NINE MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (November 5, 2021) presents Group consolidated results for the nine months to September 30, 2021.

COVID-19 situation and management actions:

- Passenger capacity in quarter 3 was 43.4 per cent of 2019, up from 21.9 per cent in quarter 2, as capacity rebuilds
- Current passenger capacity plans for quarter 4 are for around 60 per cent of 2019 capacity
- Cargo carried in quarter 3 was up 37.2 per cent on 2020, reaching 73.4 per cent of 2019 levels, despite a reduction in cargo-only flights as passenger capacity increased, with 657 cargo-only flights operated in the quarter compared with 1,371 in quarter 2
- Cash operating costs for quarter 3 of €260 million per week
- Strong liquidity of €10.6 billion at the end of quarter 3, up from €8.1 billion at December 31, 2020, comprised of cash of €7.6 billion and committed and undrawn general and aircraft facilities of €3.0 billion:
    - Both cash and underlying debt stable since quarter 2, with the €0.2 billion increase in borrowings driven by translation of US dollar debt
    - Increased liquidity driven by positive operating cash flow in quarter 3 and successful conclusion of financing initiatives since the start of the year, together with cost actions and UK pension contribution deferral
    - In July sustainability-linked EETC financing of $785 million concluded for seven British Airways' fleet deliveries for 2021 and 2022, with total financing remaining to be drawn of $685 million
- Additional £1.0 billion (€1.2 billion) committed five-year credit facility executed for British Airways on November 1, 2021, partially guaranteed by UK Export Finance, which remains undrawn, resulting in total pro forma liquidity at the end of October of €12.1 billion, including an increase in cash to €8.0 billion

IAG period highlights on results:

- Reported operating loss for the third quarter €452 million (2020 restated[1]: operating loss €1,923 million) and operating loss before exceptional items €485 million (2020 restated[1]: operating loss before exceptional items €1,305 million)
- Reported operating loss for the nine months €2,487 million (2020 restated[1]: operating loss €5,975 million), and operating loss before exceptional items €2,665 million (2020 restated[1]: operating loss before exceptional items €3,220 million)
- Exceptional credit before tax in the nine months of €178 million on discontinuance of fuel and foreign exchange hedge accounting and the reversal of the impairment of certain fleet assets (2020: exceptional charge before tax of €2,755 million on discontinuance of fuel and foreign exchange hedge accounting and impairment of fleet assets)
- Loss after tax and exceptional items for the nine months €2,622 million (2020 restated[1]: loss €5,576 million) and loss after tax before exceptional items: €2,775 million (2020 restated[1]: loss €3,185 million)

Performance summary:

	Nine months to September 30		
Reported results (€ million)	**2021**	2020 restated[1]	Higher / (lower)
Passenger revenue	**3,140**	4,828	(35.0)%
Total revenue	**4,921**	6,505	(24.4)%
Operating loss	**(2,487)**	(5,975)	(58.4)%
Loss after tax	**(2,622)**	(5,576)	(53.0)%
Basic loss per share (€ cents)[2]	**(52.8)**	(182.4)	(71.0)%
Cash and interest-bearing deposits[3]	**7,619**	5,917	28.8 %
Borrowings[3]	**19,975**	15,679	27.4 %

Alternative performance measures (€ million)	**2021**	2020 restated[1]	Higher / (lower)
Passenger revenue before exceptional items	**3,135**	4,888	(35.9)%
Total revenue before exceptional items	**4,916**	6,565	(25.1)%
Operating loss before exceptional items	**(2,665)**	(3,220)	(17.2)%
Loss after tax before exceptional items	**(2,775)**	(3,185)	(12.9)%
Adjusted loss per share (€ cents)[2]	**(55.9)**	(104.2)	(46.3)%
Net debt[3]	**12,356**	9,762	26.6 %
Available seat kilometres (ASK million)	**74,123**	91,394	(18.9)%
Passenger revenue per ASK (€ cents)	**4.23**	5.35	(20.9)%
Non-fuel costs per ASK (€ cents)	**8.61**	8.86	(2.9)%

For definitions refer to the IAG Annual report and accounts 2020.
Cash comprises cash, cash equivalents and interest-bearing deposits.

[1] The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes, which increased the loss after tax for the nine months to September 30, 2020 by €9 million.

[2] The loss per share information for the nine months to September 30, 2020, has been restated to reflect the impact of the rights issue and note 1 above.

[3] The prior year comparative is December 31, 2020.

Luis Gallego, IAG Chief Executive Officer, said:

"I would like to thank our people, who have played such a central role in all that we have achieved in the face of the most challenging time for the industry.

"There's a significant recovery underway and our teams across the Group are working hard to capture every opportunity. We continue to capitalise on surges in bookings when travel restrictions are lifted.

"All our airlines have shown improvements with the Group's operating loss more than halved compared to previous quarters. In Q3, our operating cash flow was positive for the first time since the start of the pandemic and our liquidity is higher than ever, reaching €12.1 billion on a pro forma basis at the end of October.

