Airbus A330 (in 2020), 33 Airbus A350s (from 2020 to 2024), four Boeing 777-300s (in 2020), 18 Boeing 777-9s (from 2022 to 2025) and 12 Boeing 787-10s (from 2020 to 2023).

15 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, 2018	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)
Balance at December 31, 2018	595	451	253	1,559	1,116	211	4,185
Additions	–	–	–	5	232	120	**357**
Disposals	–	–	–	–	(28)	(55)	**(83)**
Exchange movements	3	–	–	52	56	6	**117**
December 31, 2019	**598**	**451**	**253**	**1,616**	**1,376**	**282**	**4,576**
Amortisation and impairment							
Balance at January 1, 2018	249	–	–	101	475	52	877
Charge for the year	–	–	–	6	123	3	132
Disposals	–	–	–	–	(13)	–	(13)
Exchange movements	–	–	–	(1)	(8)	–	(9)
Balance at December 31, 2018	249	–	–	106	577	55	987
Charge for the year	–	–	–	6	131	5	**142**
Disposals	–	–	–	–	(28)	–	**(28)**
Exchange movements	–	–	–	3	30	–	**33**
December 31, 2019	**249**	**–**	**–**	**115**	**710**	**60**	**1,134**
Net book values							
December 31, 2019	**349**	**451**	**253**	**1,501**	**666**	**222**	**3,442**
December 31, 2018	346	451	253	1,453	539	156	3,198

1 The net book value includes non-EU based landing rights of €94 million (2018: €100 million) that have a definite life. The remaining life of these landing rights is 15 years.

b Impairment review

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

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2019					
Iberia					
January 1 and December 31, 2019	–	423	306	–	**729**
British Airways					
January 1, 2019	46	767	–	–	**813**
Exchange movements	3	49	–	–	**52**
December 31, 2019	49	816	–	–	**865**
Vueling					
January 1, 2019	28	89	35	–	**152**
Additions	–	5	–	–	**5**
January 1 and December 31, 2019	28	94	35	–	**157**
Aer Lingus					
January 1 and December 31, 2019	272	62	110	–	**444**
Avios					
January 1 and December 31, 2019	–	–	–	253	**253**
Other CGUs					
January 1 and December 31, 2019	–	12	–	–	**12**
December 31, 2019	**349**	**1,407**	**451**	**253**	**2,460**

€ 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 CGUs					
January 1, 2018	–	–	–	–	–
Transfer from British Airways	–	12	–	–	12
December 31, 2018	–	12	–	–	12
December 31, 2018	346	1,353	451	253	2,403

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 plans approved by the relevant operating companies 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 relevant operating companies prepare and approve five year Business plans, and the Board approved the Group three year Business plan 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 where relevant that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions

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

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

	2018				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin[3]	15	9-15	11-15	15	21[2]
Average ASK growth per annum	3-4	5-6	9-10	7-8	n/a[2]
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

1 The Group adopted IFRS 16 from January 1, 2019 at which time a ROU asset was recognised and depreciated over the expected lease term through operating expenses. Accordingly, for 2019 onwards the Group has determined its key assumption to be operating margin.
2 Operating margin (2018: lease adjusted 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.
3 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. 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 2019, 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.

16 Investments

a Investments in subsidiaries

The Group's subsidiaries at December 31, 2019 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, 2019 is €6 million (2018: €6 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	**2019**	2018
Total assets	**122**	113
Total liabilities	**(92)**	(77)
Revenue	**112**	75
Profit for the year	**6**	5

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

€ million	**2019**	2018
At beginning of year	**31**	30
Share of retained profits	**6**	5
Dividends received	**(5)**	(2)
Exchange movements	**(1)**	(2)
	31	31

At December 31, 2019 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, 2019 and December 31, 2018 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.

17 Other equity investments

Other equity investments include the following:

€ million	2019	2018
Listed securities		
Comair Limited	**10**	17
Unlisted securities	**72**	63
	82	80

The credit relating to other equity investments was €3 million (2018: €5 million).

18 Trade and other receivables

€ million	2019	2018
Amounts falling due within one year		
Trade receivables	**2,368**	1,695
Provision for expected credit loss	**(113)**	(98)
Net trade receivables	**2,255**	1,597
Prepayments and accrued income	**1,040**	823
Other non-trade debtors	**274**	352
	3,569	2,772
Amounts falling due after one year		
Prepayments and accrued income	**258**	298
Other non-trade debtors	**15**	11
	273	309

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

€ million	2019	2018
At beginning of year	**98**	63
Provided during the year	**22**	36
Released	**(1)**	(2)
Receivables written off during the year	**(8)**	1
Exchange movements	**2**	–
	113	98

Trade receivables are generally non-interest-bearing and on 30 days terms (2018: 30 days).

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

December 31, 2019

€ million	Current	<30 days	30-60 days	>60 days
Trade receivables	**1,411**	**198**	**208**	**551**
Expected credit loss rate	**0.03%**	**0.16%**	**0.01%**	**20.10%**
Provision for expected credit loss	**1**	**–**	**–**	**112**

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

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

€ million	2019	2018
Cash at bank and in hand	**2,320**	2,453
Short-term deposits maturing within three months	**1,742**	1,384
Cash and cash equivalents	**4,062**	3,837
Other current interest-bearing deposits maturing after three months	**2,621**	2,437
Cash, cash equivalents and other interest-bearing deposits	**6,683**	6,274

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, 2019 the Group had no outstanding bank overdrafts (2018: 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, 2019 Aer Lingus held €41 million of restricted cash (2018: €42 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, 2019	IFRS 16 opening adjustment	Cash flows	Exchange movements	New leases and modifications	Non-cash	Balance at December 31, 2019
Bank, other loans and asset financed liabilities	1,581	–	1,556	(12)	–	83	**3,208**
Lease liabilities	5,928	5,195	(1,507)	176	1,199	55	**11,046**
Liabilities from financing activities	7,509	5,195	49	164	1,199	138	**14,254**
Cash and cash equivalents	(3,837)	–	(85)	(140)	–	–	**(4,062)**
Other current interest-bearing deposits	(2,437)	–	(103)	(81)	–	–	**(2,621)**
	1,235	**5,195**	**(139)**	**(57)**	**1,199**	**138**	**7,571**

€ 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
Liabilities from financing activities	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

20 Trade and other payables

€ million	2019	2018
Trade creditors	**2,311**	2,079
Other creditors	**1,099**	1,007
Other taxation and social security	**271**	332
Accruals and deferred income	**663**	541
	4,344	3,959

Average payment days to suppliers – Spanish Group companies

Days	2019	2018
Average payment days for payment to suppliers	**33**	37
Ratio of transactions paid	**32**	33
Ratio of transactions outstanding for payment	**43**	119

€ million	2019	2018
Total payments made	**7,165**	6,306
Total payments outstanding	**114**	317

21 Deferred revenue on ticket sales

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2019	1,769	3,066	**4,835**
Changes in estimates	6	(20)	**(14)**
Cash received from customers	–	23,029	**23,029**
Loyalty points issued to customers	844	47	**891**
Revenue recognised in the income statement[1,2]	(805)	(22,691)	**(23,496)**
Exchange movements	103	138	**241**
Balance at December 31, 2019	**1,917**	**3,569**	**5,486**

€ 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)
Cash received from customers	–	22,149	22,149
Loyalty points issued to customers	781	–	781
Revenue recognised in the income statement[1]	(733)	(22,027)	(22,760)
Exchange movements	(31)	(38)	(69)
Balance at December 31, 2018	1,769	3,066	4,835

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.
2 Included within revenue recognised in the Income statement is an amount of €3,361 million previously held as deferred revenue at December 31, 2018.

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. Avios points do not have an expiry date and can be redeemed at any time in the future. 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.

