IAG full year results 2022

Strong recovery in profits in 2022

- In 2022 we saw a strong recovery in our core markets as COVID-19 restrictions were lifted, which drove revenue momentum and a return to profit with significantly positive operating cash flow
- Further recovery in profits expected in 2023, with full year operating profit before exceptional items expected to be in the range of €1.8 to €2.3 billion, based on current foreign exchange rates and jet fuel forward prices. However, we are mindful of uncertainty in the macro environment and fuel and non-fuel cost inflation
- Committed to generating long-term shareholder value and confident in returning to pre-COVID-19 levels of operating profit within the next few years

Luis Gallego, IAG Chief Executive Officer, said:

"2022 was a year of strong recovery, driven by sustained leisure demand and markets reopening. At this point of the year we continue to see robust forward-bookings, while also remaining conscious of global macro-economic uncertainties. We are transforming our businesses, with the intention of returning IAG to pre-COVID levels of profit within the next few years, through major initiatives to improve customer experience and operational performance. Our unique group structure allows us to maximise revenue and cost synergies, and invest capital to achieve strong returns, whilst continuing progress towards net zero by 2050.

"With the acquisition of Air Europa now agreed but subject to regulatory and other approvals which could take around 18 months, we are intending to welcome another leading airline to the Group. This acquisition will enable us to grow Madrid as a hub, offering a gateway to Latin America and beyond, with benefits for customers, employees and shareholders.

"I would like to thank the teams across IAG for their exceptionally hard work in addressing the challenges of ramping up the operation throughout the year."

Financial summary:

	Year to December 31		Three months to December 31	
Statutory results (€ million)	**2022**	2021	**2022**	2021
Total revenue	**23,066**	8,455	**6,386**	3,534
Operating profit/(loss)	**1,256**	(2,765)	**486**	(278)
Profit/(loss) after tax	**431**	(2,933)	**232**	(311)
Basic earnings/(loss) per share (€ cents)	**8.7**	(59.1)		
Cash, cash equivalents and interest-bearing deposits	**9,599**	7,943		
Borrowings	**19,984**	19,610		

Alternative performance measures (€ million)	**2022**	2021	**2022**	2021
Total revenue before exceptional items	**23,066**	8,450	**6,386**	3,534
Operating profit/(loss) before exceptional items	**1,225**	(2,970)	**486**	(305)
Profit/(loss) after tax before exceptional items	**402**	(3,038)	**232**	(263)
Adjusted earnings/(loss) per share (€ cents)	**5.6**	(61.2)		
Net debt	**10,385**	11,667		
Total liquidity[1]	**13,999**	11,986		

1 Total liquidity includes Cash, cash equivalents and interest-bearing deposits, plus committed and undrawn general and aircraft-specific financing facilities

- Significant improvement to our financial performance with operating profit before exceptional items of €1,225 million, an increase of €4,195 million compared to full year 2021
- Restored 87 per cent of 2019 capacity, measured in available seat kilometres (ASKs), by quarter 4 and 78 per cent in the full year
- Passenger unit revenue was 11.0% higher than in 2019, with the increase seen particularly in the second half of 2022, with strong leisure traffic recovery and business traffic steadily improving. The premium leisure segment performed very well.
- Higher non-fuel unit costs, up 24.1% versus 2019, driven by supplier cost inflation net of transformation initiatives, capacity levels still below 2019 and foreign exchange
- Fuel unit cost was up 30.2% versus 2019, negatively impacted by significant rise in commodity prices for jet fuel, following the Russian invasion of Ukraine in February 2022, partially offset by the benefit of our hedging policy
- Invested €3.9 billion to make important improvements in fleet, customer offerings, IT infrastructure and sustainability
- Reduction in net debt to €10.4 billion, driven by operating profit and significant working capital inflows
- Liquidity continued to strengthen to €14.0 billion at December 31, 2022, from €12.0 billion at the end of 2021

Good progress against strategic objectives in 2022

- Investing for our customers:
  - Quickly recovered operations in our main hubs in Madrid, Dublin and Barcelona
  - Iberia recognised as the most punctual European airline in 2022. Iberia Express and Vueling also ranked as the third and fourth most punctual airlines in Europe[1].
  - Significant focus on rebuilding operational stability at London Heathrow, with British Airways' operational performance improving through the summer, with 7,400 new colleagues recruited in 2022
  - 27 deliveries of modern, fuel-efficient aircraft and 59 longhaul aircraft embodied with next generation products for British Airways and Iberia at the end of 2022
  - Ordered 109 new shorthaul aircraft, bringing fuel efficiency benefits of up to 20 per cent versus the aircraft they will replace
- Carbon intensity, measured as grammes of CO_2 per passenger kilometre, 7 per cent lower than in 2019
- Agreement with Globalia to acquire the remaining 80 per cent equity of Air Europa, following the acquisition of a 20 per cent equity stake in August 2022. The transaction is subject to regulatory and other approvals which could take around 18 months
- Funding level of British Airways' main pension scheme (NAPS) improved such that the scheme was in surplus on its triennial funding basis and no deficit recovery payments were made during 2022 or required in the foreseeable future

Trading outlook

Full year 2023 capacity (ASKs) of approximately 98 per cent of the 2019 level, with quarter 1, 2023 approximately 96 per cent of the quarter 1, 2019 level.

Full year 2023 operating profit before exceptional items expected to be in the range of €1.8 to €2.3 billion, with most of the improvement over 2022 in the first half of the year. Quarter 1, 2023 operating loss of approximately €200 million. This assumes no further setbacks related to COVID-19 or material impacts from geopolitical developments.

Capital expenditure for 2023 of approximately €4.0 billion, subject to the timing of aircraft deliveries. Net debt broadly maintained at the December 31, 2022 level of €10.4 billion by the end of 2023.

This guidance is based on forward jet fuel prices and spot foreign exchange rates at February 23, 2023.

IAG plans to update the market with further strategic and financial information at a Capital Markets event later in 2023.

Notes

1 Cirium report 'The On-time Performance Review 2022 Airlines & Airports', January 2023

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CONSOLIDATED INCOME STATEMENT

€ million	Year to December 31 2022	2021	Higher/ (lower)	Three months to December 31 2022	2021	Higher/ (lower)
Passenger revenue	**19,458**	5,835	nm	**5,438**	2,695	nm
Cargo revenue	**1,615**	1,673	(3.5)%	**399**	499	(20.0)%
Other revenue	**1,993**	947	nm	**549**	340	61.5 %
Total revenue	**23,066**	8,455	nm	**6,386**	3,534	80.7 %
Employee costs	**4,647**	3,013	54.2 %	**1,230**	914	34.6 %
Fuel, oil costs and emissions charges	**6,120**	1,781	nm	**1,720**	732	nm
Handling, catering and other operating costs	**2,971**	1,308	nm	**828**	520	59.2 %
Landing fees and en-route charges	**1,890**	923	nm	**499**	325	53.5 %
Engineering and other aircraft costs	**2,101**	1,085	93.6 %	**594**	383	55.1 %
Property, IT and other costs	**950**	758	25.3 %	**280**	218	28.4 %
Selling costs	**920**	434	nm	**249**	154	61.7 %
Depreciation, amortisation and impairment	**2,070**	1,932	7.1 %	**539**	548	(1.6)%
Currency differences	**141**	(14)	nm	**(39)**	18	nm
Total expenditure on operations	**21,810**	11,220	94.4 %	**5,900**	3,812	54.8 %
Operating profit/(loss)	**1,256**	(2,765)	nm	**486**	(278)	nm
Finance costs	**(1,017)**	(830)	22.5 %	**(294)**	(218)	34.9 %
Finance income	**52**	13	nm	**41**	8	nm
Net change in fair value of financial instruments	**81**	89	(9.0)%	**(51)**	85	nm
Net financing credit/(charge) relating to pensions	**26**	(2)	nm	**7**	(4)	nm
Net currency retranslation (charges)/credits	**(115)**	(82)	40.2 %	**190**	(19)	nm
Other non-operating credits/(charges)	**132**	70	88.6 %	**(130)**	(31)	nm
Total net non-operating costs	**(841)**	(742)	13.3 %	**(237)**	(179)	32.4 %
Profit/(loss) before tax	**415**	(3,507)	nm	**249**	(457)	nm
Tax	**16**	574	(97.2)%	**(17)**	146	nm
Profit/(loss) after tax	**431**	(2,933)	nm	**232**	(311)	nm

ALTERNATIVE PERFORMANCE MEASURES

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

	Year to December 31 Before exceptional items			Three months to December 31 Before exceptional items		
€ million	**2022**	2021	Higher/ (lower)	**2022**	2021	Higher/ (lower)
Passenger revenue	**19,458**	5,830	nm	**5,438**	2,695	nm
Cargo revenue	**1,615**	1,673	(3.5)%	**399**	499	(20.0)%
Other revenue	**1,993**	947	nm	**549**	340	61.5 %
Total revenue	**23,066**	8,450	nm	**6,386**	3,534	80.7 %
Employee costs	**4,647**	3,031	53.3 %	**1,230**	932	32.0 %
Fuel, oil costs and emissions charges	**6,120**	1,935	nm	**1,720**	733	nm
Handling, catering and other operating costs	**2,971**	1,308	nm	**828**	520	59.2 %
Landing fees and en-route charges	**1,890**	923	nm	**499**	325	53.5 %
Engineering and other aircraft costs	**2,101**	1,092	92.4 %	**594**	383	55.1 %
Property, IT and other costs	**973**	758	28.4 %	**280**	218	28.4 %
Selling costs	**920**	434	nm	**249**	154	61.7 %
Depreciation, amortisation and impairment	**2,078**	1,953	6.4 %	**539**	556	(3.1)%
Currency differences	**141**	(14)	nm	**(39)**	18	nm
Total expenditure on operations	**21,841**	11,420	91.3 %	**5,900**	3,839	53.7 %
Operating profit/(loss)	**1,225**	(2,970)	nm	**486**	(305)	nm
Finance costs	**(1,017)**	(830)	22.5 %	**(294)**	(218)	34.9 %
Finance income	**52**	13	nm	**41**	8	nm
Net change in fair value of financial instruments	**81**	89	(9.0)%	**(51)**	85	nm
Net financing credit/(charge) relating to pensions	**26**	(2)	nm	**7**	(4)	nm
Net currency retranslation (charges)/credits	**(115)**	(82)	40.2 %	**190**	(19)	nm
Other non-operating credits/(charges)	**132**	145	(9.0)%	**(130)**	44	nm
Total net non-operating costs	**(841)**	(667)	26.1 %	**(237)**	(104)	nm
Profit/(loss) before tax	**384**	(3,637)	nm	**249**	(409)	nm
Tax	**18**	599	(97.0)%	**(17)**	146	nm
Profit/(loss) after tax	**402**	(3,038)	nm	**232**	(263)	nm

Operating figures	**2022**	2021	Higher/ (lower)	**2022**	2021	Higher/ (lower)
Available seat kilometres (ASK million)	**263,592**	121,965	nm	**71,048**	47,842	48.5 %
Revenue passenger kilometres (RPK million)	**215,749**	78,689	nm	**59,125**	34,225	72.8 %
Seat factor (per cent)	**81.8**	64.5	17.3 pts	**83.2**	71.5	11.7 pts
Passenger numbers (thousands)	**94,726**	38,864	nm	**25,222**	15,309	64.8 %
Cargo tonne kilometres (CTK million)	**3,980**	3,970	0.3 %	**1,090**	1,129	(3.5)%
Sold cargo tonnes (thousands)	**561**	539	4.1 %	**153**	157	(2.5)%
Sectors	**619,122**	307,519	nm	**162,285**	114,686	41.5 %
Block hours (hours)	**1,781,829**	892,455	99.7 %	**473,511**	328,739	44.0 %
Average manpower equivalent[1]	**59,505**	50,222	18.5 %	**63,790**	49,114	29.9 %
Aircraft in service	**558**	531	5.1 %	**n/a**	n/a	n/a
Passenger revenue per RPK (€ cents)	**9.02**	7.41	21.7 %	**9.20**	7.87	16.8 %
Passenger revenue per ASK (€ cents)	**7.38**	4.78	54.4 %	**7.65**	5.63	35.9 %
Cargo revenue per CTK (€ cents)	**40.58**	42.14	(3.7)%	**36.61**	44.20	(17.2)%
Fuel cost per ASK (€ cents)	**2.32**	1.59	46.3 %	**2.42**	1.53	58.0 %
Non-fuel costs per ASK (€ cents)	**5.96**	7.78	(23.3)%	**5.88**	6.49	(9.4)%
Total cost per ASK (€ cents)	**8.29**	9.36	(11.5)%	**8.30**	8.02	3.5 %

1 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

IAG capacity

The year 2022 was a year of rebuilding capacity, with COVID-19 related travel restrictions eased or removed in most of the Group's markets, allowing the airline industry to substantially restore capacity towards levels seen in 2019, in line with strong pent-up demand for travel. For the year, IAG capacity, measured in available seat kilometres (ASKs), reached 78.0 per cent of 2019. Each airline had a different recovery path, reflecting its respective network, markets served and constraints at hub and other airports. Group capacity increased steadily over the quarters, starting at 65.1 per cent of 2019 in quarter 1 and reaching 86.6 per cent of 2019 in quarter 4.

Proportion of 2019 passenger capacity operated by quarter

Year to December 31, 2022 (per cent)	Q1	Q2	Q3	Q4	Total
Aer Lingus	69.0	85.6	89.9	98.5	86.8
British Airways	57.4	69.1	74.2	79.8	70.3
Iberia	84.7	87.0	84.2	92.8	87.1
Level	30.3	60.7	55.5	51.3	50.5
Vueling	72.9	100.2	102.9	111.3	98.2
Group	**65.1**	**78.0**	**81.1**	**86.6**	**78.0**

Capacity operated as a percentage of 2019 by quarter by region

Year to December 31, 2022 (per cent)	Q1	Q2	Q3	Q4	Total
Domestic	90.1	105.1	101.5	104.0	100.6
Europe	63.3	84.7	88.2	96.0	84.0
North America	62.6	83.8	92.0	94.0	83.9
Latin America and Caribbean	90.2	81.0	75.0	85.5	82.8
Africa, Middle East and South Asia	64.3	73.9	79.0	88.8	76.4
Asia Pacific	5.9	9.5	10.4	19.2	11.3
Total network	**65.1**	**78.0**	**81.1**	**86.6**	**78.0**

The impact of COVID-19 and related travel restrictions was significantly less than in 2021, when many countries were still in lockdown or had severe travel restrictions in place. The strong recovery in demand and traffic was reflected in the Group's passenger load factor, which reached 81.8 per cent for the year, down just 2.8 points from 2019. The recovery increased across the year, with the passenger load factor in quarter 1 at 72.2 per cent and quarter 4 rising to 83.2 per cent.

Capacity operated out of London Heathrow airport was lower than originally planned at the start of the year. British Airways' capacity was capped by Heathrow Airport and along with limited access to South Asia, capacity reached 70.3 per cent of 2019 levels. In addition, there was an impact from the Omicron variant of COVID-19 in January and February. As global travel restrictions eased, British Airways restarted routes such as Sydney, San Jose in California, Tokyo and Hong Kong. In March 2022 British Airways also launched its new shorthaul Gatwick subsidiary, BA Euroflyer, operating to 35 new destinations in the summer, flying under the British Airways brand.

Iberia's capacity saw increasing recovery over the course of the year, after quarter 1 was negatively impacted by Omicron. Performance improved steadily, especially in the Latin America and Caribbean (LACAR) region, North America and Europe. For the year, Iberia significantly grew its capacity in LACAR versus 2021 by increasing frequencies to destinations such as Mexico and Colombia. Load factor was at 84.6 per cent in this region, only 0.8 points lower than 2019. The increase in capacity versus 2019 was lower in quarter 3 than quarter 2, as in 2019 the seasonal increase in Iberia's schedule to LACAR for the peak summer months was greater than in 2022.

Vueling adopted a new strategy to reduce its seasonality and increase aircraft utilisation during the winter travel months. The airline started seeing the results of this strategy in quarter 4, when Vueling had capacity growth above 2019 levels by 11.3 per cent, despite fewer aircraft in service, with new routes and growth into existing markets such as the Canary Islands.

Aer Lingus was able to restore the majority of its transatlantic services and in addition operated three transatlantic services from its new Manchester Airport base in the UK, all of which started in late 2021. These services represented 13 per cent of Aer Lingus' transatlantic capacity and 8 per cent of its total network in 2022. The Manchester base supported Aer Lingus in restoring longhaul passenger capacity to similar levels to 2019 by the end of the year.