"The full reopening of the transatlantic travel corridor from Monday is a pivotal moment for our industry. British Airways is serving more US destinations than any transatlantic carrier and we're delighted that we can get our customers flying again.

"Longhaul traffic has been a significant driver of revenue, with bookings recovering faster than shorthaul as we head into the winter. Premium leisure is performing strongly at both Iberia and British Airways and there are early signs of a recovery in business travel.

"Iberia and Vueling continued to be the best performers within the Group in the third quarter. Iberia returned to profitability while Vueling reached breakeven at the operating level. Both seized opportunities to strengthen their positions on routes to Latin America and the Spanish domestic market.

"In the short term, we are focused on getting ready to operate as much capacity as we can and ensuring IAG is set up to return to profitability in 2022. Our teams are creating opportunities and implementing initiatives to transform our business and preparing it for the future so that we emerge more competitive. This includes initiatives such as our new shorthaul operation at Gatwick, Vueling's expansion at Paris-Orly, Aer Lingus' services from Manchester to the US and the Caribbean and our new maintenance model in Barcelona.

"We also remain resolute in our climate commitments. We're transforming our business and driving change to create a truly sustainable airline industry. IAG has led the way by being the first airline group worldwide to commit to achieving net zero carbon emissions by 2050 and we welcome IATA's recent announcement that the industry will join us in meeting this goal."

Trading outlook

At current fuel prices and exchange rates, IAG expects its 2021 operating loss before exceptional items to be approximately €3.0 billion. Quarter 4 capacity, measured in ASKs, is expected to be approximately 60% of 2019, resulting in 2021 capacity of 37% of the 2019 level.

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CONSOLIDATED INCOME STATEMENT

	Nine months to September 30			Three months to September 30		
€ million	**2021**	2020[1]	Higher/ (lower)	**2021**	2020[1]	Higher/ (lower)
Passenger revenue	**3,140**	4,828	(35.0)%	**1,999**	715	nm
Cargo revenue	**1,174**	917	28.0 %	**405**	302	34.1 %
Other revenue	**607**	760	(20.1)%	**305**	200	52.5 %
Total revenue	**4,921**	6,505	(24.4)%	**2,709**	1,217	nm
Employee costs	**2,099**	2,887	(27.3)%	**811**	982	(17.4)%
Fuel, oil costs and emissions charges	**1,049**	3,282	(68.0)%	**552**	700	(21.1)%
Handling, catering and other operating costs	**788**	1,080	(27.0)%	**421**	227	85.5 %
Landing fees and en-route charges	**598**	737	(18.9)%	**311**	198	57.1 %
Engineering and other aircraft costs	**702**	1,135	(38.1)%	**283**	292	(3.1)%
Property, IT and other costs	**540**	597	(9.5)%	**187**	169	10.7 %
Selling costs	**280**	340	(17.6)%	**121**	72	68.1 %
Depreciation, amortisation and impairment	**1,384**	2,335	(40.7)%	**464**	490	(5.3)%
Currency differences	**(32)**	87	nm	**11**	10	10.0 %
Total expenditure on operations	**7,408**	12,480	(40.6)%	**3,161**	3,140	0.7 %
Operating loss	**(2,487)**	(5,975)	(58.4)%	**(452)**	(1,923)	(76.5)%
Finance costs	**(608)**	(503)	20.9 %	**(245)**	(161)	52.2 %
Finance income	**5**	27	(81.5)%	**1**	4	(75.0)%
Net financing credit relating to pensions	**2**	11	(81.8)%	**1**	2	(50.0)%
Net currency retranslation (charges)/credits	**(63)**	183	nm	**(50)**	86	nm
Other non-operating credits/(charges)	**101**	43	nm	**31**	(7)	nm
Total net non-operating costs	**(563)**	(239)	nm	**(262)**	(76)	nm
Loss before tax	**(3,050)**	(6,214)	(50.9)%	**(714)**	(1,999)	(64.3)%
Tax	**428**	638	(32.9)%	**140**	236	(40.7)%
Loss after tax for the period	**(2,622)**	(5,576)	(53.0)%	**(574)**	(1,763)	(67.4)%

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. The restatement increased the loss after tax for the nine months to September 30, 2020 by €9 million and for the three months to September 30, 2020 by €2 million.

ALTERNATIVE PERFORMANCE MEASURES

All figures in the tables below are before exceptional items.