22 Other long-term liabilities

€ million	2019	2018
Non-current trade creditors	**6**	6
Accruals and deferred income	**65**	192
	71	198

23 Long-term borrowings

a Current

€ million	2019	2018
Bank and other loans	**75**	153
Asset financed liabilities	**74**	–
Lease liabilities (2018: Finance lease obligations)	**1,694**	723
Interest-bearing long-term borrowings	**1,843**	876

b Non-current

€ million	2019	2018
Bank and other loans	**1,879**	1,428
Asset financed liabilities	**1,180**	–
Lease liabilities (2018: Finance lease obligations)	**9,352**	5,205
Interest-bearing long-term borrowings	**12,411**	6,633

Banks and other loans are repayable up to the year 2028. Bank and other loans of the Group amounting to €266 million (2018: €354 million) are secured on fleet assets with a net book value of €325 million (2018: €467 million) (note 12). Asset financing liabilities are all secured on the associated aircraft or property, plant and equipment.

In July 2019, two senior unsecured bonds were issued by the Group for an aggregate principal amount of €1 billion; €500 million fixed rate 0.50 per cent due in 2023, and €500 million fixed rate 1.50 per cent due in 2027.

During the year the Group early redeemed all of the €500 million 0.25 per cent convertible bonds due in 2020.

c Total long-term borrowings

€ million	2019	2018
Current portion of long-term borrowings	**1,843**	876
Interest-bearing long-term borrowings	**12,411**	6,633
Interest-bearing long-term borrowings	**14,254**	7,509

d Bank and other loans

€ million	2019	2018
€500 million fixed rate 0.50 per cent bond 2023[1]	**497**	–
€500 million fixed rate 1.50 per cent bond 2027[1]	**496**	–
€500 million fixed rate 0.625 per cent convertible bond 2022[2]	**470**	460
Floating rate euro mortgage loans secured on aircraft[3]	**226**	252
€200 million fixed rate unsecured bonds[4]	**136**	175
Fixed rate unsecured US dollar mortgage loan[5]	**71**	43
Fixed rate Chinese yuan mortgage loans secured on aircraft[6]	**40**	53
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[7]	**18**	13
€500 million fixed rate 0.25 per cent convertible bond 2020[8]	**-**	482
Floating rate euro syndicate loan secured on investments[9]	**-**	99
Floating rate pound sterling mortgage loans secured on aircraft[10]	**-**	4
	1,954	1,581
Less current instalments due on bank and other loans	**(75)**	(153)
	1,879	1,428

1 In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due July 4, 2023 and €500 million due July 4, 2027. The bonds bear a fixed rate of interest of 0.5 per cent and 1.5 per cent per annum annually payable in arrears, respectively. The bonds were issued at 99.417 per cent and 98.803 per cent of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100 per cent of their principal amount on their respective maturity dates.
2 Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group in November 2015; €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 the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bond contains dividend protection and a total of 40,306,653 options related to the bond were outstanding at December 31, 2019.
3 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.13 and 1.10 per cent. The loans are repayable between 2024 and 2027.
4 Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75 per cent coupon repayable between 2022 and 2027.
5 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.98 to 2.86 per cent. The loan is repayable in 2023.
6 Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.
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 2020 and 2028.
8 Senior unsecured bond convertible into ordinary shares of IAG issued in November 2015; €500 million fixed rate 0.25% raising net proceeds of €494 million and due in 2020. The Group held an option to redeem the bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The Group exercised its option to early redeem the bond in July 2019 with no conversion to ordinary shares.
9 Floating rate euro syndicate loan secured on specific investment assets of the Group and bears interest of 1.375 per cent above 3 month EURIBOR. The loan was repaid in 2019.
10 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 were repaid in 2019.

e Total loans, asset financed liabilities and lease liabilities

Million	2019	2018
Loans		
Bank:		
US dollar	**$79**	$49
Euro	**€380**	€364
Pound sterling	**–**	£4
Chinese yuan	**CNY 314**	CNY 422
	€491	€465
Fixed rate bonds:		
Euro	**€1,463**	€1,116
	€1,463	€1,116
Asset financed liabilities		
US dollar	**$996**	–
Euro	**€319**	–
Japanese yen	**¥4,867**	–
	€1,254	–
Lease liabilities (2018: finance leases)		
US dollar	**$8,408**	$3,259
Euro	**€2,142**	€2,308
Japanese yen	**¥77,984**	¥77,379
Pound sterling	**£597**	£134
	€11,046	€5,928
	€14,254	€7,509

24 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2019	1,359	693	591	112	72	**2,827**
Transition to IFRS 16	120	–	–	–	–	**120**
Net book value January 1, 2019	1,479	693	591	112	72	**2,947**
Reclassifications	–	–	–	–	(31)	**(31)**
Provisions recorded during the year	395	26	133	34	110	**698**
Utilised during the year	(224)	(180)	(76)	(58)	(50)	**(588)**
Release of unused amounts	(28)	(21)	(2)	(9)	(7)	**(67)**
Unwinding of discount	14	4	18	1	–	**37**
Exchange differences	39	6	–	2	4	**51**
Net book value December 31, 2019	**1,675**	**528**	**664**	**82**	**98**	**3,047**
Analysis:						
Current	259	202	58	46	66	**631**
Non-current	1,416	326	606	36	32	**2,416**
	1,675	**528**	**664**	**82**	**98**	**3,047**

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 lease. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Such costs are capitalised within ROU assets. The provision is long-term in nature, typically covering the leased asset term, which for aircraft is up to 12 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 0.00 per cent. The payments related to this provision will continue over next nine years. The restructuring provision also includes a provision recognised in 2018 in relation to restructuring plans at British Airways. The payments related to this provision will be made over a maximum of five years.

At December 31, 2019, €513 million of this provision related to collective redundancy programmes (2018: €682 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, 2019 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 0.59 per cent and 0.00 per cent (2018: 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 €600 million at December 31, 2019 (2018: €523 million).

Legal claims provisions

Legal claims provisions include:

- 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; 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).

Other provisions

Other provisions include a provision for the Emissions Trading Scheme for CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted.

Reclassifications from other provisions relate to the movement of the provision arising from costs the Group incurs in relation to compensation for flight delays and cancellations into accruals and deferred income within trade payables.

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.

The Group Treasury department is responsible for the oversight of the Financial Risk Management programme. Fuel price fluctuations, euro-US dollar and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other foreign exchange currencies and interest rate risks are also the subject of the Financial Risk Management. The IAG Audit and Compliance Committee approves the Group hedging profile and delegates to the operating company Risk Committee to agree on the degree of flexibility in applying the approved hedging levels. 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 Treasury Policies determine the list of approved over the counter (OTC) derivative instruments that can contracted with approved counterparties.

The Group strategy is to hedge a proportion of fuel consumption up to three years within the approved hedging profile.

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:

2019			2018		
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	**-**	**1,774**	30	–	1,613
(30)	**-**	**(1,824)**	(30)	(3)	(1,695)

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 is to hedge a proportion of up to three years within the approved hedging profile.

Each operating company hedges its net balance sheet assets and liabilities in US dollars through a rolling hedging programme using a number of derivative instruments to minimise the profit and loss volatility arising from revaluation of these items into its functional currency. British Airways utilises its euro, Japanese yen and Chinese yuan debt repayments as a hedge of future euro, Japanese yen and Chinese yuan revenues.

The following table demonstrates the sensitivity of the Group's principal foreign exchange exposure to a reasonable possible change in the US dollar, pound sterling and Japanese yen exchange rates, 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
2019	**10**	**22**	**388**	**10**	**(23)**	**(178)**	**10**	**(1)**	**(58)**
	(10)	**-**	**(365)**	**(10)**	**20**	**171**	**(10)**	**2**	**58**
2018	10	(16)	(9)	10	(40)	262	10	(6)	(54)
	(10)	18	91	(10)	41	(273)	(10)	1	54

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, 88 per cent of the Group's borrowings were at fixed rates and 12 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 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 sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2019	**50**	**-**	**19**	**50**	**(2)**	**16**	**50**	**2**	**-**
	(50)	**-**	**(19)**	**(50)**	**2**	**(13)**	**(50)**	**(2)**	**-**
2018	50	(1)	20	50	2	16	50	2	–
	(50)	1	(20)	(50)	(2)	(25)	(50)	(2)	–

d Counterparty risk

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

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

At December 31, 2019 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Mark-to-market of treasury controlled financial instruments allocated by geography 2019	2018
United Kingdom	**41%**	42%
Spain	**3%**	-
Ireland	**3%**	3%
Rest of Eurozone	**30%**	33%
Rest of world	**23%**	22%

e Liquidity risk

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

At December 31, 2019 the Group had undrawn overdraft facilities of €13 million (2018: €11 million). The Group held undrawn uncommitted money market lines of €nil (2018: €28 million).