IAG regional capacity

Year to December 31, 2022	ASKs higher/(lower) v2019	ASKs higher/(lower) v2021	Passenger load factor (per cent)	Higher/(lower) v2019	Higher/(lower) v2021
Domestic	0.6%	36.9%	85.5	(1.7)pts	10.6pts
Europe	(16.0%)	138.2%	81.5	(2.1)pts	12.4pts
North America	(16.1%)	192.9%	79.3	(4.8)pts	29.9pts
Latin America and Caribbean	(17.2%)	73.5%	85.1	(1.3)pts	15.3pts
Africa, Middle East and South Asia	(23.6%)	130.0%	81.1	(1.9)pts	13.7pts
Asia Pacific	(88.7%)	(7.1%)	84.0	(1.8)pts	44.6pts
Total network	**(22.0%)**	**116.1%**	**81.8**	**(2.8)pts**	**17.3pts**

Domestic and Europe

Capacity in IAG's Domestic markets recovered to a greater extent than other regions, with capacity slightly higher than 2019 by 0.6 per cent and higher than 2021 by 36.9 per cent. Iberia and Vueling benefited from strong leisure demand to the Canary and Balearic Islands, with capacity increases above 2019. Passenger load factor for the region remained the highest for the Group at 85.5 per cent, down 1.7 points versus 2019 and up 10.6 points versus 2021.

The Group's capacity in Europe was 16.0 per cent lower than 2019; however, it recovered to 138.2 per cent above 2021 as demand for travel increased. Outside of Russia and the countries neighbouring Ukraine, the impact of the conflict has been relatively limited in this region. Vueling expanded its operations from Paris Orly in November 2021, with an additional 18 slots that allowed Vueling to base an additional four aircraft at the airport, taking its total to nine at an airport which is highly slot-constrained. British Airways launched a new route to Nuremberg in Germany and BA Cityflyer launched a number of new routes from London City, including to Barcelona, San Sebastian and Thessaloniki. Iberia reopened its route to Bergen in Norway. Passenger load factor for the region was down 2.1 points versus 2019 to 81.5 per cent and was up 12.4 points versus 2021.

North America

IAG's North American capacity was 16.1 per cent lower than 2019 and was up significantly versus 2021, by 192.9 per cent. The United States Government eased its COVID-19 travel restrictions in November 2021 for vaccinated passengers and removed the need for a COVID-19 test prior to arrival in June 2022. British Airways was able to substantially restore its network to North America by the end of the year by reopening seven routes and adding a new service to Portland, Oregon. During the year, Iberia reopened flights to San Francisco and launched new routes to Washington and Dallas. Aer Lingus reopened six routes to North America during the year. Passenger load factor for the region was down 4.8 points versus 2019 to 79.3 per cent and was up 29.9 points versus 2021.

Latin America and Caribbean (LACAR)

IAG's capacity in LACAR was down 17.2 per cent on 2019 but increased 73.5 per cent on 2021. Demand in this region was strong, with the Group benefiting from pent-up demand as COVID-19 travel restrictions to LACAR were lifted earlier than in other regions. Iberia significantly increased its capacity to LACAR during the year, with Mexico up to three flights daily and increased frequencies for Bogotá, Colombia from 10 to 14 flights per week in February 2022. Passenger load factor was down 1.3 points versus 2019 at 85.1 per cent and was up 15.3 points versus 2021.

Africa, Middle East and South Asia (AMESA)

Capacity to this region was down 23.6 per cent versus 2019 and up significantly versus 2021. British Airways had restored almost 90 per cent of its 2019 capacity to AMESA by quarter 4 and during the year reopened routes to Morocco, Doha and Cape Town. Iberia had strong results in Israel as Tel Aviv recovered faster than expected, and North Africa also performed well with good recovery to Morocco. Vueling launched new routes to Cairo, Alexandria and Amman. Passenger load factor for the region was down 1.9 points versus 2019 at 81.1 per cent and was up 13.7 points versus 2021.

Asia Pacific

During 2022, the Asia Pacific region remained the most capacity-constrained region, as strict travel restrictions continued to severely impact demand. Australia opened its borders to international travel in February 2022, while other countries such as Singapore, Japan and Hong Kong lifted travel restrictions later, while China did not lift restrictions until January 2023. During the year, British Airways restarted routes to Sydney, Hong Kong and Tokyo. Passenger load factor for the region was down 1.8 points versus 2019 at 84.0 per cent and was up 44.6 points versus 2021.

Basis of Preparation

At December 31, 2022, the Group had total liquidity of €13,999 million, comprising cash, cash equivalents and interest-bearing deposits of €9,599 million, €3,284 million of committed and undrawn general facilities, and a further €1,116 million of committed and undrawn aircraft-specific facilities. The Group has been successful in raising financing since the outbreak of COVID-19, having financed all aircraft deliveries in 2020, 2021 and 2022. The Group continues to secure aircraft financing on long-term arrangements.

In its assessment of going concern over the period to June 30, 2024 (the 'going concern period'), the Group has prepared extensive modelling, including considering a plausible but severe downside scenario and further sensitivities to the downside scenario. Having reviewed these scenarios and sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern period, and hence continue to adopt the going concern basis in preparing the consolidated financial statements.

In adopting the going concern basis of accounting, the consolidated financial statements have been prepared without the inclusion of a material uncertainty, which has been removed since the 2021 Annual Report and Accounts. The removal of the material uncertainty arises from the reduction in uncertainty over the going concern period due to both the continued recovery subsequent to the COVID-19 pandemic and the strength of the Group's liquidity at December 31, 2022.

Summary

The Group was able to substantially restore its capacity by the end of the year, having operated a significantly reduced schedule in 2020 and 2021 due to the impact of the COVID-19 pandemic. As capacity was increasingly restored through the year the operating result improved, with the third quarter, which includes the airlines' summer peak seasons, approaching levels of profitability seen in 2019. Fuel prices were significantly higher than both the previous year and 2019 and the airline sector also experienced high supplier price inflation. Due to the strong demand, passenger unit revenues also rose above those in 2019, thus allowing the airlines to recover a substantial portion of the fuel price increase and other cost inflation.

The net result was an operating profit for the year of €1,256 million, versus an operating loss of €2,765 million in 2021. The profit after tax for the year was €431 million, versus a loss of €2,933 million in 2021.

Profit/(loss) for the year

Statutory results € million	2022	2021	Higher/ (lower) vly
Operating profit/(loss)	**1,256**	(2,765)	4,021
Profit/(loss) before tax	**415**	(3,507)	3,922
Profit/(loss) after tax	**431**	(2,933)	3,364

The biggest driver of the year-on-year changes in revenues and costs was the significant restoration of the airlines' flying programmes, linked to the opening of markets and recovery from the substantial impacts of COVID-19 in 2020 and 2021. Passenger capacity, measured in ASKs, was more than double the level of the previous year, up 116 per cent on 2021. Such an increase has made percentage increases not meaningful and hence they are excluded from the tables below.

Summary of exceptional items

The Group uses Alternative Performance Measures (APMs) to analyse the underlying results of the business excluding exceptional items, which 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.

In 2020 and 2021, the Group recorded a number of exceptional items arising as a direct result of COVID-19, which during 2021 principally related to the fair value movements on derivatives de-designated from hedge accounting and the reversal of the impairment of certain aircraft stood back up in 2021. In 2021 all items were associated with the impact of COVID-19, except for the termination payment to Globalia.

During the course of 2022 the Group recorded exceptional credits relating to the partial reversal of a fine issued to British Airways in 2010 and the reversal of the impairment of certain aircraft returned to service in 2022.

A summary of the exceptional items relating to 2022 and 2021 is given below, with more detail in the Alternative Performance Measures section, including a breakdown of the exceptional items by operating company.

		Credit/(charge) to the Income statement € million	
Income statement line	Exceptional item description	2022	2021
Passenger revenue	Discontinuation of hedge accounting for foreign currency derivatives for revenue	**-**	5
Employee costs	Restructuring costs	**-**	18
Fuel, oil and emissions costs	Discontinuation of hedge accounting for fuel and associated foreign exchange derivatives	**-**	154
Engineering and other aircraft costs	Inventory write down and charge in relation to contractual lease provisions	**-**	7
Property, IT and other costs	Reversal of fine	**23**	-
Depreciation, amortisation and impairment	Impairment reversal of fleet and associated assets	**8**	21
Non-operating costs	Termination payment to Globalia	**-**	(75)
Tax	Tax on exceptional items	**(2)**	(25)

Excluding the impact of the exceptional items shown above, the operating profit for 2022 was €1,225 million, €4,195 million better than the operating loss of €2,970 million for 2021, reflecting the continued recovery in capacity. The profit after tax and before exceptional items was €402 million, €3,440 million higher than the 2021 loss of €3,038 million.

Alternative Performance Measures (before exceptional items) € million	2022	2021	Higher/ (lower) vly
Operating profit/(loss)	**1,225**	(2,970)	4,195
Profit/(loss) before tax	**384**	(3,637)	4,021
Profit/(loss) after tax	**402**	(3,038)	3,440

Revenue

€ million	2022	2021	Higher/ (lower) vly
Passenger revenue[1]	**19,458**	5,835	13,623
Cargo revenue	**1,615**	1,673	(58)
Other revenue	**1,993**	947	1,046
Total revenue	**23,066**	8,455	14,611

1 For 2021 includes an exceptional credit of €5 million related to discontinued hedge accounting of revenue foreign currency derivatives. Further information is given in the Alternative Performance Measures section.

Total revenue increased €14,611 million versus 2021, of which €782 million was due to favourable exchange rate movements.

Passenger revenue

The increase in passenger revenue of €13,623 million was significantly ahead of the increase in passenger capacity, driven by higher yields and higher load factors than in 2021, linked to the reopening of markets, strong pent-up customer demand and increases in ticket prices to reflect a higher cost environment, with higher fuel prices and supplier price inflation, particularly following the outbreak of the war in Ukraine in February 2022.

The passenger load factor for the year of 81.8 per cent was 17.3 points higher than in 2021 and only 2.8 points lower than in 2019, with recovery increasingly seen as the year progressed and the final quarter of the year just 1.1 points lower than in 2019. Passenger yields, measured as passenger revenue per revenue passenger kilometre (RPK) were 21.7 per cent higher than in 2021 and up 14.7 per cent on 2019. The resulting passenger unit revenue (passenger revenue per ASK) for the year was 54.4 per cent higher than in 2021 and 11.0 per cent higher than in 2019. Passenger unit revenue also steadily rose as capacity was restored, being 11.7 per cent lower than 2019 in the first quarter, achieving 21.9 per cent higher than in 2019 in the summer peak of quarter 3 and still 16.4 per cent higher than 2019 in the fourth quarter.

Cargo revenue

Cargo revenue, at €1,615 million, was only 3.5 per cent lower than in 2021, which was a record year for cargo revenue and was linked to the number of additional cargo flights that were operated due to the severely restricted passenger flying programmes. In 2022, as passenger flying schedules were restored, there were significantly fewer cargo-only flights operating, with 502 during the year, compared with 3,788 in 2021. The early part of 2022 experienced global supply chain disruption, which eased across the year as shipping capacity returned, with cargo volumes, measured in cargo tonne kilometres (CTKs), 15.9 per cent higher than the previous year in quarter 1, but lower than in the previous year by 3.5 per cent by quarter 4; total cargo carried for the year was almost the same as in 2021, up 0.3 per cent. Cargo yields, measured as cargo revenue per cargo tonne kilometre, were 3.7 per cent below those of 2021, although double those of 2019. As global supply chain issues eased, cargo yields also declined across the year, with quarter 1 up 6.5 per cent on the previous year but quarter 4 being 17.2 per cent lower than in quarter 4 2021. The yield environment is expected to moderate, along with global air cargo volumes, in 2023.

Other revenue

The largest Other revenue streams for the Group are BA Holidays, Iberia's Maintenance, Repair and Overhaul (MRO) and Handling businesses and IAG Loyalty. Other revenue from activities linked to the volume of passenger flying rose significantly with larger flying programmes, resulting in Other revenue more than double the level in 2021 and 3.7 per cent higher than that of 2019. BA Holidays bookings benefited from an increase in British Airways' flying schedule and the strong demand for leisure travel. Iberia's third party MRO and handling businesses improved, reflecting higher activity. IAG Loyalty improved (on both 2019 and 2021), with a significant growth in the number of Avios issued linked to its partnerships, including with American Express, resulting in an increase in customers collecting Avios and with higher average numbers of Avios collected per customer. IAG Loyalty also launched a new partnership with Barclays in 2022.

Operating costs

Total expenditure on operations rose from €11,220 million in 2021 to €21,810 million in 2022, linked to the higher volume of flights and passenger numbers, together with adverse foreign currency movements of €1,104 million, which were mainly due to the strengthening of the US dollar against the euro and pound sterling.

Employee costs

€ million	2022	2021	Higher/ (lower) vly
Employee costs[1]	**4,647**	3,013	1,634

1 For 2021 includes an exceptional credit of €18 million related to the release of restructuring provisions. Further information is given in the Alternative Performance Measures section.

The rise in Employee costs to €4,647 million versus €3,013 million in 2021 reflected an increase in employee numbers as the Group restored capacity and the end of the various government schemes to support employees and businesses during the most intense periods of the COVID-19 pandemic. The use of government wage support and related schemes in 2022 was limited to a small residual amount of €14 million, all in the first quarter, versus €555 million for the year in 2021. The Group agreed pay deals with the substantial majority of its bargaining groups and employees during 2022.

Fuel, oil and emissions costs

€ million	2022	2021	Higher/ (lower) vly
Fuel, oil costs and emissions charges[1]	**6,120**	1,781	4,339

1 For 2021 includes an exceptional credit of €154 million related to the discontinuation of hedge accounting for fuel derivatives and fuel foreign currency derivatives as a result of the impact of COVID-19. Further information is given in the Alternative Performance Measures section.

Fuel, oil and emissions charges were up significantly on 2021, up €4,339 million, reflecting increased flying volumes and the significant rise in commodity prices for jet fuel, most notably following the Russian invasion of Ukraine early in the year. Foreign exchange movements accounted for €505 million of the increase, principally due to the average US dollar exchange rates being stronger versus the euro and pound sterling in 2022 compared with 2021. Average spot prices in 2022 were 80 per cent higher than the previous year, with prices at the end of 2022 39 per cent higher than at the start of the year.

Jet fuel price trend ($ per metric tonne)

Fuel hedging

The Group seeks to reduce the impact of volatile commodity prices by hedging prices in advance. The Group's fuel hedging policy was approved by the Board in May 2021 and 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 policy allows for differentiation within the Group, to match the nature of each operating company, and the use of call options for a proportion of the hedging undertaken. The policy operates on a two-year rolling basis, with hedging of up to 60 per cent of anticipated requirements in the first 12 months and up to 30 per cent in the following 12 months, and with flexibility for low-cost airlines within the Group to adopt hedging up to 75 per cent in the first 12 months. For all Group airlines, hedging between 25 and 36 months ahead is only undertaken in exceptional circumstances.

Fuel consumption

The Group continued to benefit from reduced fuel consumption, associated with the investment in new fleet, together with the early retirement of older aircraft, including the retirement of 15 Airbus A340-600 and 32 Boeing 747-400 aircraft in quarter 2 of 2020. Increasing passenger load factors versus 2021 also contributed to reduced carbon intensity.

Supplier costs

€ million	**2022**	2021	Higher/ (lower) vly
Handling, catering and other operating costs	**2,971**	1,308	1,663
Landing fees and en-route charges	**1,890**	923	967
Engineering and other aircraft costs[1]	**2,101**	1,085	1,016
Property, IT and other costs[2]	**950**	758	192
Selling costs	**920**	434	486
Currency differences	**141**	(14)	155
Total Supplier costs	**8,973**	4,494	4,479

1 For 2021 includes an exceptional credit of €7 million related to the reversal, due to adjusted fleet plans, of a 2020 inventory write-down and a charge relating to contractual lease provisions. Further information is given in the Alternative Performance Measures section.
2 Includes an exceptional credit of €23 million related to the partial reversal of the historical fine, plus accrued interest, initially issued by the European Commission to British Airways for involvement in cartel activity and recognised as an exceptional charge in 2010. Further information is given in the Alternative Performance Measures section.

Total Supplier costs rose by €4,479 million to €8,973, double the level of 2021, reflecting the higher capacity operated. Supplier costs were impacted by higher levels of inflation, although the impact was partially mitigated by the Group's procurement initiatives.

Property, IT and other costs include an exceptional credit of €23 million, due to the partial reversal of a fine originally issued to British Airways in 2010.

Supplier costs include a €141 million currency differences charge in 2022 versus a €14 million currency differences credit in 2021; currency differences mainly reflect the retranslation of current financial assets and liabilities at the closing foreign exchange rate for the period, which in 2022 reflects the strengthening of the US dollar against both the euro and the pound sterling over the course of 2022. Total foreign currency impacts on Supplier costs, including currency differences, were €526 million adverse versus 2021.

Ownership costs

Ownership costs include depreciation, amortisation and impairment of tangible and intangible assets, including right of use assets.

€ million	**2022**	2021	Higher/ (lower) vly
Ownership costs[1]	**2,070**	1,932	138

1 Includes an exceptional credit of €8 million (2021: exceptional credit of €21 million) related to the partial reversal of an impairment relating to fleet assets that were previously stood down in 2020. Further information is given in the Alternative Performance Measures section.

The increase in ownership costs versus 2022 is mainly driven by the increase in the Group's fleet of aircraft, linked to the restoration of capacity and 27 deliveries of new aircraft in the year. An exceptional credit of €8 million was recorded in the year, reflecting the partial reversal of an impairment related to six aircraft previously stood down by Vueling in 2020 on the assumption these aircraft were no longer required and would not return to service; in 2022 it was determined the aircraft are required for Vueling's flying programme and they were stood up and re-entered service.