	Nine months to September 30			Three months to September 30		
	Before exceptional items			Before exceptional items		
€ million	**2021**	2020[1]	Higher/ (lower)[2]	**2021**	2020[1]	Higher/ (lower)[2]
Passenger revenue	**3,135**	4,888	(35.9)%	**1,999**	737	nm
Cargo revenue	**1,174**	917	28.0 %	**405**	302	34.1 %
Other revenue	**607**	760	(20.1)%	**305**	200	52.5 %
Total revenue before exceptional items	**4,916**	6,565	(25.1)%	**2,709**	1,239	nm
Employee costs	**2,099**	2,618	(19.8)%	**811**	713	13.7 %
Fuel, oil costs and emissions charges	**1,202**	1,683	(28.6)%	**565**	370	52.7 %
Handling, catering and other operating costs	**788**	1,080	(27.0)%	**421**	227	85.5 %
Landing fees and en-route charges	**598**	737	(18.9)%	**311**	198	57.1 %
Engineering and other aircraft costs	**709**	1,052	(32.6)%	**290**	286	1.4 %
Property, IT and other costs	**540**	569	(5.1)%	**187**	163	14.7 %
Selling costs	**280**	340	(17.6)%	**121**	72	68.1 %
Depreciation, amortisation and impairment	**1,397**	1,619	(13.7)%	**477**	505	(5.5)%
Currency differences	**(32)**	87	nm	**11**	10	10.0 %
Total expenditure on operations before exceptional items	**7,581**	9,785	(22.5)%	**3,194**	2,544	25.6 %
Operating loss before exceptional items	**(2,665)**	(3,220)	(17.2)%	**(485)**	(1,305)	(62.8)%
Finance costs	**(608)**	(503)	20.9 %	**(245)**	(161)	52.2 %
Finance income	**5**	27	(81.5)%	**1**	4	(75.0)%
Net financing credit relating to pensions	**2**	11	(81.8)%	**1**	2	(50.0)%
Net currency retranslation (charges)/credits	**(63)**	183	nm	**(50)**	86	nm
Other non-operating credits/(charges)	**101**	43	nm	**31**	(7)	nm
Total net non-operating costs	**(563)**	(239)	nm	**(262)**	(76)	nm
Loss before tax before exceptional items	**(3,228)**	(3,459)	(6.7)%	**(747)**	(1,381)	(45.9)%
Tax	**453**	274	65.3 %	**141**	168	(16.1)%
Loss after tax for the period before exceptional items	**(2,775)**	(3,185)	(12.9)%	**(606)**	(1,213)	(50.0)%

Operating figures	**2021**[2]	2020[1,2]	Higher/ (lower)	**2021**[2]	2020[1,2]	Higher/ (lower)
Available seat kilometres (ASK million)	**74,123**	91,394	(18.9)%	**40,082**	19,769	nm
Revenue passenger kilometres (RPK million)	**44,464**	62,445	(28.8)%	**27,716**	9,673	nm
Seat factor (per cent)	**60.0**	68.3	(8.3)pts	**69.1**	48.9	20.2pts
Passenger numbers (thousands)	**23,555**	26,977	(12.7)%	**15,475**	6,592	nm
Cargo tonne kilometres (CTK million)	**2,841**	2,471	15.0 %	**988**	720	37.2 %
Sold cargo tonnes (thousands)	**382**	326	17.2 %	**134**	94	42.6 %
Sectors	**192,833**	219,553	(12.2)%	**114,877**	64,288	78.7 %
Block hours (hours)	**563,716**	678,196	(16.9)%	**303,622**	185,681	63.5 %
Average manpower equivalent[3]	**50,601**	61,639	(17.9)%	**50,202**	58,905	(14.8)%
Aircraft in service	**533**	542	(1.7)%	**n/a**	n/a	-
Passenger revenue per RPK (€ cents)	**7.05**	7.83	(9.9)%	**7.21**	7.62	(5.3)%
Passenger revenue per ASK (€ cents)	**4.23**	5.35	(20.9)%	**4.99**	3.73	33.8 %
Cargo revenue per CTK (€ cents)	**41.32**	37.11	11.4 %	**40.99**	41.94	(2.3)%
Fuel cost per ASK (€ cents)	**1.62**	1.84	(11.9)%	**1.41**	1.87	(24.7)%
Non-fuel costs per ASK (€ cents)	**8.61**	8.86	(2.9)%	**6.56**	11.00	(40.4)%
Total cost per ASK (€ cents)	**10.23**	10.71	(4.5)%	**7.97**	12.87	(38.1)%

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. The restatement increased the loss after tax before exceptional items for the nine months to September 30, 2020 by €9 million and for the three months to September 30, 2020 by €2 million.

[2]Financial ratios are before exceptional items and detailed below.

[3]Included in the average manpower equivalent are staff on furlough, wage support and equivalent schemes, including the Temporary Redundancy Plan arrangements in Spain.

FINANCIAL REVIEW

COVID-19 Summary – Nine months to September 30, 2021

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

In the first half of 2021, due to the continuing impact of the virus worldwide and the associated travel and border restrictions applying in many countries, the Group was only able to operate a limited passenger schedule, with capacity operated only 20.8 per cent of that operated in 2019. Passenger capacity for quarter 2 was 21.9 per cent of 2019, up marginally on the 19.6 per cent operated in quarter 1, with an increase in capacity during the quarter where travel restrictions allowed. Capacity was increased to 43.4 per cent of 2019 in quarter 3, linked to a partial easing of restrictions. The Group operated 3,334 additional cargo-only flights, leading to record cargo revenue for the nine months.