The Group held undrawn general and committed aircraft financing facilities:

Million	**2019 Currency**	**€ equivalent**
Euro facilities expiring between February and October 2020	**€129**	**129**
US dollar facility expiring December 2021	**$652**	**587**
US dollar facility expiring June 2020	**$1,330**	**1,196**

Million	2018 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

The following table analyses the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at 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 2019**
Interest-bearing loans and borrowings:						
Asset financing liabilities	(56)	(49)	(95)	(289)	(988)	**(1,477)**
Lease liabilities	(1,073)	(957)	(1,753)	(4,505)	(6,289)	**(14,577)**
Fixed rate borrowings	(20)	(31)	(46)	(1,158)	(599)	**(1,854)**
Floating rate borrowings	(13)	(17)	(30)	(110)	(67)	**(237)**
Trade and other payables	(3,881)	–	1	–	–	**(3,880)**
Derivative financial instruments (assets):						
Interest rate swaps	1	1	1	2	–	**5**
Forward contracts	115	116	157	96	–	**484**
Fuel derivatives	66	25	12	2	–	**105**
Derivative financial instruments (liabilities):						
Interest rate swaps	(9)	(19)	(18)	(22)	(1)	**(69)**
Forward contracts	(47)	(43)	(62)	(86)	–	**(238)**
Fuel derivatives	(61)	(73)	(90)	(11)	–	**(235)**
December 31, 2019	**(4,978)**	**(1,047)**	**(1,923)**	**(6,081)**	**(7,944)**	**(21,973)**

€ 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)

f Offsetting financial assets and liabilities

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

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

December 31, 2019 € 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	550	42	**592**	(9)	**583**
Financial liabilities					
Derivative financial liabilities	580	(42)	**538**	(9)	**529**

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

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 net debt to EBITDA ratio. For the year to December 31, 2019, the net debt to EBITDA was 1.4 times (2018 pro forma: 1.2 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, 2019 and December 31, 2018 by nature and classification for measurement purposes is as follows:

December 31, 2019 € million	Financial assets Amortised cost	 Fair value through Other comprehensive income	 Fair value through Income statement	 Non-financial assets	 **Total carrying amount by balance sheet item**
Non-current assets					
Other equity investments	–	82	–	–	**82**
Derivative financial instruments	–	–	268	–	**268**
Other non-current assets	133	–	–	140	**273**
Current assets					
Trade receivables	2,255	–	–	–	**2,255**
Other current assets	414	–	–	900	**1,314**
Derivative financial instruments	–	–	324	–	**324**
Other current interest-bearing deposits	2,621	–	–	–	**2,621**
Cash and cash equivalents	4,062	–	–	–	**4,062**

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

December 31, 2018 € million	Financial assets Amortised cost	 Fair value through Other comprehensive income	 Fair value through income statement	 Non-financial assets	 Total carrying amount by balance sheet item
Non-current assets					
Other equity investments	–	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

€ million	Financial liabilities: Amortised cost	Financial liabilities: Fair value through Other comprehensive income	Financial liabilities: Fair value through Income statement	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long-term borrowings	6,633	–	–	–	6,633
Derivative financial instruments	–	–	423	–	423
Other long-term liabilities	13	–	–	185	198
Current liabilities					
Current portion of long-term borrowings	876	–	–	–	876
Trade and other payables	3,591	–	–	368	3,959
Derivative financial instruments	–	–	656	–	656

b Fair value of financial assets and financial liabilities

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

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.

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, 2019 are as follows:

€ million	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total	**Carrying value Total**
Financial assets					
Other equity investments	10	–	72	82	**82**
Derivative financial assets:					
Interest rate swaps[1]	–	1	–	1	**1**
Foreign exchange contracts[1]	–	488	–	488	**488**
Fuel derivatives[1]	–	103	–	103	**103**
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	1,623	–	1,623	**1,254**
Fixed rate borrowings	1,640	136	–	1,776	**1,728**
Floating rate borrowings	–	226	–	226	**226**
Derivative financial liabilities:					
Interest rate derivatives[2]	–	67	–	67	**67**
Foreign exchange contracts[2]	–	240	–	240	**240**
Fuel derivatives[2]	–	231	–	231	**231**

1 Current portion of derivative financial assets is €324 million
2 Current portion of derivative financial liabilities is €252 million

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

€ million	Fair value Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
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:					
Forward currency contracts[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.

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	**2019**	2018
Opening balance for the year	**63**	56
Additions	**6**	8
Exchange movements	**3**	(1)
Closing balance for the year	**72**	63

d Hedges

Cash flow hedges

At December 31, 2019 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.

The amounts included in equity including the periods over which the related cash flows are expected to occur are summarised below:

(Gains)/losses in respect of cash flow hedges included within equity € million	**2019**	2018
Loan repayments to hedge future revenue	**141**	682
Foreign exchange contracts to hedge future revenue and expenditure[1]	**(80)**	(216)
Crude, gas oil and jet kerosene derivative contracts[1]	**113**	933
Derivatives used to hedge interest rates[1]	**72**	34
Instruments for which hedge accounting no longer applies[1]	**355**	22
	601	1,455
Related tax credit	**(94)**	(267)
Total amount included within equity	**507**	1,188

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

The notional amounts of significant financial instruments used as cash flow hedging instruments are set out below:

Notional principal amounts € million	Hedge range	Within 1 year	1-2 years	2-5 years	**Total December 31, 2019**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.17–1.51	3,493	1,810	1,359	**6,662**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	0.74–1.39	1,397	1,091	483	**2,971**

1 Represents the value of the hedged item.

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.

The movements in other comprehensive income in relation to cash flow hedges are set out below:

For the year to December 31, 2019 € 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	(106)	–	(106)	(20)	–
Foreign exchange contracts to hedge future revenue and expenditure	20	–	20	99	7
Crude, gas oil and jet kerosene derivative contracts	(622)	8	(614)	(178)	–
Derivatives used to hedge interest rates	56	–	56	(11)	–
Instruments for which hedge accounting no longer applies	(38)	–	(38)	(54)	–
	(690)	**8**	**(682)**	**(164)**	**7**

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 non-operating items.

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 non-operating items.

The Group has no significant fair value hedges at December 31, 2019 and 2018.

27 Share capital, share premium and treasury shares

Allotted, 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)	–
January 1, 2019: Ordinary shares of €0.50 each	1,992,033	996	6,022
Special 2018 dividend of €0.35 per share			(695)
December 31, 2019	**1,992,033**	**996**	**5,327**

A total of 1.0 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2019 the Group held 7.7 million shares (2018: 8.7 million) which represented 0.39 per cent of the issued share capital of the Company.

During 2018, 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.

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 an option price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) 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. From 2015, the awards have been made as nil-cost options, and also have a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made since 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, 2019 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	**Outstanding at December 31, 2019** **'000s**	Vested and exercisable December 31, 2019 '000s
Performance Share Plans	16,549	6,456	(3,783)	(44)	**19,178**	52
Incentive Award Deferral Plans	4,238	2,113	(213)	(1,665)	**4,473**	17
	20,787	**8,569**	**(3,996)**	**(1,709)**	**23,651**	**69**

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, 2019	December 31, 2018
Expected share price volatility (per cent)	**35**	35
Expected comparator group volatility (per cent)	**20**	20
Expected comparator correlation (per cent)	**55**	60
Expected life of options (years)	**4.8**	4.6
Weighted average share price at date of grant (£)	**5.67**	6.91
Weighted average fair value (£)	**1.93**	4.01

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 €34 million for the year to December 31, 2019 (2018: €31 million).