Aircraft fleet

In 2022, the in-service fleet increased by 27 aircraft, with 25 of the new aircraft delivered in 2022 in service by the end of the year; the remaining two entered service early in 2023. During the year 12 aircraft were removed from service, pending lease return or disposal, and 14 aircraft re-entered service, having previously been stood down from active service.

Number of fleet

Number of fleet in-service	**2022**	2021	Higher/ (lower) vly
Shorthaul	**381**	363	5.0%
Longhaul	**177**	168	5.4%
	558	531	5.1%

In addition to the in-service fleet, there were a further 18 aircraft not in service, made up of 16 aircraft held by the Group pending disposal or lease return and two aircraft delivered late in 2022 and not in service by December 31, 2022.

Exchange rate impact

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 IAG Loyalty. 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 typically generates a surplus in most currencies in which it does business, except the US dollar, for which capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. The Group hedges its economic exposure from transacting in foreign currencies but does not hedge the translation impact of reporting in euro.

Overall, in 2022 the Group operating profit before exceptional items was reduced by €322 million due to adverse exchange rate impacts.

Exchange rate impact before exceptional items

€ million Favourable/(adverse)	2022 **Translation impact**	 **Transaction impact**	 **Total exchange impact**
Total exchange impact on revenue	97	685	**782**
Total exchange impact on operating expenditures	(129)	(975)	**(1,104)**
Total exchange impact on operating profit	**(32)**	**(290)**	**(322)**

€ million Favourable/(adverse)	2021 Translation impact	 Transaction impact	 Total exchange impact
Total exchange impact on revenue	220	(163)	57
Total exchange impact on operating expenditures	(251)	292	41
Total exchange impact on operating loss	(31)	129	98

The exchange rates of the Group were as follows:

	2022	2021	Higher/ (lower) vly
Translation – Balance sheet			
£ to €	**1.14**	1.18	(2.8)%
Translation – Income statement (weighted average)			
£ to €	**1.17**	1.15	1.9%
Transaction (weighted average)			
£ to €	**1.17**	1.15	1.9%
€ to $	**1.05**	1.20	(12.6)%
£ to $	**1.23**	1.38	(10.8)%

Total net non-operating costs

Total net non-operating costs for the year were €841 million, versus €742 million in 2021. The main driver of the increase was Finance costs, which were up €187 million, reflecting a full year of interest on the debt raised in 2021 and the impact of higher interest rates on the Group's floating rate debt.

The net change in the fair value of financial instruments of €81 million reflects fair value adjustments at December 31, 2022 of IAG's convertible bond maturing in 2028, partially offset by the fair value movements on the convertible loan issued to Globalia during quarter 2 and converted into a 20 per cent equity stake in Air Europa Holdings in quarter 3. In 2021 non-operating costs included a €89 million non-cash credit relating to movements in the fair value of the €825 million IAG convertible bond.

Other non-operating credits of €132 million (2021: €70 million) represent net gains on derivative contracts for which hedge accounting is not applied; in 2021 the credit of €70 million is net of an exceptional non-operating charge of €75 million, relating to a settlement agreement reached with Globalia to terminate the previous agreements signed in 2019 and 2021 for Iberia to acquire the issued share capital of Air Europa Holdings.

Tax

The tax credit on the profit for the year was €16 million (2021: tax credit of €574 million), and the effective tax rate was negative 3.9 per cent (2021: 16.4 per cent).

The substantial majority of the Group's activities are taxed where the main operations are based: in the UK, Spain and Ireland, which had statutory corporation tax rates of 19 per cent, 25 per cent and 12.5 per cent respectively for 2022. The expected effective tax rate for the Group is determined by applying the relevant corporation tax rate to the profits or losses of each jurisdiction.

The geographical distribution of profits and losses in the Group results in the expected tax rate being 24.6 per cent for the year to December 31, 2022. The difference between the actual effective tax rate of negative 3.9 per cent and the expected tax rate of 24.6 per cent is primarily due to the recognition of previously unrecognised tax losses in the Group's Spanish companies.

The profit after tax for the year was €431 million (2021: loss of €2,933 million).

On March 3, 2021 the UK Chancellor of the Exchequer 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 Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a credit of €17 million (2021: €78 million credit) is recorded in the Income statement and a charge of €10 million (2021: €61 million credit) is recorded in Other comprehensive income.

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 Group is monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This proposed reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation, and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate. On December 15, 2022, the Council of the European Union formally adopted the EU Pillar Two Directive. Member States are expected to transpose the Directive into national law by the end of 2023. The Group is continuing to assess the implications of the reform and these will be determined when the relevant legislation is finalised.

Operating profit and loss performance of operating companies

	British Airways £ million		Aer Lingus € million		Iberia € million		Vueling € million	
Statutory	**2022**	Higher/ (lower) vly	**2022**	Higher/ (lower) vly	**2022**	Higher/ (lower) vly	**2022**	Higher/ (lower) vly
Passenger revenue	9,215	6,894	1,679	1,372	4,042	2,318	2,584	1,573
Cargo revenue	1,060	(37)	80	15	347	(47)	-	-
Other revenue	755	474	10	6	1,122	456	14	9
Total revenue	**11,030**	7,331	**1,769**	1,393	**5,511**	2,727	**2,598**	1,582
Fuel, oil costs and emissions charges	2,929	2,099	539	450	1,313	794	739	541
Employee costs	2,100	629	393	213	1,161	438	370	170
Supplier costs	4,595	2,407	646	341	2,284	872	1,088	464
Ownership costs[1]	1,084	105	146	6	371	21	206	(21)
Operating profit	**322**	2,091	**45**	383	**382**	602	**195**	428
Operating margin	*2.9%*	*50.7 pts*	*2.6%*	*92.6 pts*	*6.9%*	*14.8 pts*	*7.5%*	*30.5 pts*
Alternative Performance Measures[2]								
Passenger revenue	9,215	6,899	1,679	1,371	4,042	2,318	2,584	1,573
Cargo revenue	1,060	(37)	80	15	347	(47)	-	-
Other revenue	755	474	10	6	1,122	456	14	9
Total revenue before exceptional items	**11,030**	7,336	**1,769**	1,392	**5,511**	2,727	**2,598**	1,582
Fuel, oil costs and emissions charges	2,929	1,990	539	440	1,313	785	739	532
Employee costs	2,100	618	393	213	1,161	433	370	170
Supplier costs	4,614	2,426	646	341	2,284	872	1,088	457
Ownership costs[1]	1,084	99	146	6	371	21	214	(26)
Operating profit before exceptional items	**303**	2,203	**45**	392	**382**	616	**187**	449
Operating margin before exceptional items	*2.7%*	*54.1 pts*	*2.6%*	*94.7 pts*	*6.9%*	*15.3 pts*	*7.2%*	*33.0 pts*

1 Ownership costs reflects Depreciation, amortisation and impairment.
2 Further detail is provided in the Alternative Performance Measures section.

Review by operating company

All four of the airline operating companies saw a return to profitability in 2022, following the significant negative impacts of COVID-19 in 2020 and 2021. The shape of each airline's recovery was linked to the pace of the easing of government travel restrictions and re-opening of travel in their key markets, together with operating constraints at their hubs and other airports.

British Airways operated the lowest passenger capacity relative to 2019, with ASKs at 70.3 per cent of 2019, partly linked to constraints at London Heathrow Airport. Aer Lingus operated at 86.8 per cent of 2019, including the impact of a new base at Manchester Airport in the UK, with Iberia at 87.1 per cent and Vueling at 98.2 per cent, including its expanded operation at Paris Orly.

Operating profit/(loss) before exceptional items

	2022	2021	2019
British Airways (£ million)	**303**	(1,900)	1,890
Aer Lingus (€ million)	**45**	(347)	276
Iberia (€ million)	**382**	(234)	497
Vueling (€ million)	**187**	(262)	240

Iberia and Vueling saw the greatest return to profit versus 2019, linked to strong demand in the Domestic, Europe and LACAR regions. Aer Lingus saw an increasing recovery through the year and a strong quarter 3, in which there was strong pent-up demand for summer travel. British Airways also experienced rising profitability through the year, strong pent-up demand and significantly increased unit revenues versus 2019 in the second half of the year, as load factors improved and average yields rose.

All of the airlines experienced significantly higher fuel prices than in 2019 or 2021, although the impact was partly mitigated by the Group's hedging policy. Supplier costs were impacted by the high levels of price inflation and costs to restart the business following COVID-19 restrictions, with the impact lessened by procurement and transformation initiatives.

IAG Loyalty showed significant growth in its non-airline partner revenue streams, together with benefiting from the recovery in the Group's airlines, leading to operating profit before exceptional items of £240 million (€282 million), up from £113 million (€131 million) in 2021.

Capital expenditure

In 2022 the Group increased investment in its aircraft fleets, customer products and services, IT infrastructure and sustainability, as the business recovered, with capital expenditure of €3,875 million, compared with €744 million in 2021.

During 2022 the Group took delivery of aircraft delayed from 2020 and 2021 due to the impact of COVID-19, together with making pre-delivery payments for future aircraft deliveries, which had also been deferred. In 2022 the Group took delivery of 27 aircraft: 10 for British Airways, 15 for Iberia and two for Aer Lingus. Of these deliveries, 25 were aircraft acquired from Airbus and Boeing and two were leased directly from aircraft lessors. This contrasts with 2021, in which only five A320neo family aircraft were acquired from Airbus, with the remainder of the 11 deliveries in the year on direct lease arrangements from aircraft lessors.

Aircraft deliveries	**2022**	2021
Airbus A320 family	**12**	8
Airbus A330	**-**	1
Airbus A350	**12**	-
Boeing 787-10	**3**	-
Embraer E190	**-**	2
Total	**27**	11

Aircraft orders

The Group exercised options for 22 Airbus A320neo family aircraft in the first half of 2022, for delivery in 2024 and 2025. The Group entered into direct leasing contracts for and took delivery of two Airbus A320neo aircraft in the year. In October 2022 an Extraordinary Shareholders' Meeting approved the acquisition of a further 37 Airbus A320neo family aircraft and 50 Boeing 737 aircraft. The aircraft will replace Airbus A320ceo family aircraft and are up to 20 per cent more fuel-efficient than the aircraft they replace. These aircraft are expected to be delivered between 2024 and 2028.

Aircraft future deliveries at December 31	**2022**	2021
Airbus A320/A321	**91**	42
Airbus A321 XLR	**14**	14
Airbus A350	**12**	26
Boeing 737	**50**	-
Boeing 777-9	**18**	18
Boeing 787-10	**7**	10
Total	**192**	110

Following the orders placed in 2022, at December 31, 2022 the Group held options to acquire a further 246 aircraft from Airbus and Boeing.

Capital commitments

Capital expenditure authorised and contracted for at December 31, 2022 amounted to €13,749 million (2021: €10,911 million), with the increase attributable to the net of the aircraft deliveries and orders described above. Most of these commitments are denominated in US dollars.

The Group has certain rights to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2022.

Working capital

The Group saw strong booking inflows for travel in 2023 during the second half of 2022, reflecting expanded flying programmes as the recovery from COVID-19 continued, with capacity in 2023 expected to approach that of 2019 and with higher average yields. At December 31, 2022, Deferred revenue on ticket sales, which includes loyalty points (Avios), had risen €1,092 million on the previous year to close at €7,644 million. Of this balance, €7,318 million is included in current liabilities and €326 million within non-current liabilities, associated with the renewal of IAG Loyalty's multi-year contract with American Express in 2020.

Sales in advance of carriage, related to passenger ticket sales, were up €1,282 million versus 2021, at €5,014 million. Vouchers issued for future travel in lieu of a cash refund represented 13 per cent of sales in advance of carriage.

The value of loyalty points (Avios) issued and yet to be recognised in revenue was down €190 million versus 2021 at €2,630 million, reflecting the net impact of the unwind of the remainder of a pre-payment from American Express made in 2020 and the balance of Avios issued versus redeemed in 2022.

Trade receivables rose by €595 million to €1,330 million, related to the increased flying programmes and higher yields.

Trade and other payables rose by €1,497 million to €5,209 million, again due to the significantly increased flying schedule and cost inflation. In quarter 4, 2022, the period to which the Trade and other payables mainly relates, the Group operated 86.6 per cent of 2019 passenger capacity, versus 58.3 per cent operated in quarter 4 of 2021.

Funding and debt

IAG's long-term objectives when managing capital are: to safeguard the Group's ability to continue as a going concern and its long-term viability; to maintain an optimal capital structure in order 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 a stable outlook; IAG's credit ratings remained investment-grade up until the outbreak of COVID-19. The impact of COVID-19 on the Group and wider airline industry led to ratings falling by three notches for S&P and two notches for Moody's. The Group's current ratings (at February 23, 2023) are: S&P: BB, Moody's: Ba2.

Debt and capital

The Group monitors leverage using net debt to EBITDA before exceptional items, in addition to closely following measures used by the credit ratings agencies, including those based on total borrowings (gross debt).

The Group had previously set a target of net debt to EBITDA before exceptional items below 1.8 times.

In 2022, net debt to EBITDA before exceptional items was 3.1 times, compared with 1.4 times in 2019, reflecting a partial recovery in operating profitability in 2022 following the significant impact of COVID-19 in 2020 and 2021, together with the impact of debt raised during the pandemic to boost liquidity and resilience. In 2021, EBITDA was negative, rendering the net debt to EBITDA before exceptional items ratio not meaningful; the calculation for 2021 resulted in net debt to EBITDA before exceptional items of minus 11.5 times.

Net debt

€ million	2022	2021	Higher / (lower)
Debt	**19,610**	15,679	3,931
Cash, cash equivalents and interest-bearing deposits	**(7,943)**	(5,917)	(2,026)
Net debt at January 1	**11,667**	9,762	1,905
Increase in cash net of exchange	**(1,656)**	(2,026)	370
Movements in total borrowings			
Net cash outflow from repayments of borrowings and lease liabilities	**(2,505)**	(2,265)	(240)
Net cash inflow from new borrowings	**1,436**	4,817	(3,381)
Non-cash impact of new leases	**1,017**	518	499
(Decrease)/increase in net debt from regular financing	**(52)**	3,070	(3,122)
Exchange and other non-cash movements	**426**	861	(435)
Net debt at December 31	**10,385**	11,667	(1,282)

Net debt reduced by €1,282 million, principally due to the recovery in profitability and positive working capital from bookings into 2023, partially offset by the capital expenditure of €3,875 million. Gross debt increased by €374 million during the year to €19,984 million. Repayments exceeded new borrowings by €1,069 million, reflecting scheduled repayments of aircraft debt, new aircraft debt raised during the year and the repayments of non-aircraft financing as detailed below. Gross debt is subject to foreign exchange translation movements, as the majority of the Group's aircraft debt is denominated in US dollars. Over the course of 2022 the euro and pound sterling weakened against the US dollar which increased gross debt by €518 million.

Cash

Cash, cash equivalents and interest-bearing deposits

€ million	2022	2021	Higher/ (lower)
British Airways	**2,877**	1,986	891
Iberia	**2,389**	761	1,628
Vueling	**766**	441	325
Aer Lingus	**375**	228	147
IAG Loyalty	**993**	954	39
IAG and other Group companies	**2,199**	3,573	(1,374)
Cash, cash equivalents and interest-bearing deposits	**9,599**	7,943	1,656

British Airways, Iberia, Vueling and Aer Lingus all experienced significant positive operating cash flow in the year. The reduction in the balance of cash, cash equivalents and interest-bearing deposits in IAG and other Group companies reflects the repayment of unsecured debt in IAG and intragroup loan payments to Iberia and Aer Lingus.

Debt

Long-term aircraft financing was successfully secured during 2022 for all 27 of IAG's aircraft delivered in the year; financing for five of these aircraft for British Airways will be drawn in 2023. Committed aircraft financing facilities at December 31, 2022 includes an amount of €571 million for these five aircraft, together with one further Airbus A320neo, which will be delivered in 2023. Seven aircraft were financed via operating leases, reported as Lease liabilities, with five Iberia A350-900s financed through sale and leaseback transactions subsequent to the delivery of the aircraft and two Aer Lingus A320neos leased directly from aircraft lessors. All of British Airways' 10 deliveries and the remaining 10 Iberia aircraft were financed through finance leases, reported as Asset financed liabilities.

During 2022 IAG repaid its €500 million convertible bond originally issued in 2015 and Aer Lingus repaid €100 million of its loan from the Ireland Strategic Investment Fund (ISIF), thereby increasing the amount of its ISIF facility that is undrawn and available to draw in the future, if needed, to €300 million.

The maturity profile of the Group's Bank and other loans includes, in 2023, the maturity of a €500 million unsecured bond issued in 2019, along with the first amortisation of the syndicated loans to Iberia and Vueling drawn in 2020, which were partly backed by Spain's Instituto de Crédito Oficial (ICO). In 2026, the main maturity is a €2.3 billion (£2.0 billion) syndicated loan to British Airways drawn in 2021, which was partly backed by UK Export Finance (UKEF).