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

In May 2021, the Board approved a revised fuel hedging policy, which is designed to provide flexibility to respond to both significant unexpected reductions in travel demand or capacity and/or material or sudden changes in jet fuel prices. The revised policy allows for differentiation within the Group, to match the nature of each operating company, and a greater use of call options. The revised policy will operate on a two-year rolling basis, with hedging up to 60 per cent of anticipated requirements in the first twelve months and up to 30 per cent in the following twelve months and with flexibility for low cost airlines within the Group to adopt hedging up to 75 per cent in the first twelve months. For all Group airlines, hedging between 25 and 36 months ahead will only be undertaken in exceptional circumstances.

The Group continues to take action to preserve cash and boost liquidity. In the nine months the Group drew debt facilities agreed in 2020, namely a £2.0 billion Export Development Guarantee (EDG) term loan for British Airways from UK Export Finance and €75 million for Aer Lingus from the Ireland Strategic Investment Fund. IAG closed a dual-tranche senior unsecured bond issuance in March, raising €1.2 billion, with €500 million maturing in 2025 and €700 million maturing in 2029. In May, IAG raised €825 million by issuing a convertible bond, maturing in 2028. During the nine months the Group also signed a committed secured Revolving Credit Facility (RCF) with a syndicate of banks for $1.755 billion, available for three years, plus two consecutive one-year extension periods, at the discretion of the lenders. The facility is available to Aer Lingus, British Airways and Iberia, each of whom has a separate borrower limit within the overall facility. Any drawings under the facility would be secured against eligible unencumbered aircraft assets and take-off and landing rights at both London Heathrow and London Gatwick airports. The facility remained undrawn at the end of September. Simultaneous with entering into this new RCF, British Airways cancelled its US dollar revolving credit facility that was due to expire in June 2021 and which had $786 million undrawn and available at December 31, 2020. Approximately €400 million of aircraft financing facilities expired undrawn by the end of March. In July funding of $785 million was secured for British Airways through a sustainability-linked Enhanced Equipment Trust Certificate (EETC) financing, to be drawn down against future aircraft deliveries; at September 30, 2021 $685 million remained undrawn. Total liquidity at the end of the nine months remained strong at €10.6 billion, including cash, cash equivalents and current interest-bearing deposits of €7.6 billion and committed and undrawn general and aircraft facilities of €3.0 billion. On November 1, 2021, the Group closed a £1 billion committed credit facility for British Airways, partially guaranteed by UK Export Finance, which remains undrawn.

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

Basis of preparation

Based on the extensive modelling the Group has undertaken in light of the COVID-19 pandemic, including considering plausible but severe downside scenarios, the Directors have a reasonable expectation that the Group has sufficient liquidity for the going concern assessment period to June 30, 2023 and accordingly the Directors have adopted the going concern basis in preparing the consolidated results for the nine months to September 30, 2021.

However, there are a number of significant factors related to the status and impact of COVID-19 worldwide that are outside of the control of the Group. These include the emergence of new variants of the virus and potential resurgence of existing strains of the virus; the availability of vaccines worldwide, together with the speed at which they are deployed; the efficacy of those vaccines; and the restrictions imposed by national governments in respect of the freedom of movement and travel. Due to the uncertainty that these factors create, the Directors are not able to provide certainty that there could not be more severe downside scenarios than those that have been considered in the modelling, including the sensitivities the Group has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and the availability of aircraft financing to offset capital expenditure. In the event that such a scenario were to occur, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is contractually committed at November 4, 2021.

FINANCIAL REVIEW

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

Principal risks and uncertainties

The Group has continued to maintain its framework and processes to identify, assess and manage risks. The Board continues to meet frequently and review updates, including risk related, from management.

The principal risks and uncertainties affecting the Group, detailed on pages 78 to 88 of the 2020 Annual Report and Accounts, remain relevant. The ongoing impacts of the COVID-19 pandemic (considered as an "Event causing significant network disruption" risk) continue to negatively impact the external risk environment for the Group and change the risk profile of a number of the Group's other principal risks. The Group continues to carefully review its principal risks, implement necessary mitigations to adapt and assess how the severity or likelihood of occurrence of certain risks has changed, which includes consideration of emerging risks related to competitive and market risk, talent and skills retention risk and the acceleration of the digital landscape and customer trends and sentiment to travel. Where further action has been required, the Board has assessed potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks.

From the risks identified in the 2020 Annual Report and Accounts, the main risks that have been impacted by the COVID-19 pandemic and ongoing recovery are highlighted below. Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in the Group's latest business plan and scenarios.