29 Other reserves and non-controlling interests

For the year to December 31, 2019

	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, 2019	3,324	(1,138)	10	(136)	101	(2,467)	70	**(236)**	6
Adoption of IFRS 16	(554)	8	(4)	–	–	–	–	**(550)**	–
Profit for the year	1,715	–	–	–	–	–	–	**1,715**	–
Other comprehensive income for the year									
Cash flow hedges reclassified and reported in net profit:									
Passenger revenue	–	55	–	–	–	–	–	**55**	–
Fuel and oil costs	–	106	–	–	–	–	–	**106**	–
Currency differences	–	(26)	–	–	–	–	–	**(26)**	–
Finance costs	–	6	–	–	–	–	–	**6**	–
Net change in fair value of cash flow hedges	–	540	–	–	–	–	–	**540**	–
Net change in fair value of other equity investments	–	(8)	–	–	–	–	–	**(8)**	–
Net change in fair value of cost of hedging	–	–	68	–	–	–	–	**68**	–
Cost of hedging reclassified and reported in the net profit	–	–	(10)	–	–	–	–	**(10)**	–
Currency translation differences	–	–	–	296	–	–	–	**296**	–
Remeasurements of post-employment benefit obligations	(788)	–	–	–	–	–	–	**(788)**	–
Hedges reclassified and reported in property, plant and equipment	–	(7)	(4)	–	–	–	–	**(11)**	–
Cost of share-based payments	33	–	–	–	–	–	–	**33**	–
Vesting of share-based payment schemes	(14)	–	–	–	–	–	–	**(14)**	–
Dividend	(615)	–	–	–	–	–	–	**(615)**	–
Redemption of convertible bond	38	–	–	–	(39)	–	–	**(1)**	–
December 31, 2019	**3,139**	**(464)**	**60**	**160**	**62**	**(2,467)**	**70**	**560**	**6**

€ million	Retained earnings	Other reserves: 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, 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

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 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, 2019, this related to the €500 million fixed rate 0.625 per cent convertible bond (note 23). During 2019 the Group exercised its option to early redeem the €500 million fixed rate 0.25 per cent convertible bond with no conversion to ordinary shares.
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, 2019 is €6 million (2018: €6 million).

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.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2019 were €262 million (2018: €214 million).

Defined benefit schemes

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 the Government's annual Pension Increase (Review) Orders, which since 2011 have been based on CPI). As part of the closure of NAPS to future accrual in 2018, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No payment was triggered by the 2018 valuation and no allowance for such payments following the 2021 valuation has been made in the valuation of the defined benefit obligation.

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.

As reported in previous years, 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 judgment in May 2017, which determined that the Trustee had the power to grant discretionary increases, whilst reiterating the Trustee must take into consideration all relevant factors, and ignore irrelevant factors. British Airways appealed the judgment to the Court of Appeal. In July 2018 the Court of Appeal released its judgment, upholding British Airways' appeal, concluding the Trustee did not have the power to introduce a discretionary increase rule.

Subsequently, in April 2019 the Trustee Directors of the Airways Pension Scheme unanimously agreed with British Airways terms for an out-of-court settlement and on November 11, 2019 the APS discretionary pension increase settlement agreement ('the Agreement') was ratified by the High Court. This brought to an end the dispute that commenced in 2013, that would otherwise have proceeded to final appeal at the Supreme Court. Under the Agreement, the Trustee of APS are permitted, subject to certain affordability tests, to award discretionary increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases tending to RPI prior to 2021. British Airways ceased to pay further deficit recovery contributions from January 1, 2019, including cash sweep payments. British Airways has provided a €47 million indemnity, which is payable in full or part as appropriate following the triennial valuation of the scheme as at March 31, 2027 if that valuation shows that the scheme is not able to pay pension increases at RPI for the remaining life of the scheme. The APS actuarial valuation as at March 31, 2015 and March 31, 2018 was completed in November 2019. The APS actuarial valuation at March 31, 2018 resulted in a surplus of €683 million.

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

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 Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk, including currency risk.

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, 2019 net of service costs were €865 million (2018: €843 million) being the employer contributions of €870 million (2018: €716 million) less the current service cost of €5 million (2018: €55 million) (note 30b) and including payments made under transitional arrangements on the closure of NAPS to future accrual in 2018 of €182 million.

a Employee benefit schemes recognised on the Balance sheet

€ million	2019 APS	2019 NAPS	2019 Other[1]	2019 Total
Scheme assets at fair value	**8,830**	**22,423**	**428**	**31,681**
Present value of scheme liabilities	**(8,401)**	**(21,650)**	**(731)**	**(30,782)**
Net pension asset/(liability)	**429**	**773**	**(303)**	**899**
Effect of the asset ceiling[2]	**(127)**	**(565)**	**–**	**(692)**
Other employee benefit obligations	**–**	**–**	**(11)**	**(11)**
December 31, 2019	**302**	**208**	**(314)**	**196**
Represented by:				
Employee benefit assets				**524**
Employee benefit obligations				**(328)**
				196

€ million	2018 APS	2018 NAPS	2018 Other[1]	2018 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

1 The present value of scheme liabilities for the US PRMB was €15 million at December 31, 2019 (2018: €13 million).
2 APS and NAPS have an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2019	2018
Defined benefit plans:		
Current service cost	**5**	55
Past service cost/(credit)[1, 2]	**665**	(586)
	670	(531)
Defined contribution plans	**262**	214
Pension costs/(credits) recorded as employee costs	**932**	(317)

1 Refer to note 4 for amounts recorded within exceptional items in 2019 and 2018.
2 Includes a past service credit of €7 million (2018: €nil) relating to schemes other than APS and NAPS.

Pension costs charged as finance costs are:

€ million	2019	2018
Interest income on scheme assets	**(775)**	(731)
Interest expense on scheme liabilities	**710**	690
Interest expense on asset ceiling	**39**	14
Net financing income relating to pensions	**(26)**	(27)

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2019	2018
Return on plan assets excluding interest income	**(1,916)**	1,313
Remeasurement of plan liabilities from changes in financial assumptions	**3,423**	(997)
Remeasurement of experience losses/(gains)	**193**	(297)
Remeasurement of the APS and NAPS asset ceilings	**(781)**	806
Exchange movements	**(13)**	5
Pension remeasurements charged to Other comprehensive income	**906**	830

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	2019	2018
January 1	**27,600**	29,172
Interest income	**775**	731
Return on plan assets excluding interest income	**1,916**	(1,313)
Employer contributions[1]	**870**	716
Employee contributions	**6**	128
Benefits paid	**(1,269)**	(1,340)
Exchange movements	**1,783**	(494)
December 31	**31,681**	27,600

1 Includes employer contributions to APS of €5 million (2018: €111 million) and to NAPS of €816 million (2018: €582 million) of which deficit funding payments represented nil for APS (2018: €108 million) and €797 million for NAPS (2018: €509 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.

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

€ million	2019	2018
Return seeking investments – equities		
UK	**2,310**	1,737
Rest of world	**4,774**	4,602
	7,084	6,339
Return seeking investments – other		
Private equity	**1,035**	931
Property	**2,135**	1,917
Alternative investments	**1,081**	1,183
	4,251	4,031
Liability matching investments		
UK fixed bonds	**6,356**	4,885
Rest of world fixed bonds	**93**	70
UK index-linked bonds	**6,266**	5,019
Rest of world index-linked bonds	**120**	103
	12,835	10,077
Other		
Cash and cash equivalents	**689**	418
Derivatives	**(344)**	57
Insurance contract	**1,740**	1,663
Longevity swap	**4,547**	4,321
Other	**879**	694
	31,681	27,600

All equities and bonds have quoted prices in active markets.