Maturity profile of Bank and other loans

€ million	2023	2024	2025	2026	After 2026[1]
Payment of debt principal	715	287	875	2,738	2,096

1 Includes the €825 million IAG 2028 convertible bond.

Equity

No equity was raised or repaid during the year, nor in 2021.

Liquidity facilities

During the year, the Group extended its facility with Ireland's ISIF for Aer Lingus by €200 million, bringing the total facility to €350 million. At December 31, 2022 €50 million had been drawn and €300 million was undrawn.

The Group also exercised a one-year extension to the availability of its $1,755 million (€1,654 million) Revolving Credit Facility (RCF), which now has committed availability until March 2025. The facility was originally agreed and executed with a syndicate of banks in 2021, with availability 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/or take-off and landing rights at London Heathrow or London Gatwick airports. This facility was undrawn at December 31, 2022.

The other major general facility for the Group is a £1,000 million (€1,143 million) committed credit facility for British Airways, partially guaranteed by UKEF, which was agreed and executed in 2021 and matures in 2026. This facility was also undrawn at December 31, 2022.

The Group also has certain other committed and undrawn general facilities, bringing total committed and undrawn general facilities at December 31, 2022 to €3,284 million (2021: €2,917 million).

The Group also holds €1,116 million of committed and undrawn aircraft financing facilities (2021: €1,126 million), including €620 million remaining undrawn from committed and undrawn sustainability-linked aircraft financing for British Airways agreed and committed in 2022 and to be drawn in 2023. The Group also has certain backstop financing arrangements, which can be used against certain future aircraft deliveries.

In total, the Group had €4,400 million of committed and undrawn general and aircraft facilities as at December 31, 2022 (2021: €4,043 million).

The facilities values above do not include the balance of certain shorter-term working capital facilities available to the Group's operating companies.

Dividends

No dividends were proposed or paid in 2022 (2021: nil).

Liquidity and cash flow

Total liquidity, measured as cash, cash equivalents and interest-bearing deposits of €9,599 million and committed and undrawn general and aircraft facilities of €4,400 million, was €13,999 million at December 31, 2022. This represented an increase of €2,013 million versus total liquidity of €11,986 million at the end of 2021.

Cash flow

The Group saw strong cash flow generation in 2022, mainly linked to a return to profitability and positive working capital movements, including an increase in bookings for future travel as the airlines' schedules increased and yields rose in the light of higher fuel prices and inflation. The resulting net cash flows from operating activities of €4,835 million was significantly higher than the net cash outflows from investing and financing activities, leading to an increase in Cash, cash equivalents and interest-bearing deposits of €1,656 million to €9,599 million.

Condensed cash flow summary

€ million	**2022**	2021	Movement
Net cash flows from operating activities	**4,835**	(141)	4,976
Net cash flows from investing activities	**(3,463)**	(181)	(3,282)
Net cash flows from financing activities	**(56)**	2,235	(2,291)
Net increase in cash and cash equivalents	**1,316**	1,913	(597)
Net foreign exchange differences	**(12)**	205	(217)
Cash and cash equivalents at January 1	**7,892**	5,774	2,118
Cash and cash equivalents at year end	**9,196**	7,892	1,304
Interest-bearing deposits maturing after more than three months	**403**	51	352
Cash, cash equivalents and interest-bearing deposits	**9,599**	7,943	1,656

Many of the significant cash flow items are already explained above, including in the sections covering operating costs, non-operating costs, capital expenditure, working capital and other initiatives and funding. Further detail of other movements is provided below.

Cash flows from operating activities

€ million	2022	2021	Movement
Operating profit/(loss)	**1,256**	(2,765)	4,021
Depreciation, amortisation and impairment	**2,070**	1,932	138
Movement in working capital	**1,884**	1,634	250
Payments related to restructuring	**(81)**	(161)	80
Pension contributions net of service costs	**(5)**	(15)	10
Provision and other non-cash movements	**627**	305	322
Settlement of derivatives where hedge accounting has been discontinued	**-**	(497)	497
Interest paid	**(824)**	(640)	(184)
Interest received	**42**	3	39
Tax (paid)/received	**(134)**	63	(197)
Net cash flows from operating activities	**4,835**	(141)	4,976

Restructuring payments principally include payments in Spain relating to redundancy programmes in Iberia agreed prior to 2020.

In December 2022, British Airways agreed the valuation of its main defined benefit pension scheme, the New Airways Pension Scheme (NAPS), with the scheme's Trustee, which resulted in a deficit as at the valuation date of March 31, 2021 of £1,650 million (€1,887 million). As at December 31, 2022, the scheme was over 100 per cent funded on the 2021 valuation basis and an overfunding protection mechanism agreed with the NAPS Trustee meant that no contributions were due. Deficit contributions could resume should the funding level fall in the future. Previously British Airways had agreed deferrals of deficit contributions with the NAPS Trustee from October 2020 to September 2021. From October 2021 to December 2022, an overfunding mechanism agreed as part of the previous triennial valuation led to no deficit contributions being required. The pension cash flows shown above represent payments to various smaller schemes within the Group.

Provision and other non-cash movements mainly relate to restoration and handback provisions for leased aircraft and ETS allowances.

The cash outflow for the Settlement of derivatives where hedge accounting has been discontinued of €497 million in 2021 represented cash payments relating to overhedging of fuel and foreign exchange in 2020, linked to the significant fall in airline capacity in 2020, due to the impact of COVID-19.

The increase in interest expense in 2022 reflects the full year impact of additional debt raised in 2021 and higher interest rates. Approximately one quarter of the Group's total debt is on floating rate arrangements.

Cash flows from investing activities

€ million	2022	2021	Movement
Acquisition of PPE and intangible assets	**(3,875)**	(744)	(3,131)
Sale of PPE, intangible assets and investments	**837**	544	293
(Increase)/decrease in other current interest-bearing deposits	**(351)**	91	(442)
Payment to Globalia for convertible loan	**(100)**	-	(100)
Other investing movements	**26**	(72)	98
Net cash flows from investing activities	**(3,463)**	(181)	(3,282)

The €837 million of cash inflow from Sale of property, plant and equipment and intangible assets and investments is mainly due to the aircraft sale and leaseback transactions discussed in the Funding and debt section above, together with the disposal of surplus assets, principally aircraft being retired from service. The increase from 2021 is due to the value of aircraft financed through sale and leaseback transactions being higher, as in 2022 it includes five wide-bodied A350-900 aircraft.

In March of 2022 IAG entered into a convertible loan with Globalia for €100 million, convertible into an equity stake in Air Europa Holdings of 20 per cent. The conversion option was exercised in August 2022.

Cash flows from financing activities

€ million	2022	2021	Movement
Proceeds from borrowings	**1,436**	4,817	(3,381)
Repayment of borrowings	**(1,050)**	(784)	(266)
Repayment of lease liabilities	**(1,455)**	(1,481)	26
Settlement of derivative financial instruments	**1,036**	(268)	1,304
Acquisition of treasury shares and other financing movements	**(23)**	(49)	26
Net cash flows from financing activities	**(56)**	2,235	(2,291)

Proceeds from borrowings reflect the cash inflows from aircraft financing as described in the Funding and debt section above. There was no non-aircraft financing raised in 2022, whereas in 2021 British Airways raised £2.0 billion (€2.3 billion) through a loan guaranteed by the UKEF, Aer Lingus drew a further €75 million from ISIF and the Group raised €1.2 billion through unsecured bonds and issued a €825 million convertible bond.

Repayments of borrowings and lease liabilities includes the repayment of IAG's 2015 €500 million convertible bond, €100 million to the Ireland's ISIF and the principal element of ongoing lease payments.

Settlement of derivative financial instruments relates to settlements of foreign exchange instruments taken out to hedge long-term debt payments, including US dollar lease payments. The significant inflow in 2022 relates to the strengthening of the US dollar versus the euro and pound sterling.

STRATEGIC FRAMEWORK

IAG's purpose in the world is to connect people, businesses and countries, and we hold innovation, commitment, care for people, responsibility, pragmatism, execution, ambition and resilience as key values that enable us to fulfil our purpose.

We create value through a unique model that enables our airlines to perform in the long-term interests of our customers, people, shareholders and society – knowing that success in each reinforces the others.

IAG, as the parent company, actively engages and works collaboratively with its portfolio of operating companies, sharing best practices and talent, overseeing intra-Group coordination and managing central functions that drive synergies and value to the Group. Its independence from the operating companies enables IAG to implement a long-term strategy for the Group that is aligned with our purpose and values, as well as set performance targets for the operating companies, track their progress and efficiently allocate capital within the Group.

IAG's strategic priorities are:

- Strengthening a portfolio of world-class brands and operations;
- Growing global leadership positions; and
- Enhancing IAG's central platform.

These strategic priorities are achieved through:

- An unrivalled customer proposition;
- Value-accretive and sustainable growth; and
- Efficiency and innovation

Our commitment to sustainability underpins our strategy – it is an important part of how we do business. As a Group, we have clear processes in place to drive our sustainability strategy forward, and remain committed to using 10 per cent SAF by 2030 and to reach the goal of net zero CO_2 emissions for our Group and its supply chain by 2050. We also continue to prioritise other key sustainability issues, including waste management, stakeholder engagement and welfare.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has continued to maintain its framework and processes to identify, assess and manage risks. It continually reviews how its principal risks are evolving and how the severity or likelihood of occurrence of risks change, given the Group's exposure to the external risk environment, particularly weaknesses in the resilience of the aviation sector's supply chain and inflation impacts, combined with an ambitious transformation and change agenda.

Throughout 2022, the Group has reviewed the macroeconomic and geopolitical landscape to identify emerging risks and the implications of market uncertainty and impacts on inflation, interest and exchange rates have been reflected in the principal risk assessments. By continuing to develop the Group's assessment of the interdependencies of risks; scenario planning to quantify risk impact under different combinations and assumptions; and considering the risks within the Group's risk environment that have increased either as a result of the external factors or as a result of decisions made by the Group, the Board and management are better informed and can react more quickly. Where further action has been required the Board has considered potential mitigations and, where appropriate or feasible, the Group has implemented or confirmed plans that would address those risks or retain them within the Board's determined Group risk appetite.

The principal risks and uncertainties affecting the Group, detailed on pages 100 to 121 of the 2021 Annual Report and Accounts, remain relevant at the date of this report. In assessing its principal risks, the Group has considered operational resilience, competition and market risk changes, the status of the financial markets and access to finance, people and culture across the Group and customer satisfaction and trust. Management remains focused on mitigating these risks at all levels in the business and investing to increase resilience whilst recognising that such risk events may not be so easily planned for and that mitigations are more responsive in nature. The Board reviews and challenges management on the risk landscape in the light of changes that influence the Group and the aviation industry.

No new principal risks were identified through the risk management assessment discussions across the business in the year. One risk has been reconsidered as part of the reviews in the year and has been reframed as 'Operational resilience' from 'Event causing significant network disruption' to recognise that the risk to the operational resilience of the business may be challenged by multiple combining events with significant network and customer impact and these may be more significant to the Group where they persist over a longer time frame compared to one-off events.

From the risks identified in the 2021 Annual Report and Accounts, the main risks that continue to be a key area of focus, due to their potential implications for the Group, are outlined below. Business responses implemented by management and that effectively mitigate or reduce the risk are reflected in the Group's latest business plan and related downside scenarios.

- Brand and customer trust. Operational resilience and customer satisfaction build brand value and customer trust. Reliability, including on-time performance, is a key element of the brands and of each customer's experience. The Group is pro-actively addressing its customer service processes and systems to deliver excellent customer service and support customers through disruption, which will help ensure that our customers choose to fly with the Group's airlines.
- Critical third parties in the supply chain. The aviation sector has been affected by global supply chain disruption which has impacted aircraft deliveries, component availability, resource availability and/or threat of employee industrial action in critical third parties and airport services. Operational staffing shortages at hubs and airports have required capacity adjustments. The Group has pro-actively assessed its schedules to ensure that our customers have sufficient notice of any changes to their flight plans wherever possible and within our control. The Group continues to work with all critical suppliers to understand any potential disruption within their supply chains from either a shortage of available resource or production delays which could delay the availability of new fleet, engines or critical goods or services. It remains reliant on the resilience within the operations of air traffic control airspace services to deliver its flight schedules as planned.
- Cyber attack and data security. The threat of ransomware attacks on critical infrastructure and services has increased as a result of the war in Ukraine and the potential for state sponsored cyber attacks. The Group continues to focus its efforts on appropriate monitoring to mitigate the risk.

- Debt funding. Access to the unsecured debt markets is currently restricted for sub investment grade organisations which may reduce the external funding options available to the Group where it chooses to re-finance upcoming maturities. Rising interest rates also increase the cost for the Group for existing floating rate debt, which represented approximately 25 per cent of the Group's debt at December 31, 2022, as well as for new financing. The Group continues to successfully secure aircraft financing, having secured financing for all its deliveries in 2020, 2021 and 2022.
- Economic, political and regulatory environment. The economic impact of energy shortages and increases in commodity and wage costs has driven significant inflation and uncertainty over the economic outlook. The Group is closely reviewing the impacts of wage and supplier inflation on margins and customer demand. The Group will continue to adjust its future capacity plans accordingly, retaining flexibility to adapt as required and where possible.
- Financial and treasury related risk. Fuel cost increases have been partly mitigated by the Group's fuel hedging policy. Access to fuel hedging instruments or the ability to pass increased fuel costs on to consumers could impact the Group's profits. The Group continues to assess the strength of the US dollar against the euro and pound sterling and the potential impacts on the Group's operating results. All airlines hedge in line with the Group hedging policy.
- 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 major programmes to modernise and upgrade its IT systems, digital capability, customer propositions and core IT infrastructure and network where required. Mitigating actions that prioritise operational stability and resilience have been built into all cutover plans.
- Operational resilience. The pandemic resulted in an unprecedented level of disruption to the aviation sector and changed the Group's perspective on how resilient it needed to be. Ongoing labour shortages, threat of strike action in the aviation sector and staff sickness have impacted the operational environment of the Group's airlines as well as the operations of the businesses on which the Group relies. Many of these events can occur within a close timeframe and challenge operational resilience. In addition, the Group has significant IT infrastructure changes to complete which could impact operations. The Group is focussed on minimising any unplanned outages or disruption to customers with additional resilience built into the airlines' networks.
- People, culture and employee relations. The resilience and engagement of our people and leaders are critical to achieving our transformation plans. Our people are a critical enabler of the Group's future success and the Group has identified the skills and capabilities that are required to manage its transformation, which include delivering on the Group's diversity and inclusion plan. Our leadership recognises the efforts of our staff and their resilience and commitment supporting the ramp up of operations. Resource shortages and the timelines to secure resource, particularly in UK and Ireland, can impact operational readiness and resilience. The Group is focused on measures to attract and secure flight and ground staff into its airlines to enable them to fulfil their schedules and maintain competitiveness. Across the Group, collective bargaining is in place with various unions. The Group is exposed to the risk of industrial relations action and the operating companies continue to engage in discussions with unions to address and resolve disputes arising within the negotiations.
- Transformation and change. The Group recognises the need to transform to compete. The impact on our people of the wide-ranging change agenda if poorly managed or uncoordinated could lead to logistical and engagement challenges with the potential to negatively impact the delivery of customer and revenue benefits and cost efficiencies. The Chief Transformation Officer has clear oversight of all programmes to assess performance against plan. The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board.