- Airports, infrastructure and critical third parties. Restrictions at hubs and airports have required capacity adjustments, including fleet adjustments and new operating procedures as markets and regions re-open. The Group has pro-actively worked with suppliers across all categories to ensure that operations are maintained and the impact to their businesses understood, with mitigations implemented where necessary. Additional focus will be placed on key suppliers following the removal of governments' support schemes. Operational bottlenecks such as immigration resource at airports and the potential for Air Traffic Control (ATC) disruption next summer remain outside of the Group's control, although management continues to liaise with the relevant providers to identify potential solutions.
- Competition, consolidation and government regulation. The scale of governmental support and aviation specific state-aid measures and the potential impact to the competitive landscape is under continuous assessment.
- Data and cyber security. The Group has maintained its planned investment in cyber security. The heightened threat of ransomware attacks on critical infrastructure and services persists and the Group continues to focus its efforts on further mitigating cyber risks through a Group wide cyber programme.
- IT systems and IT infrastructure. The Group is reliant upon the resilience of its systems for key customer and business processes and is exposed to risks that relate to poor performance, obsolescence or failure of these systems. The Group is currently engaged in a number of initiatives to modernise its IT systems, whilst also delivering an ongoing efficiency programme and upgrading its digital capability, customer propositions and core IT infrastructure and network where required. Some of these initiatives have been delayed or impacted by actions the Group is taking to respond to the operational and health requirements of the COVID-19 pandemic.
- People, culture and employee relations. The Group is focussed on staff wellbeing and people morale and motivation, particularly as our people return to their offices and the Group businesses adapt and implement hybrid working models. Welfare support schemes are in place to support the Group's staff and initiatives to build trust and engagement continue across the Group's businesses. The Group has identified the skills and capabilities that are required to manage its transformation, which include enhancing its leadership capability and delivering on the Group's diversity and inclusion plans. Employee consultations linked to restructuring proposals have been undertaken as required.
- Political and economic environment. National governments continue to impose varying and complex travel and testing requirements, which will continue to impact Group operations and dampen demand as customers choose not to fly given the uncertainty around the application and cost of these. These changes are being actively monitored and near-term capacity plans are refreshed dynamically, according to the latest status. The economic impact of the pandemic, especially with the focus on potential future variants driving further uncertainty, is expected to be significant and the Group will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required.
- Debt funding and financial risk. Financial markets have been volatile since the spread of the pandemic, although the Group has been able to secure new funding and facilities as needed. The Group has an established process to monitor financial and counterparty risk on an ongoing basis. The Group implemented a new fuel hedging policy during May 2021, providing greater flexibility over fuel hedging.

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

FINANCIAL REVIEW

Operating and market environment
Average commodity fuel prices for the nine months to September 30, 2021 were approximately 40 per cent higher than the equivalent period in 2020, with prices rising since the start of 2021, in contrast to the significant fall in March 2020 as COVID-19 took hold. The US dollar weakened approximately eight per cent against the euro and nine per cent against the pound sterling compared with 2020.

IAG's results are impacted by exchange rates used for the translation of British Airways' and IAG Loyalty's financial results from pound sterling to the Group's reporting currency of euro. For the nine months to September 30, 2021 the net impact of translation on the operating result before exceptional items was €15 million adverse.

From a transactional perspective, the Group's financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The Group normally generates a surplus in most currencies in which it does business, except for the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. The Group hedges a portion of its transaction exposures. The net transaction impact on the operating result before exceptional items was favourable by €188 million for the period, reducing revenues by €114 million and reducing costs by €302 million.

The net impact of translation and transaction exchange on the operating result before exceptional items for the nine months was €173 million favourable.

Capacity
In the nine months to September 30, 2021, IAG capacity, measured in available seat kilometres (ASKs), was lower by 18.9 per cent versus 2020 and by 71.0 per cent versus 2019, with the impact of the ongoing COVID-19 pandemic felt across all regions. Q3 2021 saw the highest passenger numbers and load factors since the start of the pandemic, however capacity continues to be affected by the travel restrictions put in place by national governments in response to the COVID-19 pandemic and variants of the virus.

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

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

During quarter 3, British Airways capacity was impacted by the UK traffic light travel system and the stringent testing requirements for travel. Longhaul routes to North America and Asia Pacific continued to be driven by cargo requirements with low passenger load factors. Leisure routes performed well in the quarter with high load factors on Caribbean routes as well as European destinations on the green and amber lists. Iberia longhaul operations continued to focus on LACAR with routes continuing to benefit from VFR traffic. Restrictions put in place by the Argentinian government limited operations, but this was offset by easing of restrictions in Brazil and Chile. Shorthaul routes benefitted from summer leisure traffic across the network. Vueling's capacity increased in the quarter and Domestic and European routes benefited from summer vacation travel. Domestic capacity recovered to above 2019 levels as routes connecting the peninsula to the Canary and Balearic Islands performed well. Aer Lingus expanded operations in quarter 3 following the Irish government's decision to ease travel restrictions for non-essential travel on July 19, 2021. Domestic capacity also increased following the transfer of a number of routes from Stobart Air following its liquidation. LEVEL restarted routes to New York and Mexico in the quarter, however overall capacity was impacted by strict restrictions put in place by the Argentinian government on routes operating to Buenos Aires.