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

€ million	December 31, 2019 APS	December 31, 2019 NAPS	December 31, 2018 APS	December 31, 2018 NAPS
Return seeking investments	**347**	**10,844**	702	9,477
Liability matching investments	**1,897**	**10,828**	1,538	8,457
	2,244	**21,672**	2,240	17,934
Insurance contract and related longevity swap	**6,260**	**–**	5,956	–
Other	**326**	**751**	176	912
Fair value of scheme assets	**8,830**	**22,423**	8,372	18,846

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At December 31, 2019, the benchmark for NAPS was 46 per cent (2018: 49 per cent) in return seeking assets and 54 per cent (2018: 51 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 their investment managers to work within. APS no longer has a 'strategic benchmark' as instead, APS now runs off its liquidation portfolio to a liability matching portfolio of bonds and cash. The actual asset allocation for APS at December 31, 2019 was 4 per cent (2018: 8 per cent) in return seeking assets and 96 per cent (2018: 92 per cent) in liability matching investments.

APS has an insurance contract with Rothesay Life which covers 24 per cent (2018: 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. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2018: 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. The fees are linked to LIBOR, and an assumed future LIBOR rate has been derived based on swap prices at December 31, 2019.

During 2018 the Trustee of APS secured a buy-in contract with Legal & General. 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).

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	2019	2018
January 1	**25,383**	28,363
Current service cost	**5**	55
Past service cost/(credit)	**665**	(778)
Interest expense	**710**	690
Remeasurements – financial assumptions	**3,423**	(997)
Remeasurements of experience losses/(gains)	**193**	(297)
Benefits paid	**(1,269)**	(1,340)
Employee contributions	**6**	128
Exchange movements	**1,666**	(441)
December 31	**30,782**	25,383

The defined benefit obligation comprises €30 million (2018: €36 million) arising from unfunded plans and €30,752 million (2018: €25,347 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 is set out below:

€ million	2019	2018
January 1	**1,365**	570
Interest expense	**39**	14
Remeasurements[1]	**(781)**	806
Exchange movements	**69**	(25)
December 31	**692**	1,365

1 The decrease in remeasurements follows the reduction in APS surplus as a result of the discretionary pension increase settlement agreement, and a decrease in the NAPS surplus principally due to the reduction in the discount rate. In 2018 the increase in remeasurements is mainly due to the closure of NAPS to future accrual in 2018 which resulted in an IAS 19 accounting surplus in the scheme, 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.

g Actuarial assumptions

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

	2019			2018		
Per cent per annum	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate[1]	1.85	2.05	0.8 - 3.2	2.65	2.85	1.6 - 4.4
Rate of increase in pensionable pay[2]	2.90	-	2.5	3.20	-	2.5 - 3.7
Rate of increase of pensions in payment[3]	2.90	2.15	1.2 - 3.5	2.10	2.05	1.5 - 3.8
RPI rate of inflation	2.90	n/a	2.5 - 2.8	3.20	3.15	2.5 - 3.2
CPI rate of inflation	n/a	2.15	1.2 - 3.0	2.10	2.05	1.5 - 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 RPI rate assumptions for APS, from April 2021 are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. Historically market expectations for RPI could be derived by comparing the prices of UK government fixed-interest and index-linked gilts, with CPI assessed by considering the Bank of England's inflation target and comparison of the construction of the two inflation indices. As described in note 2(b), in September 2019 correspondence was published relating to potential future changes to RPI outlining a clear preference by the UK Statistics Authority (UKSA) for alignment of RPI with CPIH (a variant of CPI). To make changes prior to 2030, however, the UKSA requires the consent of the Chancellor. Following this announcement, market-implied break-even RPI inflation forward rates after 2030 have reduced in investment market. In assessing RPI and CPI from investment market data, allowance has therefore been made for a reduction in the gap between RPI and CPI from 2030.
3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for NAPS and from April 2021 with RPI for APS. At December 31, 2018 pension increases for both schemes were based in CPI.

Rate of increase in healthcare costs is based on medical trend rates of 6.50 per cent grading down to 5.00 per cent over five years (2018: 6.25 per cent to 5.00 per cent over five years).

In the UK, mortality rates for APS and NAPS are calculated using the standard SAPS mortality tables produced by the CMI. 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	2019	2018
Life expectancy at age 60 for a:		
- male currently aged 60	28.2	28.5
- male currently aged 40	29.9	29.7
- female currently aged 60	29.0	30.3
- female currently aged 40	31.6	32.9

At December 31, 2019, the weighted-average duration of the defined benefit obligation was 12 years for APS (2018: 11 years) and 19 years for NAPS (2018: 19 years).

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

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:

	(Decrease)/increase in scheme liabilities		
€ million	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	(24)	(402)	45
Future salary growth (increase of 10 basis points)	-	n/a	6
Future pension growth (increase of 10 basis points)	(24)	(354)	24
Future mortality rate (one year increase in life expectancy)	(24)	(732)	8

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, 2018, using assumptions and methodologies agreed between the Group and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €2,736 million. In order to address the deficit in the scheme, the Group has also committed to the following undiscounted deficit payments:

€ million	NAPS
Within 12 months	488
2-5 years	1,195
Total expected deficit payments for NAPS	**1,683**

The Group has determined that the minimum funding requirements set out above for 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 €491 million in employer contributions and deficit payments to the two significant post-retirement benefit plans in 2020. This is made up of €488 million of deficit payments for NAPS as agreed at the latest triennial valuation in October 2019 and ongoing employer contributions of €4 million for APS.

Until September 2022, if British Airways pays a dividend to IAG higher than 50 per cent of pre-exceptional profit after tax it will either accelerate contributions to the scheme or provide a guarantee, in respect of the amount by which the dividend exceeds 50 per cent of the pre-exceptional profit after tax.

31 Contingent liabilities and guarantees

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

Contingent liabilities associated with income and deferred taxes are now presented Note 9. For information pertaining to previously reported contingent liabilities associated with the Airways Pension Scheme, refer to Note 30.

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 recorded the financial effect of the resultant fine in the 2007 financial statements. Following an appeal to the General Court (GC), the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Court Judgment). British Airways appealed the partial annulment to the Court of Justice of the European Union, but that appeal was rejected. In parallel, the European Commission chose not to appeal the General Court Judgment, and instead adopted a new decision in March 2017 (New Decision). British Airways repaid the fine previously refunded and appealed the New Decision (as have other carriers). British Airways is expecting a decision on its appeal during 2020.

A large number of claimants brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claimed arose from the alleged cartel activity. British Airways joined the other airlines alleged to have participated in cartel activity to those proceedings. These claims were fully concluded in 2019.

British Airways is party to litigation in other jurisdictions together with a number of other airlines. The Directors' estimate of the outcome of these claims is included in the legal claims provisions in note 24.

Theft of customer data at British Airways

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

British Airways made extensive representations to the ICO regarding the proposed fine and has complied with various further information requests. As part of its procedures, the ICO will seek the views of other EU data protection authorities. The ICO initially had six months from issuing the Notice of Intent to British Airways within which it could issue a penalty notice, which has been extended through to May 18, 2020, to allow the ICO to fully consider the representations and information provided by British Airways. If a penalty notice is issued, British Airways has 28 days within which to lodge an appeal with the First-tier Tribunal in the General Regulatory Chamber. A decision by the First-tier Tribunal may, with permission, be appealed to the Upper Tribunal. Any appeal of the Upper Tribunal decision would be to the Court of Appeal. It is British Airways' intention to vigorously defend itself in this matter, including using all available appeal routes should they be required.

At December 31, 2019, and through to the date of these financial statements, no final penalty notice has been received from the ICO, although it reserves the right to issue such a notice on completion of its investigation. It has not been proven that British Airways failed to comply with its obligations under GDPR and the UK Data Protection Act. Should any final penalty notice be issued, and having regard to the representations made by British Airways, the Directors consider that it should be for a considerably lower amount than the initial Notice of Intent.

Other

There are a number of other legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2019 amounted to €53 million (December 31, 2018: €28 million).