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Full year Unaudited Consolidated Financial Statements

January 1, 2022 – December 31, 2022

CONSOLIDATED INCOME STATEMENT

€ million	Note	Year to December 31 2022	2021
Passenger revenue		**19,458**	5,835
Cargo revenue		**1,615**	1,673
Other revenue		**1,993**	947
Total revenue	5	**23,066**	8,455
Employee costs	8	**4,647**	3,013
Fuel, oil costs and emissions charges		**6,120**	1,781
Handling, catering and other operating costs		**2,971**	1,308
Landing fees and en-route charges		**1,890**	923
Engineering and other aircraft costs		**2,101**	1,085
Property, IT and other costs		**950**	758
Selling costs		**920**	434
Depreciation, amortisation and impairment	6	**2,070**	1,932
Currency differences		**141**	(14)
Total expenditure on operations		**21,810**	11,220
Operating profit/(loss)		**1,256**	(2,765)
Finance costs	9	**(1,017)**	(830)
Finance income	9	**52**	13
Net change in fair value of financial instruments	9	**81**	89
Net financing credit/(charge) relating to pensions	9	**26**	(2)
Net currency retranslation charges		**(115)**	(82)
Other non-operating credits	9	**132**	70
Total net non-operating costs		**(841)**	(742)
Profit/(loss) before tax		**415**	(3,507)
Tax	10	**16**	574
Profit/(loss) after tax for the year		**431**	(2,933)
Attributable to:			
Equity holders of the parent		**431**	(2,933)
Non-controlling interest		**–**	–
		431	(2,933)
Basic earnings/(loss) per share (€ cents)	11	**8.7**	(59.1)
Diluted earnings/(loss) per share (€ cents)	11	**6.1**	(59.1)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31 2022	2021
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity		**1,299**	794
Reclassified and reported in net profit		**(1,233)**	(81)
Fair value movements on cost of hedging		**(106)**	10
Cost of hedging reclassified and reported in net profit		**38**	(12)
Currency translation differences	31	**(53)**	(12)
Items that will not be reclassified to net profit			
Fair value movements on other equity investments	19	**2**	–
Fair value movements on cash flow hedges		**173**	54
Fair value movements on cost of hedging		**(9)**	–
Fair value movements on liabilities attributable to credit risk changes		**(6)**	(15)
Remeasurements of post-employment benefit obligations		**662**	1,400
Remeasurements of long-term employee-related provisions		**52**	25
Total other comprehensive profit for the year, net of tax		**819**	2,163
Profit/(loss) after tax for the year		**431**	(2,933)
Total comprehensive profit/(loss) for the year		**1,250**	(770)
Total comprehensive profit/(loss) is attributable to:			
Equity holders of the parent		**1,250**	(770)
Non-controlling interest	31	**–**	–
		1,250	(770)

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

CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2022	December 31, 2021
Non-current assets			
Property, plant and equipment	13	**18,346**	17,161
Intangible assets	17	**3,556**	3,239
Investments accounted for using the equity method	18	**43**	40
Other equity investments	19	**55**	31
Employee benefit assets	32	**2,334**	1,775
Derivative financial instruments	28	**81**	77
Deferred tax assets	10	**1,282**	1,282
Other non-current assets	20	**362**	250
		26,059	23,855
Current assets			
Non-current assets held for sale	16	**19**	20
Inventories		**353**	334
Trade receivables	20	**1,330**	735
Other current assets	20	**1,226**	960
Current tax receivable	10	**72**	16
Derivative financial instruments	28	**645**	543
Current interest-bearing deposits	21	**403**	51
Cash and cash equivalents	21	**9,196**	7,892
		13,244	10,551
Total assets		**39,303**	34,406
Shareholders' equity			
Issued share capital	29	**497**	497
Share premium	29	**7,770**	7,770
Treasury shares		**(28)**	(24)
Other reserves		**(6,223)**	(7,403)
Total shareholders' equity		**2,016**	840
Non-controlling interest	31	**6**	6
Total equity		**2,022**	846
Non-current liabilities			
Borrowings	25	**17,141**	17,084
Employee benefit obligations	32	**217**	285
Deferred tax liability	10	**–**	–
Provisions	26	**2,652**	2,267
Deferred revenue on ticket sales	23	**326**	391
Derivative financial instruments	28	**84**	47
Other long-term liabilities	24	**200**	208
		20,620	20,282
Current liabilities			
Borrowings	25	**2,843**	2,526
Trade and other payables	22	**5,209**	3,712
Deferred revenue on ticket sales	23	**7,318**	6,161
Derivative financial instruments	28	**387**	126
Current tax payable	10	**8**	21
Provisions	26	**896**	732
		16,661	13,278
Total liabilities		**37,281**	33,560
Total equity and liabilities		**39,303**	34,406

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31 2022	2021
Cash flows from operating activities			
Operating profit/(loss)		**1,256**	(2,765)
Depreciation, amortisation and impairment	6	**2,070**	1,932
Movement in working capital		**1,884**	1,634
Increase in trade receivables, inventories and other current assets		*(914)*	*(351)*
Increase in trade and other payables and deferred revenue on ticket sales		*2,798*	*1,985*
Payments related to restructuring	26	**(81)**	(161)
Employer contributions to pension schemes		**(22)**	(41)
Pension scheme service costs	32	**17**	26
Provisions and other non-cash movements		**627**	305
Settlement of derivatives where hedge accounting has been discontinued		**–**	(497)
Interest paid		**(824)**	(640)
Interest received		**42**	3
Tax (paid)/received		**(134)**	63
Net cash flows from operating activities		**4,835**	(141)
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(3,875)**	(744)
Sale of property, plant and equipment and intangible assets and investments		**837**	544
(Increase)/decrease in other current interest-bearing deposits		**(351)**	91
Payment to Globalia for convertible loan		**(100)**	–
Other investing movements		**26**	(72)
Net cash flows from investing activities		**(3,463)**	(181)
Cash flows from financing activities			
Proceeds from borrowings		**1,436**	4,817
Repayment of borrowings		**(1,050)**	(784)
Repayment of lease liabilities		**(1,455)**	(1,481)
Settlement of derivative financial instruments	25c	**1,036**	(268)
Acquisition of treasury shares		**(23)**	(24)
Other financing movements		**–**	(25)
Net cash flows from financing activities		**(56)**	2,235
Net increase in cash and cash equivalents		**1,316**	1,913
Net foreign exchange differences		**(12)**	205
Cash and cash equivalents at 1 January		**7,892**	5,774
Cash and cash equivalents at year end	21	**9,196**	7,892
Interest-bearing deposits maturing after more than three months	21	**403**	51
Cash, cash equivalents and interest-bearing deposits	21	**9,599**	7,943

For details on restricted cash balances refer to note 21 Cash, cash equivalents and current interest-bearing deposits.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2022

€ million	Issued share capital (note 29)	Share premium (note 29)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 31)	**Total equity**
January 1, 2022	497	7,770	(24)	(1,673)	(5,730)	**840**	6	**846**
Profit for the year	–	–	–	–	431	**431**	–	**431**
Other comprehensive profit for the year								
Cash flow hedges reclassified and reported in net profit:								
Fuel and oil costs	–	–	–	(1,115)	–	**(1,115)**	–	**(1,115)**
Currency differences	–	–	–	(90)	–	**(90)**	–	**(90)**
Finance costs	–	–	–	10	–	**10**	–	**10**
Discontinuance of hedge accounting	–	–	–	(22)	–	**(22)**	–	**(22)**
Ineffectiveness recognised in other non-operating costs	–	–	–	(16)	–	**(16)**	–	**(16)**
Net change in fair value of cash flow hedges	–	–	–	1,472	–	**1,472**	–	**1,472**
Net change in fair value of equity investments	–	–	–	2	–	**2**	–	**2**
Net change in fair value of cost of hedging	–	–	–	(115)	–	**(115)**	–	**(115)**
Cost of hedging reclassified and reported in net profit	–	–	–	38	–	**38**	–	**38**
Fair value movements on liabilities attributable to credit risk changes	–	–	–	(6)	–	**(6)**	–	**(6)**
Currency translation differences	–	–	–	(53)	–	**(53)**	–	**(53)**
Remeasurements of post-employment benefit obligations	–	–	–	–	662	**662**	–	**662**
Remeasurements of long-term employee-related provisions	–	–	–	–	52	**52**	–	**52**
Total comprehensive profit for the year	–	–	–	105	1,145	**1,250**	–	**1,250**
Hedges reclassified and reported in property, plant and equipment	–	–	–	(65)	–	**(65)**	–	**(65)**
Hedges reclassified and reported in sales in advance of carriage	–	–	–	36	–	**36**	–	**36**
Hedges reclassified and reported in inventory	–	–	–	(58)	–	**(58)**	–	**(58)**
Cost of share-based payments	–	–	–	–	39	**39**	–	**39**
Vesting of share-based payment schemes	–	–	19	–	(22)	**(3)**	–	**(3)**
Acquisition of treasury shares	–	–	(23)	–	–	**(23)**	–	**(23)**
Redemption of convertible bond	–	–	–	(62)	62	**–**	–	**–**
December 31, 2022	**497**	**7,770**	**(28)**	**(1,717)**	**(4,506)**	**2,016**	**6**	**2,022**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2021

€ million	Issued share capital (note 29)	Share premium (note 29)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
January 1, 2021	497	7,770	(40)	(2,420)	(4,203)	1,604	6	1,610
Loss for the year	–	–	–	–	(2,933)	(2,933)	–	(2,933)
Other comprehensive loss for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	18	–	18	–	18
Fuel and oil costs	–	–	–	(45)	–	(45)	–	(45)
Currency differences	–	–	–	(15)	–	(15)	–	(15)
Finance costs	–	–	–	23	–	23	–	23
Discontinuance of hedge accounting	–	–	–	(62)	–	(62)	–	(62)
Net change in fair value of cash flow hedges	–	–	–	848	–	848	–	848
Net change in fair value of cost of hedging	–	–	–	10	–	10	–	10
Cost of hedging reclassified and reported in net profit	–	–	–	(12)	–	(12)	–	(12)
Fair value movements on liabilities attributable to credit risk changes	–	–	–	(15)	–	(15)	–	(15)
Currency translation differences	–	–	–	(12)	–	(12)	–	(12)
Remeasurements of post-employment benefit obligations	–	–	–	–	1,400	1,400	–	1,400
Remeasurements of long-term employee-related provisions	–	–	–	–	25	25	–	25
Total comprehensive loss for the year	–	–	–	738	(1,508)	(770)	–	(770)
Hedges reclassified and reported in property, plant and equipment	–	–	–	9	–	9	–	9
Cost of share-based payments	–	–	–	–	23	23	–	23
Vesting of share-based payment schemes	–	–	40	–	(42)	(2)	–	(2)
Acquisition of treasury shares	–	–	(24)	–	–	(24)	–	(24)
December 31, 2021	497	7,770	(24)	(1,673)	(5,730)	840	6	846

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 (hereinafter the 'Company') is a Spanish company registered in Madrid and was incorporated on December 17, 2009. The registered address of IAG is El Caserío, Zona industrial 2, Camino de La Muñoza s/n, 28042, Madrid, Spain. 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 the €825 million convertible bond due 2028, derivative financial instruments and other equity investments that are measured at fair value. The notes to the financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

The Group's financial statements for the year to December 31, 2022 were authorised for issue, and approved by the Board of Directors on February 23, 2023.

Going concern

At December 31, 2022, the Group had total liquidity of €13,999 million (December 31, 2021: total liquidity of €11,986 million), comprising cash, cash equivalents and interest-bearing deposits of €9,599 million, €3,284 million of committed and undrawn general facilities and a further €1,116 million of committed and undrawn aircraft specific facilities. At December 31, 2022, the Group has no financial covenants associated with its loans and borrowings.

In its assessment of going concern, the Group has modelled two scenarios referred to below as the Base Case and the Downside Case over the period to June 30, 2024 (the 'going concern period'). The tenor of the going concern period encapsulates the seasonality of the Group's operations. The Group's three-year business plan, used in the creation of the Base Case, was prepared for and approved by the Board in December 2022. The business plan takes into account the Board's and management's views on the anticipated continued recovery from the COVID-19 pandemic and the wider economic and geopolitical environments on the Group's businesses across the going concern period. The key inputs and assumptions underlying the Base Case include:

- capacity recovery modelled by geographical region (and in certain regions, by key destinations) with capacity gradually increasing from 97 per cent in quarter 1 2023 (compared to the equivalent period in 2019) to pre-pandemic levels by the end of the going concern period;
- passenger unit revenue per ASK is forecast to continue to remain above the levels obtained in 2019 throughout the going concern period, which is based on, amongst other assumptions, higher ticket prices to reflect both higher fuel prices and cost inflation;
- the Group has assumed that the committed and undrawn general facilities of €3.3 billion will not be drawn over the going concern period. The availability of certain of these facilities reduces over time, with €3.2 billion being available to the Group at the end of the going concern period;
- the Group has assumed that €1.0 billion of the committed and undrawn aircraft specific facilities of €1.1 billion would be available to be drawn over the going concern period if required, of which €0.6 billion, relating to the EETC financing structures and other specific asset securitised financing are expected to be utilised;
- the Group has assumed that the €500 million bond that matures in July 2023 will not be refinanced;
- of the capital commitments detailed in note 15, €4.4 billion is due to be paid over the going concern period;
- in addition to the €0.6 billion of committed aircraft financing, the Group has forecast securing approximately 100 per cent, or €4.9 billion, of the aircraft financing required that is currently uncommitted, to align with the timing and payments for these aircraft deliveries. This loan to value assumption is consistent with the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date; and
- the acquisition of the remaining shares in Air Europa Holdings, that the Group does not currently own, shall receive the relevant approvals and complete during the going concern period.

The Downside Case applies stress to the Base Case to model adverse commercial and operational impacts as the Group's capacity recovers over the going concern period, represented by: reduced levels of capacity operated in each month, including reductions of at least 25 per cent for three months during 2023 to reflect the risk of more severe operational disruption; reduced passenger unit revenue per ASK reflective of general pricing pressure due to the current economic backdrop; and increased operational costs reflective of inflationary pressures. In the Downside Case, over the going concern period capacity would be ten per cent down when compared to the Base Case. The Downside Case assumes that €350 million of the €3,284 million of available general credit facilities are required to be drawn. The Directors consider the Downside Case to be a severe but plausible scenario.

While not incorporated in the Downside Case, the Group has modelled the impact of further deteriorations in capacity operated and yield, as well as increases in the price of jet fuel by 20 per cent and a reduction in the forecast loan to value to 80 per cent of the uncommitted financing, but has also considered further mitigating actions, such as reducing operating and capital expenditure and deferring currently forecast early repayments of loans and borrowings. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions, including asset disposals, it would pursue in the event of adverse liquidity experience.

Having reviewed the Base Case, the Downside Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern period and hence continue to adopt the going concern basis in preparing the consolidated financial statements for year to December 31, 2022. In adopting the going concern basis of accounting, the consolidated financial statements have been prepared without the inclusion of a material uncertainty, which has been removed since the Annual report and accounts 2021. The removal of the material uncertainty arises from the reduction in uncertainty over the going concern period due to both the continued recovery subsequent to the COVID-19 pandemic and the strength of the Group's liquidity at December 31, 2022.

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, as at the acquisition date 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 intragroup account balances, including intragroup profits, are eliminated in preparing the consolidated financial statements.

Unconsolidated structured entities

The Group regularly uses sale and leaseback transactions to finance the acquisition of aircraft. In certain instances the Group will undertake several such sale and leaseback transactions at once through Enhanced Equipment Trust Certificates (EETCs). Under each of these financing structures, a company or companies (the EETC Issuer) are established to facilitate such financing on behalf of a number of unrelated investors. In certain of these financing structures, additional special purpose vehicles (the Lessor SPV) are established to provide additional financing from a number of further unrelated investors to the EETC Issuer. The proceeds from the issuance of the EETCs by the EETC Issuer, and where relevant the proceeds obtained from the Lessor SPV, are then used to purchase aircraft solely from the Group. The Group will then enter into fixed rate lease arrangements (which meet the recognition criteria of Asset financed liabilities) with the EETC Issuer, or where relevant the Lessor SPV, with payments made by the Group to the EETC Issuer, or the Lessor SPV, distributed, through a trust, to the aforementioned unrelated investors. The main purpose of the trust structure is to enhance the credit-worthiness of the Group's debt obligations through certain bankruptcy protection provisions and liquidity facilities, and also to lower the Group's total borrowing cost.

The EETC Issuer and the Lessor SPV are established solely with the purpose of providing the asset-backed financing and upon maturity of such financing are expected to have no further activity. The relevant activities of the EETC Issuer and the Lessor SPV are restricted to pre-established financing agreements and the retention of the title of the associated financed aircraft. Accordingly, the Group has determined that each EETC Issuer and the Lessor SPVs are structured entities. Under the contractual terms of the financing structures, the Group has no exposure to losses in these entities, does not own any of the share capital of the EETC Issuer or the Lessor SPV, does not have any representation on the respective boards and has no ability to influence decision making.

In addition to the above, such financial transactions expose the Group to no further significant financial or economic risks, such as no variability over time in interest rates.

In considering the aforementioned facts, management has concluded that the Group does not have access to variable returns from the EETC Issuers and Lessor SPVs because its involvement is limited to the payment of principal and interest under the arrangement and, therefore, it does not control the EETC Issuers or the Lessor SPVs and as such does not consolidate them.

Further information as to the financial impact of these financial transactions is given in note 25.

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 IAG Loyalty 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 are 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 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 up to 5 per cent residual value for shorthaul aircraft and between 23 and 29 years (depending on aircraft) and up to 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. Where the lease includes a purchase option, at the discretion of the Group, where it is expected that the purchase option will be exercised, the associated right of use asset is depreciated using the aforementioned depreciation rates to reflect the reasonably certain life of the aircraft, irrespective of the lease term.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of 12 years and the remaining economic life of the aircraft, whether owned or leased.

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 overhaul. 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.

b 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 four to 20 years.

c Capitalisation of interest on progress payments

Interest costs 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.

d Liquidated damages

Liquidated damages are recognised in the Income statement only to the extent that they relate to compensation for loss of income and/or incremental operating costs, when a contractual entitlement exists, the amounts can be reliably measured and the receipt is virtually certain. When liquidated damages do not relate to compensation for loss of income and/or incremental operating costs, the amounts are recorded as a reduction in the cost of the associated aircraft in the Balance sheet and depreciated over the life of the aircraft.

e Leases

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

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 tangible asset for a period in exchange for consideration. The Group has elected not to apply such consideration where the contract relates to an intangible asset, such as for landing rights or IT software, in which case payments associated with the contract are expensed as incurred.