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

FINANCIAL REVIEW

Revenue
Passenger revenue for the nine months to September 30, 2021 fell 35.0 per cent from the previous year; in 2020 the impact of COVID-19 was mainly limited to the period from March onwards. Passenger unit revenue (passenger revenue per ASK) for the nine months decreased 20.6 per cent at constant currency (‘ccy’), due primarily to lower passenger seat factors, together with lower passenger yields (passenger revenue per revenue passenger kilometre), associated with the impact of COVID-19.

Cargo revenue for the nine months was 28.0 per cent higher versus 2020 and up 31.7 per cent at constant currency. The strong cargo revenue performance was due to additional cargo-driven flights; during the nine months 3,334 cargo-only flights were operated. Cargo revenue for the nine months was €1,174 million, up from €917 million in the previous year and total cargo carried, measured in cargo tonne kilometres (CTKs) was 15.0 per cent higher. Yields were higher versus last year reflecting the ongoing market supply and demand imbalance. During this pandemic, cargo revenue has had to cover the entire cost of operating cargo-only flights, without passenger revenue, on aircraft configured for passengers.

Other revenue fell by 20.1 per cent and by 15.7 per cent at ccy, mainly due to the impact of COVID-19 on the Group’s non-airline businesses.

Costs
Employee costs for the nine months decreased by €519 million compared with 2020, mainly linked to the restructuring programmes implemented in 2020. The Group continued to receive assistance from temporary furlough and equivalent temporary cost reduction schemes, which in the nine months amounted to €481 million, compared with €414 million in the same period in 2020.

Fuel costs, including an exceptional credit related to overhedging of €153 million in 2021 and an exceptional charge of €1,599 million related to overhedging in 2020, reduced by 68.0 per cent. Excluding the exceptional overhedging credit in the period and the overhedging charge in 2020, fuel costs reduced by 28.6 per cent.

Supplier costs decreased by 27.7 per cent, linked to volume-related savings due to the lower capacity operated, together with a reduction in non-essential expenditure and negotiated savings as a result of COVID-19.

Depreciation, amortisation and impairment costs, including an exceptional impairment credit of €13 million in 2021 and an exceptional impairment charge in 2020 of €716 million, decreased by 40.7 per cent on the previous year, linked to the reduction in the Group’s fleet triggered by COVID-19 and the related impairment charge. Excluding the exceptional impairment credit in 2021 and exceptional impairment charge in 2020, Depreciation, amortisation and impairment costs decreased by 13.7 per cent. The in-service fleet, which includes those aircraft temporarily grounded due to COVID-19, reduced from 542 aircraft at September 2020 to 533 aircraft at September 2021.

Total non-fuel costs were down 30.9 per cent on the previous year and down 29.5 per cent at ccy. Excluding the impact of exceptional charges in 2020, mainly relating to fleet and related asset impairments, and exceptional credits related to the reversal of impairments in respect of four aircraft in 2021, non-fuel costs were down 21.3 per cent and down 19.7 per cent at ccy.

Operating loss
The Group’s reported operating loss for the nine months to September 30, 2021 was €2,487 million (2020 restated: operating loss of €5,975 million). The operating loss excluding exceptional credits in 2021 and exceptional charges in 2020, which are outlined in the Reconciliation of Alternative Performance Measures, was €2,665 million for the nine months to September 30, 2021, compared with a restated operating loss of €3,220 million in 2020. In 2020 the impact of COVID-19 was experienced mainly from March onwards; by contrast all nine months of 2021 were significantly negatively affected by COVID-19 and the related travel restrictions.

Net non-operating costs, taxation and loss after tax
The tax credit on the result after exceptional items for the nine months to September 30, 2021 was €428 million (2020: €638 million), and the effective tax rate was 14 per cent (2020: 10 per cent). 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 2021 of 19 per cent, 25 per cent and 12.5 per cent respectively, these result in an expected effective tax rate of 20 per cent. The difference between the actual effective tax rate of 14 per cent and the expected effective tax rate of 20 per cent is primarily due to certain current and prior period losses in Iberia and Vueling not being recognised and the effect of the rate change in the UK.

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

On October 8, 2021 the Irish government announced that it would increase the rate of corporation tax for certain multinational businesses to 15 per cent with effect from 2023. This expected tax rate change has not been reflected in these results because it has not yet been substantively enacted.

The loss after tax and exceptional items for the nine months was €2,622 million (2020 restated: loss after tax €5,576 million), driven by the impact of COVID-19 on the Group’s operating results.

FINANCIAL REVIEW

Cash and leverage

The Group's cash position (including cash, cash equivalents and current interest-bearing deposits) at September 30, 2021 of €7,619 million was €1,702 million higher than December 31, 2020, driven by the additional liquidity actions taken in the nine months. Net debt at the end of the period was €12,356 million compared with €9,762 million at December 31, 2020.

Other recent developments

On October 27, 2021 Iberia submitted remedies to the European Commission as part of the Commission's ongoing review of the proposed acquisition of Air Europa by Iberia.