The Group also has guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2019 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	2019	2018
Sales of goods and services		
Sales to associates and joint ventures[1]	6	7
Sales to significant shareholders[2]	32	44
Purchases of goods and services		
Purchases from associates[3]	76	55
Purchases from significant shareholders[2]	149	121
Receivables from related parties		
Amounts owed by associates[4]	2	7
Amounts owed by significant shareholders[5]	8	3
Payables to related parties		
Amounts owed to associates[6]	3	3
Amounts owed to significant shareholders[5]	18	7

1 Sales to associates and joint ventures: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €4 million (2018: €5 million) and €1 million (2018: €1 million) to Sociedad Conjunta para la Emisión y gestión de Medios de Pago EFC, S.A. (Iberia Cards) and Serpista, S.A.
2 Sales to and purchases from significant shareholders: Related to interline services with Qatar Airways.
3 Purchases from associates: Consisted primarily of €50 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2018: €35 million), €16 million of maintenance services received from Serpista, S.A. (2018: €13 million) and €10 million of handling services provided by Dunwoody (2018: €6 million).
4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, S.A. (2018: €1 million) and €1 million of services provided to Dunwoody, Iberia Cards and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2018: €5 million for Dunwoody and €1 million for Iberia Cards, Viajes AME, 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 €1 million due to Dunwoody (2018: less than €1 million) and €2 million due to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2018: €3 million due to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.).

During the year to December 31, 2019 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 million (2018: €10 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, 2019, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2018: nil).

Significant shareholders

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

At December 31, 2019 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of nil (2018: €98 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2019 and 2018 is as follows:

	Year to December 31	
€ million	2019	2018
Base salary, fees and benefits		
Board of Directors		
Short-term benefits	5	5
Share based payments	3	2
Management Committee		
Short-term benefits	8	10
Share based payments	5	5

For the year to December 31, 2019 the Board of Directors includes remuneration for three Executive Directors (December 31, 2018: two Executive Directors). The Management Committee includes remuneration for 12 members (December 31, 2018: ten members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2019 the Company's obligation was €63,000 (2018: €58,000).

At December 31, 2019 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €1 million (2018: €4 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at December 31, 2019 (2018: nil).

33 Changes to accounting policies

New accounting policy

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

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

The details of the changes in accounting policy are disclosed below:

1. Interest-bearing borrowings and non-current assets increased on implementation of the standard as obligations to make future payments under leases previously classified as operating leases were recognised on the Balance sheet, along with the related ROU asset. The Group has used the practical expedients in respect of leases of less than 12 months duration and leases for low value items and excluded them from the scope of IFRS 16. Rental payments associated with these leases are recognised in the Income statement on a straight-line basis over the life of the lease. No adjustment has been made to the recognition and measurement of assets previously recognised as 'finance leases' under IAS 17 which were transferred to ROU assets on adoption of IFRS 16, with the related borrowings transferred to lease liabilities.
2. Expenditure on operations has decreased and finance costs have increased, as operating lease costs have been replaced by depreciation and lease interest expense.
3. The adoption of IFRS 16 required the Group to make a number of judgements, estimates and assumptions. These included:
   - *The estimated lease term* – The term of each lease was based on the original lease term unless management was 'reasonably certain' to exercise options to extend the lease. Further information used to determine the appropriate lease term included fleet plans which underpin approved business plans, and historic experience regarding extension options.
   - *The discount rate used to determine the lease liability* – The rates used on transition to discount future lease payments were the Group's incremental borrowing rates. These rates have been calculated for each airline, reflecting the underlying lease terms and based on observable inputs. The risk-free rate component was based on LIBOR rates available in the same currency and over the same term as the lease and was adjusted for credit risk. For future aircraft lease obligations, the Group will use the interest rate implicit in the lease.
   - *Terminal arrangements* – The Group has reviewed its arrangements at airport terminals to determine whether any agreements previously considered to be service agreements should be classified as leases. No additional leases have been identified.
   - *Restoration obligations* – The Group has certain obligations associated with the maintenance condition of its aircraft on redelivery to the lessor, such as the requirement to complete a final airframe check, repaint the aircraft and reconfigure the cabin. Under IAS 17 these costs were recognised as a maintenance expense over the lease term. On adoption of IFRS 16, they were recognised as part of the ROU asset on transition, resulting in an increase in restoration and handback provisions. Judgement has been used to identify the appropriate obligations and estimation has been used (based on observable data) to measure them. Other maintenance obligations associated with these assets, comprising obligations that arise as the aircraft is utilised, such as engine overhauls and periodic airframe checks, are recognised as a maintenance expense over the lease term.

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

Foreign currency balances on lease obligations, which are predominantly denominated in US dollars, are remeasured at each balance sheet date, with the ROU asset recognised at the historic exchange rate. The Group manages foreign exchange risk arising on these US dollar obligations as part of its risk management strategy as described further in note 25.

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

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

€ million	As reported	IFRS 16 adjustments	Restated
Non-current assets			
Property, plant and equipment			
Fleet	10,790	3,730	**14,520**
Property and equipment	1,647	755	**2,402**
Deferred tax assets	536	130	**666**
Other non-current assets	4,968	–	**4,968**
	17,941	**4,615**	**22,556**
Current assets			
Other current assets	10,093	(35)	**10,058**
	10,093	**(35)**	**10,058**
Total assets	**28,034**	**4,580**	**32,614**
Total equity	**6,720**	**(550)**	**6,170**
Non-current liabilities			
Interest-bearing long-term borrowings	6,633	4,315	**10,948**
Deferred tax liability	453	(40)	**413**
Provisions	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**

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

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

Change in accounting policy

In September 2019, the IFRS Interpretations Committee clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group has restated the comparative period for 2018 to reflect €148 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The following table summarises the impact of the change in accounting policy on the Income statement for the year to December 31, 2018:

Consolidated income statement (extract for the year to December 31, 2018)

€ million	Previously reported	Adjustment	Restated
Passenger revenue	21,549	(148)	21,401
Cargo revenue	1,173	–	1,173
Other revenue	1,684	–	1,684
Total revenue	24,406	(148)	24,258
Handling, catering and other operating costs	2,888	(148)	2,740
Other expenditure on operations	17,840	–	17,840
Total expenditure on operations	20,728	(148)	20,580
Operating profit	3,678		3,678
Non-operating expenses	(191)	–	(191)
Profit before tax	3,487	–	3,487
Tax	(590)	–	(590)
Profit after tax	2,897	–	2,897

There is no impact on profit after tax in the Consolidated Income Statement for 2018, the Consolidated Balance Sheet as at January 1, 2018 or December 31, 2018 or the Consolidated Statement of Changes in Equity as at January 1, 2018 or December 31, 2018.

ALTERNATIVE PERFORMANCE MEASURES

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

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

a Changes to APMs in 2019

The Group has adopted IFRS 16 'Leases' on January 1, 2019, and has used the modified retrospective transition approach. In doing so, for 2019, all operating leases have been recognised on the balance sheet as a right of use (ROU) asset with associated lease liability, and all finance leases previously recognised have been transferred into the ROU asset within Property, plant and equipment. As a result of this adoption the way in which the Group monitors the performance of the Group and how the associated measures are calculated have changed as follows:

New APMs

- *Pro forma financial information* - In adopting the modified retrospective transition approach for IFRS 16, the comparative figures for 2018 have not been restated. Accordingly, to provide a consistent basis for comparison with 2019, the Group has introduced Pro forma financial information for 2018, which is the Group's restated statutory results for 2018 with an adjustment to reflect the estimated impact of IFRS 16 from January 1, 2018;
- *Levered free cash flow* – A measure which represents the cash generating ability of the underlying businesses before shareholder returns and is used in conjunction with a targeted level of leverage, measured using Net debt to EBITDA. This measure is monitored by the Group in making both investment and capital decisions;
- *Airline non-fuel costs per ASK* – A measure for monitoring airline unit cost performance per ASK excluding, amongst other items, fuel. The measure is monitored by the Group to demonstrate the performance of the airline based activities that are largely within the control of the Group.

Changes to APMs

- *Adjusted net debt to EBITDAR* - Both Adjusted net debt and EBITDAR incorporated adjustments to reflect the impact of aircraft operating leases, which under IFRS 16 the Group now presents within total borrowings and EBITDA. Accordingly, this measure has been revised and presented as net debt to EBITDA;
- *Return on Invested Capital* - The Group has amended the methodology to reflect IFRS 16. Prior to IFRS 16, in calculating the numerator (return) a cost of 0.67 times the annual lease rental was deducted and in calculating the denominator (invested capital) a capital value was calculated for the operating leased aircraft by multiplying the annual operating lease rentals by a factor of 8. These adjustments are no longer required, as the aircraft now have ROU values and associated depreciation.