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; and any initial direct costs. In addition, at the lease commencement date a ROU asset will incorporate unavoidable restoration costs, such as the removal of airline-specific branding and configuration, to return the asset to its original condition, for which a corresponding amount is recognised within Provisions. 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.

Aircraft lease payments are discounted using the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor. For aircraft leases these inputs are either observable in the contract or readily available from external market data. The initial direct costs of the lessor are considered to be immaterial. If the interest rate implicit in the lease 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 carrying amount of lease liabilities is remeasured if there is a modification of the lease contract, a re-assessment of the lease term (specifically in regard to assumptions regarding extension and termination options) and changes in variable lease payments that are based on an index or a rate.

Amounts excluded from recognition as lease liabilities
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 re-assessed 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 is also exposed to variable lease payments based on usage or revenue generated over a defined period. Such variable lease payments are expensed to the Income statement as incurred.

Sale and leaseback transactions
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. The principal criterion for assessing whether a sale has occurred or not, is whether the contract contains the option, at the discretion of the Group, to repurchase the aircraft over the lease term; with the existence of such a repurchase option resulting in a sale having been deemed not to have occurred; and if no such repurchase option exists, then a sale is deemed to have occurred. The following defines the accounting for such transactions:

- if a sale is determined to have occurred, then the associated asset is de-recognised and a ROU asset and lease liability are 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; and
- where a sale is determined to have 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.

Cash flow presentation – lease liabilities
Lease payments are presented as follows in the Consolidated cash flow statement:

- where the proceeds received from sale and leaseback transactions represent the fair value of the asset being transferred, the total proceeds are presented within cash flows from investing activities. Where the proceeds received from sale and leaseback transactions exceed the fair value of the asset being transferred, the element of the proceeds equivalent to the fair value of the asset being transferred is presented within investing activities and the amount of proceeds in excess of the fair value is presented within financing activities;
- the repayments of the principal element of lease liabilities are presented within cash flows from financing activities;
- the payments of the interest element of lease liabilities are included within cash flows from operating activities; and
- the payments arising from variable elements of a lease, short-term leases and low-value assets are presented within cash flows from operating activities.

Cash flow presentation – asset financed liabilities
Payments associated with asset financed liabilities are presented as follows in the Consolidated cash flow statement:

- the proceeds received asset financed liabilities are presented within cash flows from financing activities;
- the repayments of the principal element of asset financed liabilities are presented within cash flows from financing activities; and
- the payments of the interest element of asset financed liabilities are included within cash flows from operating activities.

COVID-19 related rent concessions
On May 28, 2020, the IASB issued 'COVID-19 Related Rent Concessions – amendments to IFRS 16 Leases'. The EU subsequently adopted the amendment on October 9, 2020. The amendment provides a practical expedient for lessees, up to June 30, 2021, not to assess whether a COVID-19 related rent concession is a lease modification. On March 31, 2021, the IASB extended the period for the application of these concessions through to June 30, 2022. The EU subsequently adopted the amendment on August 31, 2021. The extended amendment is effective for annual reporting periods commencing on or after April 1, 2021 and the Group has elected to adopt this amendment for the year to December 31, 2022.

Lessor accounting
From time to time the Group will lease, to third parties, specific assets, including certain property, plant and equipment. On inception of the lease, the Group determines whether each lease is a finance lease or an operating lease.

In order to make this determination, the Group assesses whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. Factors in making this assessment include, but are not limited to, whether the lease term is for the major part of the economic life of the underlying asset and whether the underlying asset transfers to the lessee or the lessee has the option to purchase the underlying asset at the end of the lease. Where substantially all of the risks and rewards of ownership have been transferred, then the lease is recorded as a finance lease, otherwise it is recorded as an operating lease.

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 of the UK and the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the UK and 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 ten years.

g Emissions allowances

Where an operating company purchases emissions allowances these amounts are recognised at cost and recorded within Intangible assets. As an operating company emits CO_2 equivalent and builds up an obligation to the relevant authorities, a provision is recognised.

Emissions allowances recorded within Intangible assets are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable. For those obligations arising for which the operating company has purchased emission allowances to offset the emissions, the provision is recognised at the weighted average cost of the intangible asset. For those obligations arising for which the operating company has not yet purchased emission allowances to offset the emissions, the provision is recognised at the market price of the allowances required at the reporting date. As the provision is recognised, a corresponding amount is recorded in the Income statement within Fuel, oil costs and emission charges.

The Group's emissions obligation, recognised as a separate liability, is extinguished when the associated emission certificates are surrendered, which is typically within 12 months of the reporting date.

From time to time the Group enters into sale and repurchase transactions for specified emission allowances. Such transactions do not meet the recognition criteria of a sale under IFRS 15 and accordingly the asset is retained on the balance sheet within Intangible assets and an Other financing liability recognised equal to the proceeds received.

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, including Right of use assets

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 Financial assets and liabilities

Financial assets and financial liabilities are classified, upon initial recognition, as measured at amortised cost, at fair value through other comprehensive income (OCI), or fair value through profit or loss. Financial assets and financial liabilities are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets and financial liabilities.

The classification of financial assets and financial liabilities at initial recognition depends on the financial assets' and financial liabilities' contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset and financial liability to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. A financial asset or financial liability that is not SPPI is classified and measured at fair value through profit or loss. This assessment is performed on an instrument by instrument basis.

The Group's business model for managing financial assets and financial liabilities establishes how it manages its financial assets and financial liabilities in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets and financial liabilities classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets and financial liabilities classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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.

Convertible debt

Convertible bonds are classified as either compound financial instruments or hybrid financial instruments depending on the settlement alternatives upon redemption. Where the bondholders exercise their equity conversion options and the Group has no alternative other than to settle the convertible bonds into a fixed number of ordinary shares of the Company, then the bonds are classified as a compound financial instrument. Where the Group has an alternative settlement mechanism to the convertible bonds that permits settlement in cash, then the convertible instrument is classified as a hybrid financial instrument.

Convertible bonds that are classified as compound financial instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded on an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Long-term borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in the equity portion of the convertible bond in Other reserves and is not subsequently remeasured. The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

Convertible bonds that are classified as hybrid financial instruments consist only of a liability component recognised within Long-term borrowings. At the date of issue, the entirety of the convertible bonds is accounted for at fair value with subsequent fair value gains or losses recorded within Long-term borrowings. The fair value of such financial instruments is obtained from their respective quoted prices in active markets, with the portion of the change in fair value attributable to changes in the credit risk of the convertible bonds recognised in Other comprehensive income and the portion of the change in fair value attributable to market conditions recognised in the Income statement within Finance costs.

Issue costs associated with compound financial instruments are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity. Issue costs associated with hybrid financial instruments are expensed immediately to the Income statement.

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 or a change in the structure of transaction changes its classification as an Other equity instrument. 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.

Interest-bearing deposits

Interest-bearing deposits, principally comprising funds held with banks and other financial institutions with contractual cash flows that are SPPI, and held in order to collect contractual cash flows, are carried at amortised cost using the effective interest method.

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 either 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.

When determining whether there has been a significant increase in credit risk since initial recognition and when estimating the expected credit loss, the Group considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward-looking information. Such forward-looking information takes into consideration the forecast economic conditions expected to impact the outstanding balances at the balance sheet date. A financial asset is written off when there is no reasonable expectation of recovery, such as the customer having filed for liquidation.

b 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.

c Derivative and non-derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap derivatives, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and forward contracts) 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.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the spot component of the forward contract as the hedging instrument within a hedge relationship. Gains or losses arising on the change in fair value of the spot component are recognised within Other comprehensive income in the Cash flow hedge reserve within equity. The forward component of a forward contract is not designated within a hedge relationship, with the associated gains and losses on the forward component recorded within Other comprehensive income in the Cost of hedging reserve within equity until the underlying transaction affects the Income statement.

To manage foreign exchange movements on foreign currency customer cash inflows (denominated in US dollars, euros and Japanese yen), certain non-derivative repayment instalments on foreign currency-denominated interest-bearing liabilities are designated as hedging instruments within a hedge relationship. Gains or losses arising from movements in foreign exchange rates are recognised within Other comprehensive income in the Cash flow hedge reserve within equity. Accumulated gains or losses within the cash flow hedge reserve are transferred to Sales in advance of carriage in the same period as the forecast transaction occurs or when hedge accounting is discontinued when the forecast transaction is no longer expected to occur, at which point amounts are immediately reclassified to Passenger revenue.

When a derivative is designated as a hedging instrument and that instrument expires, is sold or is restructured, if the initial forecast transaction is still expected to occur, any cumulative gain or loss remains in the cash flow hedge reserve until such time as the hedge item impacts the Income statement. Where there is a change in the risk management objective, then hedge accounting is discontinued and the associated cumulative gain or loss arising prior to the change in risk management objective remains in the cash flow hedge reserve until such time as the underlying hedged item impacts the Income statement had the risk management objective continued to have been met. Where a forecast transaction which was previously determined to be highly probable and for which hedge accounting applied, is no longer expected to occur, hedge accounting is discontinued and the cumulative gain or loss in the cash flow hedge reserve is immediately reclassified to the Income statement.

Each operating company enters into foreign currency derivative contracts, that are not designated in a hedge relationship, in order to mitigate foreign exchange movements on financial liabilities designated in currencies other than the presentational currency of each operating company, including but not limited to, lease liabilities. Movements in the fair value of such derivatives are recognised in the Income statement in the period in which they occur and are presented within Net currency retranslation charges.

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 Cash flow hedges

Changes in the fair value of derivative financial instruments designated as in a hedge relationship of a highly probable expected future transaction are assessed for effectiveness and accordingly recorded in the Cash flow hedge reserve within equity.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: (i) there is 'an economic relationship' between the hedged item and the hedging instrument; (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and (iii) the hedge ratio is aligned with the requirements of the Group's risk management strategy and in all instances is maintained at a ratio of 1:1.

Sources of ineffectiveness include the following:

- in hedges of fuel purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty;
- in hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty; and
- in hedges of interest rate payments, ineffectiveness may arise if there are differences in the critical terms between the interest rate derivative instrument and the underlying hedged item, or if there are changes in the credit risk of the Group or the derivative counterparty.

Ineffectiveness is recorded within the Income statement as Realised/unrealised (losses)/gains on derivatives not qualifying for hedge accounting and presented within Other non-operating charges.

Reclassification adjustments

Gains and losses accumulated in the Cash flow hedge reserve within equity are reclassified from the Cash flow hedge reserve when the hedged item affects the Income statement as follows:

- where the forecast hedged item results in the recognition of expenses within the Income statement (such as the purchase of jet fuel for which both fuel and the associated foreign currency derivatives are designated as the hedging instrument), the accumulated gains and losses recorded in both the cash flow hedge reserve and the cost of hedging reserve are reclassified and included in the Income statement within the same caption as the hedged item is presented. Such reclassification occurs in the same period as the hedged item is recognised in the Income statement;
- where the forecast hedged item results in the recognition of a non-financial asset (such as the purchase of aircraft for which foreign currency derivatives are designated as the hedging instrument or where the purchase of jet fuel gives rise to the recognition of fuel inventory in storage facilities), or a non-financial liability (such as the sales in advance of carriage for which both foreign currency derivatives and non-financial derivative instruments are designated as the hedging instrument), the accumulated gains and losses recorded within both the cash flow hedge reserve and the cost of hedging reserve are included in the initial cost of the asset and liability, respectively. These gains or losses are recorded in the Income statement as the non-financial asset and the non-financial liability affects the Income statement (which for aircraft is through Depreciation over the expected life of the aircraft, for fuel inventory through Fuel, oil costs and emission charges and for sales in advance of carriage through Passenger revenue when the flight is flown); and
- where the forecast hedged items results in the recognition of a financial asset or liability (such as variable rate debt for which interest rate swaps are designated as the hedging instrument), the accumulated gains and losses recorded within the cash flow hedge reserve are reclassified to Interest expense within the Income statement at the same time as the interest expense arises on the hedged item.

Further information on the risk management activities of the Group is given in note 28d.

e Interest rate benchmark reform

In 2020 the Group adopted the amendments to IFRS 9 and IFRS 7 relating to the interest rate benchmark reform Phase 1, ('Phase 1') and in 2021 the Group adopted the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the interest rate benchmark reform Phase 2 ('Phase 2').

The Phase 1 amendments provide temporary relief from applying certain hedge accounting requirements to hedging relationships directly affected by Interbank Offered Rates ('IBOR') reform. The reliefs have the effect that IBOR reform does not cause hedge accounting to terminate prior to contracts being amended. Where transition to an alternative benchmark rate has taken place, the Group ceases to apply the Phase 1 amendments and instead applies the Phase 2 amendments.

Hedge accounting
Where the Group continues to apply the Phase 1 amendments, the following reliefs are applied:

- when considering the highly probable requirement, the Group has assumed that those benchmark rates that need to be transitioned to an alternative benchmark rate, on which the Group's hedged long-term borrowings are based, do not change as a result of IBOR reform;
- in assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that those benchmark rates that need to be transitioned to an alternative benchmark rate, on which the cash flows of the hedged long-term borrowings and the interest rate swaps that hedge them are based, are not altered by IBOR reform; and
- the Group has not recycled the cash flow hedge reserve relating to the period after the IBOR reform is expected to take effect.

When the Group ceases to apply the Phase 1 amendments, the Group amends its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of the following changes:

- designating an alternative benchmark rate (contractually or non-contractually specified) as the hedged risk;
- amending the description of the hedged item, including the description of the designated portion of the cash flows being hedged; or
- amending the description of the hedging instrument.

The associated hedge documentation is updated to reflect these changes in designation by the end of the reporting period in which the changes are made. Such amendments do not give rise to the hedge relationship being discontinued.

When the Group transitions to an alternative benchmark rate, the accumulated amounts within the cash flow hedge reserve are determined to be based on the alternative benchmark rate and no reclassification adjustments are made from the cash flow hedge reserve to the Income statement.

Long-term borrowings and lease liabilities
Phase 2 of the amendments requires that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate prospectively. No gain or loss is recognised upon transition to the new benchmark. The expedient is only applicable to direct changes that are required by interest rate benchmark reform.

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform.

Further information on the management of and uncertainty arising from interest rate reform is given in note 27i. No amounts have been recorded in the current or prior periods as a result of these amendments.

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, net of the relevant taxes, 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 IAS 19 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 held in storage facilities.

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 and where it is considered probable that an outflow of economic resources will be required to settle the obligation. Where it is not considered probable that there will be an outflow of economic resources required to settle the obligation, the Group does not recognise a provision, but discloses the matter as a contingent liability. The Group assesses whether each matter is probable of there being an outflow of economic resources to settle the obligation at each reporting date.

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.

Restoration and handback provisions arising on inception of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any subsequent change in estimation relating to such costs are reflected in the ROU asset. Maintenance and handback provisions that occur through usage or through the passage of time are recognised as such activity occurs, with a corresponding expense recorded in the Income statement. Any subsequent change in estimation are recognised in the Income statement.

The method for determining legal claims provisions is determined on a claim by claim basis. Where a claim includes a significant population of items, the weighted average provision is estimated by determining all potential outcomes and the probability of their occurrence. Where a claim relates to a single item, then the Group determines the associated provision by applying the most likely outcome giving consideration to alternative outcomes. Where an individual claim is significant, the disclosure of quantitative information is restricted to the extent that it does not prejudice the outcome of the claim. 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 effect of unwinding the discount rate is recognised as a finance cost in the Income statement.

Revenue recognition

Passenger revenue

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 either the customer has flown or, for flexible tickets, when unused ticket revenue is recognised or the ticket expires unused.

At the time of expected travel, revenue is recognised in relation to flexible tickets where a customer can reschedule the date of intended travel, that are not expected to be used, a term referred to as 'unused flexible tickets'. This revenue is recognised based on the terms and conditions of the ticket and analysis of historical experience. For these unused flexible tickets, revenue is recognised only when the risk of a significant reversal of revenue is remote based on the terms and conditions of the ticket and analysis of historical experience. The estimation regarding historical experience is updated at each reporting date.

Where a flight is cancelled, the passenger is entitled to either compensation, a refund, changing to an alternative flight or the receipt of a voucher. Where compensation is issued to the customer, such payments are presented net within Passenger revenue against the original ticket purchased. Where the Group provides a refund to a customer, Deferred revenue on ticket sales is reduced and no amount is recorded within revenue. Where a voucher is issued it is retained within Deferred revenue on ticket sales until such time as it is redeemed for a flight or it expires, at which time it is recorded within Passenger revenue. The Group also recognises revenue by estimating the amount of vouchers that are not expected to be redeemed prior to expiry using analysis of historical experience. The estimation regarding historical experience is updated at each reporting date. The amount of such revenue recognised is constrained, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Payments received in relation to certain ancillary services regarding passenger transportation, such as change fees, are not considered to be distinct from the performance obligation to provide the passenger flight. Payments relating to these ancillary services are recognised in Deferred revenue on ticket sales in current liabilities until the customer has flown.

The Group considers whether it is an agent or a principal in relation to passenger 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, duties 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. Commissions earned in relation to agency services are recognised as revenue when the underlying goods or services have been transferred to the customer. In all other instances, the Group considers it acts as the principal in relation to passenger transportation services.