On November 1, 2021, the Group closed a £1.0 billion committed, five-year, credit facility for British Airways. The facility is provided by a syndicate of relationship banks and is partially guaranteed by UK Export Finance. The facility is unsecured and remains undrawn.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

Loss after tax before exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence in understanding the entity's financial performance. The exceptional items include significant discontinuance of hedge accounting.

The table below reconciles the reported income statement to the alternative performance measures statement above:

	Nine months to September 30					
€ million	**Reported 2021**	**Exceptional items**	**Before exceptional items 2021**	Reported 2020[1]	Exceptional items	Before exceptional items 2020
Passenger revenue[2]	**3,140**	**5**	**3,135**	4,828	(60)	4,888
Cargo revenue	**1,174**	**-**	**1,174**	917	-	917
Other revenue	**607**	**-**	**607**	760	-	760
Total revenue	**4,921**	**5**	**4,916**	6,505	(60)	6,565
Employee costs[5]	**2,099**	**-**	**2,099**	2,887	269	2,618
Fuel, oil costs and emissions charges[2]	**1,049**	**(153)**	**1,202**	3,282	1,599	1,683
Handling, catering and other operating costs	**788**	**-**	**788**	1,080	-	1,080
Landing fees and en-route charges	**598**	**-**	**598**	737	-	737
Engineering and other aircraft costs[4]	**702**	**(7)**	**709**	1,135	83	1,052
Property, IT and other costs[6]	**540**	**-**	**540**	597	28	569
Selling costs	**280**	**-**	**280**	340	-	340
Depreciation, amortisation and impairment[3]	**1,384**	**(13)**	**1,397**	2,335	716	1,619
Currency differences	**(32)**	**-**	**(32)**	87	-	87
Total expenditure on operations	**7,408**	**(173)**	**7,581**	12,480	2,695	9,785
Operating loss	**(2,487)**	**178**	**(2,665)**	(5,975)	(2,755)	(3,220)
Finance costs	**(608)**	**-**	**(608)**	(503)	-	(503)
Finance income	**5**	**-**	**5**	27	-	27
Net financing credit relating to pensions	**2**	**-**	**2**	11	-	11
Net currency retranslation (charges)/credits	**(63)**	**-**	**(63)**	183	-	183
Other non-operating credits	**101**	**-**	**101**	43	-	43
Total net non-operating costs	**(563)**	**-**	**(563)**	(239)	-	(239)
Loss before tax	**(3,050)**	**178**	**(3,228)**	(6,214)	(2,755)	(3,459)
Tax	**428**	**(25)**	**453**	638	364	274
Loss after tax for the period	**(2,622)**	**153**	**(2,775)**	(5,576)	(2,391)	(3,185)

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. The restatement increased the loss after tax before exceptional items for the nine months to September 30, 2020 by €9 million.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES continued

€ million	Reported 2021	Exceptional items	Before exceptional items 2021	Reported 2020[1]	Exceptional items	Before exceptional items 2020
	Three months to September 30					
Passenger revenue[2]	**1,999**	**-**	**1,999**	715	(22)	737
Cargo revenue	**405**	**-**	**405**	302	-	302
Other revenue	**305**	**-**	**305**	200	-	200
Total revenue	**2,709**	**-**	**2,709**	1,217	(22)	1,239
Employee costs[5]	**811**	**-**	**811**	982	269	713
Fuel, oil costs and emissions charges[2]	**552**	**(13)**	**565**	700	330	370
Handling, catering and other operating costs	**421**	**-**	**421**	227	-	227
Landing fees and en-route charges	**311**	**-**	**311**	198	-	198
Engineering and other aircraft costs[4]	**283**	**(7)**	**290**	292	6	286
Property, IT and other costs[6]	**187**	**-**	**187**	169	6	163
Selling costs	**121**	**-**	**121**	72	-	72
Depreciation, amortisation and impairment[3]	**464**	**(13)**	**477**	490	(15)	505
Currency differences	**11**	**-**	**11**	10	-	10
Total expenditure on operations	**3,161**	**(33)**	**3,194**	3,140	596	2,544
Operating loss	**(452)**	**33**	**(485)**	(1,923)	(618)	(1,305)
Finance costs	**(245)**	**-**	**(245)**	(161)	-	(161)
Finance income	**1**	**-**	**1**	4	-	4
Net financing credit relating to pensions	**1**	**-**	**1**	2	-	2
Net currency retranslation (charges)/credits	**(50)**	**-**	**(50)**	86	-	86
Other non-operating credits/(charges)	**31**	**-**	**31**	(7)	-	(7)
Total net non-operating costs	**(262)**	**-**	**(262)**	(76)	-	(76)
Loss before tax	**(714)**	**33**	**(747)**	(1,999)	(618)	(1,381)
Tax	**140**	**(1)**	**141**	236	68	168
Loss after tax for the period	**(574)**	**32**	**(606)**	(1,763)	(550)	(1,213)

[1]The 2020 results have been restated for the treatment of administration costs associated with the Group's defined benefit pension schemes. The restatement increased the loss after tax before exceptional items for the three months to September 30, 2020 by €2 million.