No longer applicable

- *Lease adjusted operating margin* - The associated impact of lease expenses is now reflected within the operating margin, such that this adjusted measure is no longer applicable;
- *Equity free cash flows* – The Group no longer considers the equity free cash flow measure in assessing the performance of the Group, as certain arrangements are treated differently on transition to IFRS 16 compared to pre-transition and accordingly there is inconsistency over time. This has been replaced with 'levered free cash flow' as defined above.

b Pro forma financial information

The Group elected to apply the modified retrospective approach on transition to IFRS 16 to reduce complexity on transition arising from the volume and nature of the leases held by the Group. The modified transition approach does not allow restatement of comparatives. To aid users of the financial statements, the Group has provided Pro forma information for 2018 to provide a consistent basis for comparison with 2019 results. Pro forma results for 2018 are the Group's restated statutory results with an adjustment to reflect the estimated impact of IFRS 16 as if it had applied from January 1, 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at January 1, 2019 (set out in note 33) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at January 1, 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date. There is no adjustment to the 2019 financial information.

The following table provides a reconciliation from the reported Consolidated income statement to the Pro forma financial information for 2018.

Consolidated income statement 2018 € million	2018 Before exceptional items	Exceptional items	2018 Reported	Adjustment	Restated 2018	IFRS 16 Adjustment	2018 Pro forma
Passenger revenue	21,549		21,549	(148)	21,401		21,401
Cargo revenue	1,173		1,173		1,173		1,173
Other revenue	1,684		1,684		1,684		1,684
Total revenue	24,406		24,406	(148)	24,258		24,258
Employee costs	4,812	(460)	4,352		4,352		4,352
Fuel, oil costs and emissions charges	5,283		5,283		5,283		5,283
Handling, catering and other operating costs	2,888		2,888	(148)	2,740	(7)	2,733
Landing fees and en-route charges	2,184		2,184		2,184		2,184
Engineering and other aircraft costs	1,828		1,828		1,828	29	1,857
Property, IT and other costs	918	12	930		930	(129)	801
Selling costs	1,046		1,046		1,046		1,046
Depreciation, amortisation and impairment	1,254		1,254		1,254	742	1,996
Aircraft operating lease costs	890		890		890	(890)	-
Currency differences	73		73		73		73
Total expenditure on operations	21,176	(448)	20,728	(148)	20,580	(255)	20,325
Operating profit	3,230	448	3,678	-	3,678	255	3,933
Net finance costs	(182)		(182)		(182)	(330)	(512)
Other non-operating charges	(9)		(9)		(9)		(9)
Profit before tax	3,039	448	3,487	-	3,487	(75)	3,412
Tax	(558)	(32)	(590)	-	(590)	16	(574)
Profit after tax	2,481	416	2,897	-	2,897	(59)	2,838
Attributable to:							
Equity holders of the parent	2,469	416	2,885		2,885	(59)	2,826
Non-controlling interest	12		12		12		12
	2,481	416	2,897	-	2,897	(59)	2,838

c Profit after tax before exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as exceptional.

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

The details of these exceptional items are given in Note 4 to the financial statements and on the face of the Consolidated income statement.

d Basic earnings per share before exceptional items and adjusted earnings per share (KPI)

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

€ million	note	**2019**	2018 Reported	2018 Pro forma
Earnings attributable to equity holders of the parent	b	**1,715**	2,885	2,826
Exceptional items	4	**672**	(416)	(416)
Earnings attributable to equity holders of the parent before exceptional items		**2,387**	2,469	2,410
Interest expense on convertible bonds		**26**	18	18
Adjusted earnings		**2,413**	2,487	2,428
Weighted average number of shares used for basic earnings per share	10	**1,984,073**	2,021,622	2,021,622
Weighted average number of shares used for diluted earnings per share	10	**2,065,776**	2,113,081	2,113,081
Adjusted earnings per share (€ cents)		**116.8**	117.7	114.9
Basic earnings per share before exceptional items (€ cents)		**120.3**	122.1	119.2

e Airline non-fuel unit costs

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

The comparative information for 2018 has been presented on a Pro forma basis due to the Group adopting IFRS 16 from January 1, 2019. See note b for further information.

€ million	note	2019 Reported	ccy adjustment[1]	**2019 ccy**	2018 Pro forma
Total operating expenditure before exceptionals	b	22,221	(325)	**21,896**	20,773
Less: Fuel, oil costs and emission charges		6,021	(212)	**5,809**	5,283
Non-fuel costs		16,200	(113)	**16,087**	15,490
Less: Non-flight specific costs		1,654	(40)	**1,614**	1,450
Airline non-fuel costs		14,546		**14,473**	14,040
Available seat kilometres (ASK million)		337,754		**337,754**	324,808
Airline non-fuel unit costs (€ cents)		4.31		**4.29**	4.32

1 Refer to note i for the definition of the ccy adjustment

f Levered free cash flow (KPI)

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

€ million	**2019**	2018
Net Increase in cash and cash equivalents	**85**	583
Add / less: Increase/(decrease) in other current interest-bearing deposits	**103**	(924)
Add: Acquisition of treasury shares	**-**	500
Add: Dividends paid	**1,308**	577
Levered free cash flow	**1,496**	736

g Return on invested capital (KPI)

The Group monitors return on invested capital (RoIC) as it gives an indication of the Group's capital efficiency relative to the capital invested as well as the ability to fund growth and to pay dividends. In 2019 RoIC is defined as EBITDA, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage.

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

€ million	note	2019
EBITDA	h	**5,396**
Less: Fleet depreciation multiplied by inflation adjustment		**(2,040)**
Less: Other property, plant and equipment depreciation		**(259)**
Less: Software intangible amortisation		**(131)**
		2,966
Invested capital		
Average fleet book value[2]	12	**15,598**
Less: Average progress payments[3]	12	**(1,297)**
Fleet book value less progress payments		**14,301**
Inflation adjustment[1]		*1.19*
		17,065
Average net book value of other property, plant and equipment[4]	12	**2,448**
Average net book value of software intangible assets[5]	14	**603**
Total invested capital		**20,116**
Return on invested capital		**14.7%**

1 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the fleet (2019: 12 years).
2 The average net book value of owned aircraft excluding progress payments is calculated from an amount of €13,451 million at January 1, 2019 and €15,150 million at December 31, 2019.
3 The average net book value of progress payments is calculated from an amount of €1,069 million at January 1, 2019 and €1,525 million at December 31, 2019.
4 The average net book value of other property, plant and equipment is calculated from an amount of €2,402 million at January 1, 2019 and €2,493 million at December 31, 2019.
5 The average net book value of software intangible assets is calculated from an amount of €539 million at December 31, 2018 and €666 million at December 31, 2019.

2018 RoIC:

For 2018 RoIC is defined as EBITDAR (being operating profit before depreciation, amortisation and rental charges), 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.