Cargo revenue

The Group has identified a single performance obligation in relation to cargo services and the associated revenue is measured at its standalone selling price and recognised on satisfaction of the performance obligation, which occurs on the fulfilment of the transportation service.

Other revenue

The Group has identified several performance obligations in relation to services that give rise to revenue being recognised within Other revenue. These services, their performance obligations and associated revenue recognition include:

- the provision of maintenance services and overhaul services for engines and airframes, where the Group is engaged to enhance an asset while the customer retains control of the asset. Accordingly, the performance obligations are satisfied, and revenue recognised, over time. The Group estimates the proportion of the contract completed at the reporting date and recognises revenue based on the percentage of completion of the contract;
- the provision of ground handling services, where the performance obligations are fulfilled when the services are provided;
- the provision of holiday and hotel services, where the performance obligations are satisfied over time as the customer receives the benefit of the service; and
- brand and marketing activities, where the performance obligations are satisfied as the associated activities occur.

Customer loyalty programmes

The Group operates four loyalty programmes: the British Airways Executive Club, Iberia Plus, Vueling Club and the Aer Lingus Aer Club. The customer loyalty programmes award travellers Avios to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. Avios are also sold to commercial partners to use in loyalty activity.

Avios issuance

When issued, the standalone selling price of an Avios is recorded within Deferred revenue on ticket sales in current liabilities until the customer redeems the Avios. The standalone selling price of Avios 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 Avios which are not expected to be redeemed, referred to as 'breakage', based on the results of modelling using historical experiences and expected future trends in customer behaviour, up until the reporting date. The amount of such revenue recognised is limited, where necessary, such that the risk of a significant reversal of revenue in the future is remote.

Where the issuance of Avios arises from travel on the Group's airlines, the consideration received from the customer may differ to the aggregation of the relative standalone selling prices. In such instances the allocation of the consideration to each performance obligation is undertaken on a proportional basis using the relative standalone selling prices.

The Group has contractual arrangements with non-Group airlines and non-air partners for the issuance and redemption of Avios, for which it has identified the following performance obligations:

Companion vouchers

Certain non-air partners issue their card holders with companion vouchers, which forms part of the variable consideration of the overall contract, depending on the level of expenditure by the card holders, for redemption on the airlines of the Group for the same flight and class of cabin as the underlying fare being purchased. The Group estimates the standalone selling price of the companion voucher performance obligation, using valuation techniques, by reference to the amount that a third party would be prepared to pay in an arm's length transaction.

Brand and marketing activities

For both air and non-air partners, the Group licenses the Avios and the airline brands for certain activities, such as the creation of co-branded credit cards. In addition, the Group has certain contractual arrangements whereby it commits to provide marketing services to the members of the loyalty schemes on behalf of those partners. For the provision of both brand and marketing services, the partner receives benefits incremental to the issuance of Avios. The Group estimates the standalone selling price of the brand and marketing performance obligations, using valuation techniques, 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 use the brand. For brand services, as the Group considers that the partner has the right to use the brand, revenue is recognised as the brand service is provided and not over time. For marketing performance obligations, revenue is recognised as the marketing activities occur based on when the partner receives the benefit of those services.

Upfront payments

Where a partner makes an upfront payment to the Group which does not relate to any specific performance obligation, then the Group considers such payments as advance payments for future goods and services and the associated revenue is recognised as those goods and services are provided, as detailed above. In such instances the payment is allocated across all of the performance obligations over the contract term. The Group estimates the expected level of Avios to be issued over the contract term using experience, historical and expected future trends, and allocates the payments to the relevant performance obligations accordingly. At each reporting date, the Group updates its estimate of the number of Avios expected to be issued over the total contract term and recognises a cumulative catch-up adjustment where necessary.

When a partner makes an upfront payment to the Group, the Group assesses whether such a payment is representative of a significant financing event. Where a significant financing component is identified, the Group estimates a market rate of interest that an arm's length financial liability of similar size and tenor would yield. The Group recognises the imputed interest as a Finance expense in the Income statement.

Other considerations

The Group considers whether it is an agent or a principal in relation to the loyalty 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. In particular, the Group acts as an agent where customers redeem their Avios on interline partner flights outside of the Group, where the fees payable to the interline partner are presented net against the associated release of the Deferred revenue from ticket sales.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or nature and where such presentation is relevant to an understanding of the Group's financial performance. While management has defined a list of items and a quantitative threshold that would merit categorisation as exceptional that has been established through historical experience, the Group retains the flexibility to add additional items should their size or nature merit such presentation. The accounting policy in respect of exceptional items and classification of an item as exceptional is approved by the Board, through the Audit and Compliance Committee.

The financial performance of the Group is monitored by the Management Committee and the Board on a pre-exceptional basis to enable comparison to prior reporting periods as well as to other selected companies, and also for making strategic, financial and operational decisions.

The exceptional items recorded in the Income statement include, but are not limited to, 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; significant discontinuance of hedge accounting; legal settlements; individually significant tax transactions; and the impact of the sale, disposal or impairment of an asset or investment in a business. Where exceptional items are separately disclosed, the resultant tax impact is additionally separately disclosed. Certain exceptional items may cover more than a single reporting period, such as significant restructuring events, but not more than two reporting periods.

Further information is given in the Alternative performance measures section.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. Loans provided and/or guaranteed by governments that represent market rates of interest are recorded at the amount of the proceeds received and recognised within Borrowings. Those loans provided and/or guaranteed by governments that represent below market rates of interest are measured at inception at their fair value and recognised within Borrowings, with the differential to the proceeds received recorded within Deferred income and released to the relevant financial statement caption in the Income statement on a systematic basis. Grants that compensate the Group for expenses incurred are recognised in the Income statement in the relevant financial statement caption on a systematic basis in the periods in which the expenses are recognised.

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, 2022 the Group recognised €2,334 million in respect of employee benefit assets (2021: €1,775 million) and €217 million in respect of employee benefit obligations (2021: €285 million). Further information on employee benefit obligations is disclosed in note 32.

The cost of employee benefit obligations, employee leaving indemnities and other employee-related provisions is determined using the valuation requirements of IAS 19. These valuations involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in note 32. 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 assumptions is disclosed in note 32.

Under the Group's Airways Pension Scheme (APS) and New Airways Pension Scheme (NAPS) defined benefit schemes, 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 November 2020, the UK Government and UK Statistics Authority (UKSA) confirmed alignment of RPI with CPIH (a variant of CPI) from February 2030. In assessing RPI and CPI inflation from investment market data, allowance has been made for alignment of RPI with CPIH from 2030 and, therefore, effectively no gap between RPI and CPI inflation from that date. CPI inflation before 2030 is assumed to be 1 per cent per annum below RPI inflation.

b Revenue recognition

At December 31, 2022 the Group recognised €7,644 million (2021: €6,552 million) in respect of deferred revenue on ticket sales of which €2,630 million (2021: €2,820 million) related to customer loyalty programmes. Further information on deferred revenue from ticket sales is included in note 23.

Passenger revenue

Passenger revenue is recognised when the transportation service is provided. At the time of transportation, revenue is also recognised in respect of unused tickets and is estimated based on the terms and conditions of the tickets and historical experience. The Group considers that there is no reasonably possible change to unused ticket assumptions that would have a material impact on Passenger revenue recorded in the year.

Historically, where a voucher has been issued to a customer in the event of a flight cancellation, the Group estimated, based on historical experience, the level of such vouchers not expected to be used prior to expiry and recognised revenue accordingly. During 2020 and 2021, due to the significant level of flight cancellations arising from COVID-19, the Group issued a greater volume of vouchers than it would have otherwise done so. In addition, given the uncertainty as to the timing of customers redeeming these vouchers, the Group was unable to estimate with a high degree of probability that there would not be a significant reversal of revenue in the future had it applied the historical expiry trends over the period of the pandemic. Accordingly, for the years ended December 31, 2020, and December 31, 2021, the Group did not recognise revenue arising from those vouchers issued due to COVID-19 related cancellations until either the voucher was redeemed or it expired.

During 2022, while the recovery from COVID-19 has seen much lower levels of voucher issuance and high levels of voucher redemption, the Group's operating companies' voucher programmes have had limited voucher expiry in 2022, with the majority not expected until 2023 at the earliest. Accordingly, the Group has had insufficient historical expiry experience relating to vouchers issued during the pandemic and therefore has not applied any breakage to existing voucher liabilities as it cannot confirm that there would not be a subsequent significant reversal of revenue if it were to do so.

Customer loyalty schemes

Revenue associated with the issuance of Avios under customer loyalty programmes is based on the relative standalone selling prices of the related performance obligations (brand, marketing and Avios), determined using estimation techniques. The transaction price of brand and marketing services is determined using specific brand valuation methodologies. The transaction price of an Avios is determined as the price of the rewards against which they can be redeemed and is reduced to take account of the proportion of Avios that are not expected to be redeemed by customers.

During 2020 and 2021, due to the significant restrictions imposed on the ability of customers to redeem Avios coupled with the disruption in the patterns of redemption caused by COVID-19, the Group considered that the trends experienced since the start of the COVID-19 pandemic were not reflective of the long-term expected patterns of redemption and accordingly, the Group was unable to determine with a high degree of probability that there would not be a significant reversal of revenue in the future had it applied the redemption trends over the period of the pandemic. Accordingly, for the years to December 31, 2020 and December 31, 2021, the Group continued to estimate the level of redemption activity based on pre-COVID-19 customer behaviour. While 2022 has seen all operating companies recover from the COVID-19 pandemic, there remains uncertainty as to whether recent redemption data is representative of long-term behavioural trends and accordingly the Group cannot confirm that there would not be a subsequent significant reversal of revenue if the level of redemption estimates were to be updated to reflect behaviours during the COVID-19 period. Accordingly, the Group continues to estimate the level of redemption activity based on pre-COVID-19 customer behaviour.

The Group estimates the number of Avios not expected to be redeemed using statistical modelling based on historical experience and expected future trends in customer behaviour. A five percentage point increase in the assumption of Avios outstanding and not expected to be redeemed would result in an adjustment to Deferred revenue from ticket sales of €95 million, with an offsetting adjustment to increase revenue and operating profit recognised in the year.

c Income taxes

At December 31, 2022 the Group recognised €1,282 million in respect of deferred tax assets (2021: €1,282 million). Further information on current and deferred tax is disclosed in note 10.

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 judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability-weighted average approach.

The Group recognises deferred 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 uses judgement, including the consideration of past and current operating performance and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability.

In exercising this judgement, while there are no time restrictions on the utilisation of historic tax losses in the principal jurisdictions in which the Group operates, future cash flow projections are forecast for a period of up to ten years from the balance sheet date, which represents the period over which it is probable that future taxable profits will be available.

At December 31, 2022, the Group had unrecognised deferred tax assets of €2,084 million relating to tax losses the Group does not reasonably expect to utilise. In applying the aforementioned judgement, had the Group extended the period of future cash flow projections indefinitely, then the amount of unrecognised deferred tax assets would have reduced by €1,608 million. Conversely, if the forecast profit before tax for each operating company was reduced by two percentage points over the forecast period, the amount of the unrecognised deferred tax asset relating to tax losses would increase by €11 million.

d Impairment of non-financial assets

At December 31, 2022 the Group recognised €2,423 million (2021: €2,439 million) in respect of intangible assets with an indefinite life, including goodwill. Further information on these assets is included in note 17.

Goodwill and intangible assets with indefinite economic lives are tested, as part of the cash-generating units to which they relate, 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, which use a weighted average multi-scenario discounted cash flow model, which are then compared to the carrying amount of the associated cash-generating unit.

In determining the carrying value of each cash generating unit, the Group allocates all associated operating tangible and intangible assets, including ROU assets. In addition the Group has allocated certain liabilities to the carrying value of each CGU where those liabilities are critical to the underlying operations of the cash-generating unit and in the event of a disposal of the cash-generating unit would be required to be transferred to the purchaser. Such liabilities include lease liabilities.

The Group has applied judgement in the weighting of each scenario in the discounted cash flow model and these calculations require the use of estimates in the determination of key assumptions and sensitivities as disclosed in notes 4 and 17.

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. When such indicators are identified, then non-financial assets are tested for impairment.

e Engineering and other aircraft costs

At December 31, 2022, the Group recognised €2,400 million in respect of maintenance, restoration and handback provisions (2021: €1,832 million). Information on movements on the provision is disclosed in note 26.

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. Provisions for maintenance, restoration and handback are made based on the best estimate of the likely committed cash outflow. In determining this best estimate, the Group applies significant judgement as to the level of forecast costs expected to be incurred when the aircraft is returned to the lessor. The assumptions of this significant judgement include aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. The associated forecast costs are discounted to their present value. In 2021, the Group considered that there was no reasonably possible change to a single assumption that would have had a material impact on the provisions, however a combination of changes in multiple assumptions may have. In 2022, with the status of the macro-economic environment, the Group considers that a reasonable possible change in the inflation rate and discount rate assumptions of a 100 basis points increase would give rise to an increase of €51 million and a decrease of €68 million, respectively, when applied in isolation to one another.

Judgements

a 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 historical experience regarding the extension of leases. After the commencement date, the Group re-assesses the lease term if there is a significant event or change in circumstances that affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 14.

b Determining whether the Group has significant influence over Air Europa Holdings

The Group applies judgement in the determination as to whether it has the power with which to participate in the decision making of, and as a result significant influence over, Air Europa Holdings, S.L. (Air Europa Holdings). Such judgement includes the consideration as to the ability of the Group to: have representation on the board of Air Europa Holdings; participate in the policy-making processes, including participation in decisions regarding dividends and other distributions; the existence of material transactions between Air Europa Holdings and the Group; enable the interchange of management personnel and provide essential technical information.

In forming its judgement, the Group notes that: it does not have the ability to have representation on the board of Air Europa Holdings; it does not have the ability to participate in the policy-making processes; has not entered into material transactions outside of the normal course of business; it does not have the ability to enable the interchange of management personnel and it does not have the ability to provide essential technical information. The Group has therefore concluded that it does not have significant influence over Air Europa Holdings.

Accordingly, the Group accounts for its shareholding in Air Europa Holdings as an Other equity investment and measures it at fair value through Other comprehensive income. Had the Group concluded that it does have significant influence over Air Europa Holdings, then the shareholding would have been classified as an associate, measured at fair value on inception and subsequently measured using the equity method. At December 31, 2022, the fair value of its shareholding in Air Europa Holdings was €24 million. Further information is given in note 19.

New standards, amendments and interpretations

The following amendments and interpretations apply for the first time in 2022, but do not have a material impact on the consolidated financial statements of the Group:

- property, plant and equipment: proceeds before intended use – amendments to IAS 16 effective for periods beginning on or after January 1, 2022;
- reference to the Conceptual Framework – amendments to IFRS 3 effective for periods beginning on or after January 1, 2022;
- onerous contracts – cost of fulfilling a contract – amendments to IAS 37 effective for periods beginning on or after January 1, 2022; and
- annual improvements to IFRS standards 2018–2020 – effective for periods beginning on or after January 1, 2022.

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. The Group has assessed the impact of these standards, amendments and interpretations and it is not expected that these will have a material effect on the reported income or net assets of the Group. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

- IFRS 17 Insurance contracts - effective for periods beginning on or after January 1, 2023;
- definition of accounting estimate – amendments to IAS 8 effective for periods beginning on or after January 1, 2023;
- disclosure of accounting policies – amendments to IAS 1 and IFRS Practice statement 2 effective for periods beginning on or after January 1, 2023; and
- deferred tax related to assets and liabilities arising from a single transaction – amendments to IAS 12 effective for periods beginning on or after January 1, 2023.

On October 31, 2022, the IASB issued the amendments to IAS 1 – classification of liabilities as current or non-current (the ‘Amendments’), effective for periods beginning on or after January 1, 2024. The Amendments will require the €825 million convertible bond that matures in 2028, which as at December 31, 2022, had a carrying value of €605 million, to be reclassified from a non-current liability to a current liability with the comparative presentation as at December 31, 2023 also reclassified. The Amendments require that where the conversion feature of a convertible instrument does not meet the recognition criteria for separate presentation within equity and where the associated bond holders have the irrevocable right to exercise the conversion feature within twelve months of the balance sheet date, that such convertible instruments be presented as current. Other than this reclassification, the Amendments will not have a material effect on the reported results or net assets of the Group.