[2] Discontinuation of hedge accounting

The exceptional credit to Fuel, oil costs and emissions charges of €153 million (nine months to September 30, 2020: charge of €1,599 million) is represented by a credit of €151 million (nine months to September 30, 2020: charge of €1,726 million) relating to fuel derivatives and a credit of €2 million (nine months to September 30, 2020: credit of €127 million) related to the associated fuel foreign currency derivatives, and the exceptional credit to Passenger revenue of €5 million (nine months to September 30, 2020: charge of €60 million) relates to the derecognition of hedge accounting of the associated fuel derivatives and the foreign currency derivatives on forecast revenue and fuel consumption. These amounts have arisen from the substantial deterioration in demand for air travel caused by COVID-19, which has caused a significant level of hedged fuel purchases in US dollars and hedged passenger revenue transactions in a variety of foreign currencies to no longer be expected to occur, based on the Group's operating forecasts prevailing at the balance sheet date. The Group's risk management strategy had been to build up these hedges gradually over a three-year period when the level of forecast fuel consumption and passenger revenues were higher than current expectations. Accordingly, the hedge accounting for these transactions has been derecognised and the credits (2020: charges) recognised in the Income statement. The credit relating to revenue derivatives and fuel derivatives has been recorded in the Income statement within Passenger revenue and Fuel, oil and emission charges, respectively.

The related tax charge was €25 million (nine months to September 30, 2020: credit of €226 million).

[3] Impairment of fleet and associated assets and subsequent reversal

The exceptional impairment reversal of €13 million relates to four Airbus A320 aircraft in Vueling, previously permanently stood down in the fourth quarter of 2020, being stood up in the third quarter of 2021 following the successful slot allocation at Paris Orly and the resultant increased capacity. Of the fleet impairment, €1 million was recorded within Property, plant and equipment relating to owned aircraft and €12 million was recorded within Right of use assets relating to leased aircraft. The exceptional impairment reversal is recorded within Depreciation, amortisation and impairment in the Income statement.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES continued

The total exceptional impairment expense for the nine months to September 30, 2020 of €716 million was represented by an impairment of fleet assets of €712 million and an impairment of other assets of €4 million. The fleet impairment related to 68 aircraft, their associated engines and rotable inventories that were stood down permanently and 2 further aircraft which were impaired down to their recoverable value at September 30, 2020, which included 32 Boeing 747 aircraft, 15 Airbus A340 aircraft, 11 Airbus A320 aircraft, 4 Airbus A330-200 aircraft, 1 Airbus A321 aircraft, 1 Airbus A319 aircraft, 2 Boeing 777-200 aircraft and 4 Embraer E170 aircraft. Of the fleet impairment, €601 million was recorded within Property, plant and equipment relating to owned aircraft and €111 million was recorded within Right of use assets relating to leased aircraft. The exceptional impairment expenses were recorded within Depreciation, amortisation and impairment in the Income statement.

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

There is no tax impact on the recognition of this credit (nine months to September 30, 2020: credit of €81 million).

[4] Engineering and other aircraft costs

The exceptional credit of €7 million (nine months to September 30, 2020: charge of €83 million) relates to the reversal of contractual lease provisions for those aircraft in Vueling that have been stood up during quarter 3 of 2021, where the estimated costs to fulfil the hand back conditions will be recognised over the remaining operating activity of the aircraft. In the nine months to September 30, 2020, the exceptional charge included an inventory write down expense of €71 million and a charge relating to contractual lease provisions of €12 million. The inventory write down expense represented those expendable inventories that, given the asset impairments, were no longer expected to be utilised. The charge relating to the recognition of contractual lease provisions represented the estimation of the additional cost to fulfil the hand back conditions associated with the leased aircraft that were permanently stood down and impaired. The exceptional credit (nine months to September 30, 2020: charge) is recorded within Engineering and other aircraft costs.

There is no tax impact on the recognition of this credit (nine months to September 30, 2020: credit of €6 million).

Additional exceptional costs for the nine months to September 30, 2020:

[5] Restructuring costs

The exceptional charge of €275 million (comprising €269 million of employee severance pay and €6 million of associated legal costs) represented the Group wide restructuring programme, which arose in light of COVID-19 and resized the Group for the near term. While the restructuring programme affected all of the Group's operating companies, the exceptional charge as at September 30, 2020, related to British Airways and Aer Lingus only due to the status of negotiations with employees and their representatives.

The related tax credit was €51 million.

[6] Settlement provision

The exceptional charge of €22 million represented the fine issued by the Information Commissioner's Office in the United Kingdom, relating to the theft of customer data at British Airways in 2018. The exceptional charge was recorded within Property, IT and other costs in the Income statement, with a corresponding amount recorded in Provisions.

There was no tax impact on the recognition of this charge.