The table below shows the reconciliation to derive the RoIC measure for 2018, including the change in methodology as described for 2019 and adjusting for IFRS 16. As the Group adopted IFRS 16 from January 1, 2019, the comparative RoIC inputs for 2018 have been adjusted on a pro forma basis to reflect the impact of this change in the 2018 Income statement for the year to December 31, 2018 and for the balance sheets at January 1, 2018 and December 31, 2018:

€ million	2018 Reported	Change in methodology	Pro forma adjustments	2018 Pro forma
EBITDAR / EBITDA	5,374	-	107	5,481
Less: Aircraft operating lease costs multiplied by 0.67	(596)	596	-	-
Less: Depreciation charge for fleet assets multiplied by inflation adjustment				
Depreciation charge for fleet assets	*(984)*	-	*(634)*	*(1,618)*
Inflation adjustment[1]	*1.22*	-	*1.15*	*1.19*
	(1,205)	-	(726)	(1,931)
Less: Depreciation charge for other property, plant and equipment	(138)	-	-	(138)
Less: Depreciation charge for other ROU assets		-	(108)	(108)
Less: Amortisation charge for software intangibles		(123)	-	(123)
	3,435	473	(727)	3,181
Invested capital				
Fleet closing/average book value excluding progress payments[2]	9,721	(223)	3,757	13,255
Inflation adjustment[1]	*1.22*	*1.22*	*1.12*	*1.19*
	11,902	(273)	4,194	15,823
Closing/average book value of other property, plant and equipment [3]	1,647	(17)	813	2,443
Aircraft operating lease costs multiplied by 8	7,120	(7,120)	-	-
Average book value of software intangible assets[4]		506	-	506
Total invested capital	20,669	(6,904)	5,007	18,772
Return on invested capital	16.6%			16.9%

1 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the fleet (11.9 years).
2 The change in methodology to calculate the average net book value of owned aircraft excluding progress payments is calculated from an amount of €9,275 million at December 31, 2017 and €9,721 million at December 31, 2018. The average pro forma net book value of owned and ROU aircraft excluding progress payments is calculated from an amount of €13,058 million at December 31, 2017 and €13,451 million at December 31, 2018.
3 The change in methodology to calculate the average net book value of other property, plant and equipment is calculated from an amount of €1,613 million at December 31, 2017 and €1,647 million at December 31, 2018. The average pro forma net book value of owned and ROU other property plant and equipment is calculated from an amount of €2,483 million at December 31, 2017 and €2,402 million at December 31, 2018.
4 The change in methodology to calculate the average net book value of software intangible assets is calculated from an amount of €473 million at December 31, 2017 and €539 million at December 31, 2018.

h Net debt to EBITDA (KPI)

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

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and other current interest-bearing deposits. The definition of Net debt remains unchanged from 2018, however with the adoption of IFRS 16 from January 1, 2019, total borrowings have significantly increased due to the recognition of the lease liabilities. Accordingly, the comparative figures for 2018 have been adjusted to reflect the impact of such a change at December 31, 2018.

EBITDA is defined as operating profit before exceptional items, interest, taxation, depreciation, amortisation and impairment. The Group believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. It is a measure of the profitability of the Group and of the core operating cash flows generated by the business model.

€ million	note	2019	2018 Pro forma
Interest-bearing long-term borrowings	23, 33	**14,254**	12,704
Less: Cash and cash equivalents	19	**(4,062)**	(3,837)
Less: Other current interest-bearing deposits	19	**(2,621)**	(2,437)
Net debt		**7,571**	6,430
Operating profit before exceptionals	b	**3,285**	3,485
Add: Depreciation, amortisation and impairment	b	**2,111**	1,996
EBITDA		**5,396**	5,481
Net debt to EBITDA		**1.4**	1.2

i Results on a constant currency (ccy) basis

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

The following table represents the main average and closing exchange rates for the reporting periods. Where 2019 figures are stated at a constant currency basis, they have applied the 2018 rates stated below:

	Average		Closing	
Foreign exchange rates	**2019**	2018	**2019**	2018
Euro to pound sterling	**1.13**	1.13	**1.18**	1.11
US dollar to euro	**1.12**	1.18	**1.11**	1.14
US dollar to pound sterling	**1.27**	1.33	**1.31**	1.26

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	Call centre	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	Holding company	England	100%
BA Excepted Group Life Scheme Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Life insurance	England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Healthcare	England	100%
BA Holdco Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BA Number Two Limited IFC 5, St Helier, JE1 1ST	Dormant	Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Aircraft financing	Jersey	100%
British Airways E-Jets Leasing Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft leasing	Bermuda	100%
British Airways Holdings B.V. Strawinskylaan 3105, Atrium, Amsterdam, 1077ZX	Holding company	Netherlands	100%
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Tour operator	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft leasing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trustee company	England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE	Dormant	Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199, Bremen	Call centre	Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Ground services	England	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Transport	England	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%

Iberia

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027	Cargo transport	Spain	100%
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%[1]
Iberia México, S.A.* Ejército Nacional 439, Mexico City, 11510	Storage and custody services	Mexico	100%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2 P5, Nave 6, Madrid, 28042	Cargo transport	Spain	75%
Iberia Desarrollo Barcelona, S.L.* Avenida de les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75%

Aer Lingus

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

Avios

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Avios South Africa Proprietary Limited Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	Dormant	South Africa	100%
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Trademark ownership	England	100%

IAG Cargo Limited

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Routestack Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Shipping solutions	England	100%
Zenda Group Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	Shipping solutions	England	100%

Vueling

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Anilec Holding GmbH Office Park I Top B04, Vienna, 1300	Holding company	Austria	100%
Level Europe GmbH Office Park I Top B04, Vienna, 1300	Airline operations	Austria	100%
Yellow Handling, S.L.U Plaça Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Ground handling services	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	99.5%
Waleria Beteiligungs GmbH Office Park I Top B04, Vienna, 1300	Holding company	Austria	49.8%

LEVEL

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

International Consolidated Airlines Group S.A.

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

* Principal subsidiaries

1 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.

2 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.

Associates

Name and address	Country of Incorporation	Percentage of equity owned
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 15, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Dunwoody Airline Services Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Serpista, S.A. Calle Cardenal Marcelo Spínola 10, Madrid, 28016	Spain	39%
Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
Inloyalty by Travel Club, S.L.U. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
Viajes Ame, S.A. Avenida de Bruselas 20, Alcobendas, Madrid, 28108	Spain	26.7%
DeepAir Solutions Limited Ground Floor North, 86 Brook Street, London, W1K 5AY	England	25%

Joint ventures

Name and address	Country of Incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. Calle de O'Donnell 12, Madrid, 28009	Spain	50.5%

Other equity investments

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

Name and address	Country of Incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
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	62	14
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.68%	GBP	287	24
Importwise Limited International House, 12 Constance Street, London, E16 2DQ	England	14.8%	CHF	n/a	n/a
Comair Limited 1 Marignane Drive, Bonaero Park, Johannesburg, 1619	South Africa	11.49%	ZAR	2,571	1,103
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	n/a	n/a
Monese Limited 5th floor, 50 Finsbury Square, London, EC2A 1HD	England	7.42%	GBP	18	(13)

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

At a meeting held on February 27, 2020, the directors of International Consolidated Airlines Group, S.A. state that, to the best of their knowledge, the consolidated financial statements for the year to December 31, 2019 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, 2020

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Margaret Ewing

Francisco Javier Ferrán Larraz

Stephen William Lawrence Gunning

Deborah Linda Kerr

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

Alberto Terol Esteban

AIRCRAFT FLEET

	Owned	Right of use[1]	**Total December 31, 2019**	Total December 31, 2018	Changes since December 31, 2018	Future deliveries	Options
Airbus A318	1	–	**1**	1	–	–	–
Airbus A319	17	40	**57**	61	(4)	–	–
Airbus A320	50	204	**254**	241	13	34	76
Airbus A321	20	46	**66**	56	10	45	14
Airbus A330-200	5	19	**24**	22	2	–	–
Airbus A330-300	2	14	**16**	16	–	1	–
Airbus A340-600	9	6	**15**	17	(2)	–	–
Airbus A350	5	4	**9**	2	7	33	52
Airbus A380	2	10	**12**	12	–	–	–
Boeing 747-400	32	–	**32**	35	(3)	–	–
Boeing 777-200	36	10	**46**	46	–	–	–
Boeing 777-300	2	10	**12**	12	–	4	–
Boeing 777-9	–	–	**–**	–	–	18	24
Boeing 787-8	–	12	**12**	12	–	–	–
Boeing 787-9	1	17	**18**	18	–	–	–
Boeing 787-10	–	–	**–**	–	–	12	–
Embraer E170	6	–	**6**	6	–	–	–
Embraer E190	9	9	**18**	16	2	–	–
Group total	**197**	**401**	**598**	**573**	**25**	**147**	**166**

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

As well as those aircraft in service the Group also holds 10 aircraft (2018: 5) not in service.

The table above excludes one wet lease which is recognised as right of use asset on the Balance sheet.