3 Significant changes and transactions in the current reporting period

The financial performance and position of the Group was affected by the following significant events and transactions in the year to December 31, 2022 as detailed below:

- on March 4, 2022 Aer Lingus entered into a financing arrangement with the Ireland Strategic Investment Fund (ISIF), which subsequently increased the existing €150 million of facilities to €350 million and extended the maturity to March 2025. On December 13, 2022, Aer Lingus repaid €100 million of the €150 million it had previously drawn against this facility. At December 31, 2022, €300 million of undrawn facilities remains available for draw down;
- on April 12, 2022, the Group entered into an asset-financing structure, under which five aircraft were financed. These transactions mature between 2032 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the Iberia Pass Through Certificates, Series 2022-1, commonly referred to as EETCs. In doing so, the asset financing structure provides committed aircraft financing of €680 million;
- on May 19, 2022, the Group entered into an agreement with Boeing to purchase 25 737-8200 and 25 737-10 aircraft, plus 100 options. The aircraft will be delivered between 2023 and 2027 and will be used for shorthaul fleet renewal. The fleet order was subsequently approved by shareholders on October 26, 2022;
- on June 15, 2022, following approval from *Sociedad Estatal de Participaciones Industriales* (SEPI) (the Spanish state holding company that has a direct participation in Air Europa Holdings) and the *Instituto de Crédito Oficial* (ICO) in Spain, the Group entered into a financing arrangement with Globalia Corporación Empresarial, S,A, (‘Globalia’), whereby, the Group provided a €100 million seven-year unsecured loan. The loan was convertible for a period of two years from inception into a fixed number of the shares of Air Europa Holdings;
- in the first half of 2022, the Group converted 22 Airbus A320neos options into firm orders for 17 Airbus A320neos and five Airbus A321neos;

- on July 28, 2022, IAG announced a further order for more fuel-efficient Airbus A320neo family aircraft, as part of its plan to meet climate commitments. The Group converted 12 Airbus A320neo/A321neo options into firm orders and ordered a further 25 Airbus A320neo/A321neo aircraft, with the option to purchase 50 additional aircraft. The firm orders will replace existing Airbus A320ceo family aircraft and are for delivery between 2025 and 2028; the split between A320neos and A321neos will be determined nearer to delivery. The fleet order was subsequently approved by shareholders on October 26, 2022;
- on August 16, 2022, the Group exercised its exchange option and converted the €100 million loan it had made to Globalia into 20 per cent of the share capital of Air Europa Holdings, which has been recognised within Other equity instruments. The fair value of the loan immediately prior to conversion was €65 million, representing a reduction of €35 million from inception, which has been recorded within the Income statement. Upon converting the loan into share capital of Air Europa Holdings, the fair value of the investment was determined to be €22 million, with the difference between the fair value of the loan immediately prior to conversion and the fair value of the equity investment immediately after conversion, representing €43 million, being recorded as a loss within the Income statement. Further details regarding the investment in Air Europa Holdings are given in note 19;
- on August 23, 2022, the Group extended its $1.755 billion secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus, previously due to mature on March 23, 2024, by a further 12 months to March 23, 2025;
- on October 21, 2022, the Group entered into an asset-financing structure, under which four aircraft were financed. These transactions mature between 2032 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2022-1, commonly referred to as EETCs. In doing so, the asset financing structure provides committed aircraft financing of €416 million; and
- on November 17, 2022, the Group redeemed the convertible bond issued in November 2015 for its nominal value of €500 million.

4 Impact of climate change on financial reporting

Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of climate change

As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to net zero emissions by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short, medium and long-term operations of the Group.

The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to, the following that are within the control of the Group:

- the additional cost of the Group's commitment to increasing the level of Sustainable Aviation Fuels (SAF) to ten per cent by 2030 and to seventy per cent by 2050;
- the cost of incurring an increase in the level of carbon offsetting and carbon capture schemes; and
- the impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.

In addition to these inputs and measures within the control of management, Flightpath Net Zero includes assumptions pertaining to consumers, governments and regulators regarding the following:

- the impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies;
- investment and policy regarding the development of SAF production facilities;
- investment and improvements in air traffic management; and
- the price of carbon through the EU, Swiss and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

The level of uncertainty regarding the impact of these factors increases over time. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of climate change regarding the recognition and measurement of assets and liabilities within the financial statements.

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

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time. For those assets and liabilities, where their recoverability is dependent on long-term cash flows, the following critical accounting estimates, assumptions and judgements, to the extent they can be reliably measured, have been applied:

a Long-term fleet plans and useful economic lives

The Group's Flightpath Net Zero climate strategy has been developed in conjunction with the long-term fleet plans of each operating company. This includes the annual assessment of useful lives and the residual values of each aircraft type.

During the course of 2020 as a result of the impact of COVID-19, the Group permanently stood down 82 aircraft (of which ten were subsequently stood back up), their associated engines and rotable inventories. These permanently stood down aircraft were older generation aircraft, that were less fuel efficient, more carbon intensive and more expensive to operate than more modern models.

With the permanent standing down of these aircraft, coupled with the future committed delivery of 192 fuel efficient aircraft as detailed in note 15, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero climate strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise SAF in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year, nor have the useful lives and residual values of aircraft been amended, as a result of the Group's decarbonisation plans.

b Impairment testing of the Group's cash generating units

The Group applies discounted cash flow models, for each cash generating unit, derived from the cash flow forecasts from the approved three-year business plans. The Group's Flightpath Net Zero climate strategy is long-term in nature and includes commitments that will occur at differing points over this time horizon. To the extent that certain of those commitments occur over the short-term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year (being the third year) of these probability weighted cash flows to incorporate the impacts of climate change from the Group's Flightpath Net Zero climate strategy that are expected to occur over the medium term. These adjustments are limited to those that: (i) the Group can reliably estimate at the reporting date; (ii) only relate to the Group's existing asset base in its current condition; and (iii) incorporate legislation and regulation that is expected to be required to achieve the Group's Flightpath Net Zero climate strategy, and which is sufficiently progressed at the reporting date.

As a result, the Group's impairment modelling incorporates the following aspects of the Group's Flightpath Net Zero climate strategy through to 2030, after which time the level of uncertainty regarding timing and costing becomes insufficiently reliable to estimate: (i) an increase in the level of SAF consumption of 10 per cent of the overall fuel mix; (ii) forecast cost of carbon, including SAF, ETS allowances and CORSIA allowances (all derived from externally sourced or derived information); (iii) the removal of existing free ETS allowances issued by the EU member states, Switzerland and the UK; (iv) forecast kerosene taxes applied to jet fuel for all intra EU flight activity; and (v) assumptions regarding the ability of the Group to recover these incremental costs through increased ticket pricing.

In preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring unless already committed and assets not currently in use by the Group. In addition, for the avoidance of doubt, the Group's impairment modelling excludes the following aspects of the Group's Flightpath Net Zero climate strategy: (i) the expected transition to electric and hydrogen aircraft, as well as future technological developments to jet engines and airframes; (ii) any savings from the transition to more fuel efficient aircraft other than those either in the Group's fleet or those committed orders due to be delivered over the business plan period; (iii) the benefit of the development of carbon capture technologies and enhanced carbon offsetting mechanisms; (iv) the required beneficial reforms to air traffic management regulation and legislation; and (v) the required government incentives and/or support across the supply chain.

As detailed in note 17, the Group applies a long-term growth rate to these adjusted probability weighted cash flows, per CGU, and each of the long-term growth rates include a specific adjustment to reduce the rate to reflect the Group's assumptions regarding the reduced demand and elasticity impact arising from climate change. These impacts are derived with reference to external market data, industry publications and internal analysis.

Given the inherent uncertainty associated with the impact of climate change, the Group has applied additional sensitivities in note 17 to reflect a more adverse impact of climate change than currently expected. This has been captured through both the downward sensitivities of the long-term growth rates, ASKs, operating margins and the increased fuel price sensitivity.

c Valuation of employee benefit scheme assets

The Group's employee benefit schemes are principally represented by the British Airways APS and NAPS schemes in the UK. The schemes are structured to make post-employment payments to members over the long term, with the Trustee having established both return seeking assets and liability matching assets that mature over the long-term to align with the forecast benefit payments.

The assets of these schemes are invested predominantly in a diversified range of equities, bonds and property. The valuation of these assets ranges from those with quoted prices in active markets, where prices are readily and regularly available, through to those where the valuations are not based on observable market data, often requiring complex valuation models. The trustees of the schemes have integrated climate change considerations into their long-term decision making and reporting processes across all classes of assets, actively engaging with all fund and portfolio managers to ensure that where unobservable inputs are required into valuation models, that such valuation models incorporate long-term expectations regarding the impact of climate change.

d Recoverability of deferred tax assets

In determining the recoverable amounts of the Group's deferred tax assets, the Group applies the future cash flow projections for a period of up to ten years derived from the approved three-year business plans. The Group applies a medium-term growth rate subsequent to the three-year business plans, specific to each operating company. In considering the impact of the Group's Flightpath Net Zero climate strategy, management adjusts this medium-term growth rate, where applicable, to incorporate the assumed impacts on both revenue and costs to the Group.

e The price of carbon through the EU, Swiss and UK Emissions Trading Schemes

The EU, Swiss and the UK's ETS were established to reduce greenhouse gas emissions cost effectively. Under these schemes, companies, including the Group, are required to buy emission allowances, or are issued them under existing quotas. The Group is required to surrender these allowances to the relevant authorities annually dependent on the level of CO_2 equivalent emitted within a 12-month period. Over time the level of available emission allowances decreases in order to reduce total emissions, which has the effect of increasing the price of such allowances. The Group expects that the future price of such allowances will continue to increase and that the free allocation of emission allowances will cease. Given the relative illiquid nature of the emission allowance market there is uncertainty as to the future pricing of such allowances.

As detailed in note 2, the Group accounts for the purchase of allowances as an addition to Intangible assets, which are measured at amortised cost. In addition, as the Group emits CO_2 equivalent as part of its flight operations, a provision is recorded to settle the obligation. For emissions for which the Group has already purchased allowances, the provision is valued at the weighted cost of those allowances. Where the level of emissions exceeds the amounts of allowances held, this deficit is measured at the market price of such allowances at the reporting date.

At December 31, 2022, the Group has recorded ETS allowances within Intangibles assets of €407 million, representing sufficient allowances, by operating company, to settle its forecast obligations through to at least December 31, 2023. At December 31, 2022, the Group has recorded a provision for settling its 2022 emissions obligation of €132 million.

5 Segment information

a Business segments

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

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

The Group has determined its operating segments based on the way that it treats its businesses and the manner in which resource allocation decisions are made. British Airways, Iberia, Vueling, Aer Lingus and IAG Loyalty have been identified for financial reporting purposes as reportable operating segments. LEVEL is also an operating segment but does not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why LEVEL 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, 2022

	2022						
€ million	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty	Other Group companies[1]	**Total**
Revenue							
Passenger revenue	10,523	4,002	2,584	1,665	451	233	**19,458**
Cargo revenue	1,239	284	–	80	–	12	**1,615**
Other revenue	848	799	14	10	322	–	**1,993**
External revenue	12,610	5,085	2,598	1,755	773	245	**23,066**
Inter-segment revenue	311	426	–	14	228	378	**1,357**
Segment revenue	12,921	5,511	2,598	1,769	1,001	623	**24,423**
Depreciation and amortisation charge	(1,272)	(371)	(222)	(146)	(8)	(59)	**(2,078)**
Impairment reversal	–	–	8	–	–	–	**8**
Operating profit/(loss)	**362**	**382**	**195**	**45**	**282**	**(10)**	**1,256**
Exceptional items[2]	23	–	8	–	–	–	**31**
Operating profit/(loss) before exceptional items	**339**	**382**	**187**	**45**	**282**	**(10)**	**1,225**
Net non-operating costs							**(841)**
Profit before tax							**415**
Total assets	23,788	9,200	3,177	1,946	3,303	(2,111)	**39,303**
Total liabilities	(20,975)	(9,005)	(3,774)	(1,942)	(2,914)	1,329	**(37,281)**

1 Includes eliminations on total assets of €16,159 million and total liabilities of €5,755 million.
2 For details on exceptional items refer to the Alternative performance measures section.

For the year to December 31, 2021

	2021						
€ million	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty[1]	Other Group companies[1,2]	Total
Revenue							
Passenger revenue	2,607	1,707	1,011	302	180	28	5,835
Cargo revenue	1,268	333	–	65	–	7	1,673
Other revenue	314	443	5	4	181	–	947
External revenue	4,189	2,483	1,016	371	361	35	8,455
Inter-segment revenue	129	301	–	5	77	293	805
Segment revenue	4,318	2,784	1,016	376	438	328	9,260
Depreciation and amortisation charge	(1,104)	(350)	(240)	(140)	(7)	(74)	(1,915)
Impairment (charge)/reversal	(30)	–	13	–	–	–	(17)
Operating (loss)/profit	(2,041)	(220)	(233)	(338)	131	(64)	(2,765)
Exceptional items[3]	151	14	29	9	–	2	205
Operating (loss)/profit before exceptional items	(2,192)	(234)	(262)	(347)	131	(66)	(2,970)
Net non-operating costs[4]							(742)
Loss before tax							(3,507)
Total assets	20,891	6,919	2,671	1,820	3,184	(1,079)	34,406
Total liabilities	(18,795)	(7,062)	(3,364)	(1,806)	(3,009)	476	(33,560)

1 In 2022, based on size thresholds the Group determined that IAG Loyalty was a reportable segment and accordingly presented the financial information of the segment separately. The prior year segment note has been re-presented to align with the current year presentation.
2 Includes eliminations on total assets of €16,023 million and total liabilities of €5,833 million.
3 For details on exceptional items refer to the Alternative performance measures section.
4 Includes €75 million of exceptional items relating to the Air Europa Holdings termination settlement payment.

b Geographical analysis

Revenue by area of original sale

€ million	Year to December 31 2022	2021
UK	**7,923**	2,435
Spain	**4,313**	2,189
USA	**3,735**	931
Rest of world	**7,095**	2,900
	23,066	8,455

Assets by area
December 31, 2022

€ million	**Property, plant and equipment**	**Intangible assets**
UK	**12,026**	**1,490**
Spain	**5,082**	**1,462**
USA	**47**	**9**
Rest of world	**1,191**	**595**
	18,346	**3,556**

December 31, 2021

€ million	Property, plant and equipment	Intangible assets
UK	11,544	1,317
Spain	4,404	1,333
USA	76	13
Rest of world	1,137	576
	17,161	3,239

6 Expenses by nature

Operating result is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	**2022**	2021
Depreciation charge on right of use assets	**1,092**	1,058
Depreciation charge on owned assets	**748**	638
Gain arising on de-designation of foreign exchange hedges recorded in Depreciation[1]	**(29)**	–
Impairment reversal on owned property, plant and equipment	**–**	(4)
Amortisation and impairment of intangible assets	**218**	178
Impairment (reversal)/charge on right of use assets	**(8)**	20
Depreciation charge on other leasehold assets	**49**	42
	2,070	1,932

1 Included in the Depreciation charge, not included within note 13 is a credit of €29 million relating to the de-designation of hedge accounting that had been applied to mitigate the foreign currency exposure on aircraft purchases.

Cost of inventories:

€ million	**2022**	2021
Cost of inventories recognised as an expense	**749**	1,038
	749	1,038

7 Auditor's remuneration

The fees for the year to December 31, 2022, 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, KPMG Auditores S.L., and by companies belonging to KPMG's network, were as follows:

€'000	2022	2021
Fees payable for the audit of the Group and individual accounts	**6,378**	4,860
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	**985**	532
Other services pursuant to legislation	**195**	431
Other audit and assurance services	**1,644**	569
Services relating to working capital review	**1,022**	776
	10,224	7,168

Fees payable to the Group's auditor for the audit of the Group's pension scheme during the year total €236 thousand (2021: €182 thousand).

8 Employee costs and numbers

€ million	2022	2021
Wages and salaries	**3,207**	2,135
Social security costs	**519**	307
Costs related to pension scheme benefits	**272**	232
Share-based payment charge	**39**	23
Other employee costs[1]	**610**	316
Total employee costs	**4,647**	3,013

1 Other employee costs include allowances and accommodation for crew.

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

	2022			2021		
		December 31, 2022			December 31, 2021	
	Average number of employees[1]	**Number of employees**	**Percentage of women**	Average number of employees[1]	Number of employees	Percentage of women
In the air:						
Cabin crew	**19,801**	**22,278**	**70%**	9,304	17,865	70%
Pilots	**7,340**	**7,864**	**7%**	3,879	7,607	6%
On the ground:						
Airports	**13,798**	**15,087**	**38%**	6,728	12,842	37%
Corporate	**11,741**	**13,819**	**49%**	8,612	10,709	52%
Maintenance	**6,908**	**6,775**	**8%**	6,345	7,448	8%
Senior executives	**212**	**221**	**34%**	167	187	33%
	59,800	**66,044**	**44%**	35,035	56,658	42%

1 The average number of employees excludes those employees who were on furlough, wage support and equivalent schemes, including the Temporary Redundancy Plan arrangements in Spain. For further details see note 34. The total average number of employees including these schemes is 61,192.

The number of employees is based on actual headcount at December 31. The average manpower equivalent for 2022 was 59,505 (2021: 50,222), which includes employees on furlough, wage support and equivalent schemes, including Temporary Redundancy Plan arrangements in Spain.

9 Finance costs, income and other non-operating charges

a Finance costs

€ million	2022	2021
Interest expense on:		
Bank borrowings	**(191)**	(133)
Asset financed liabilities	**(107)**	(65)
Lease liabilities	**(464)**	(408)
Bonds[1]	**(83)**	(63)
Provisions unwinding of discount	**(43)**	(12)
Other borrowings[1]	**(102)**	(90)
Capitalised interest on progress payments	**11**	3
Other finance costs	**(38)**	(62)
	(1,017)	(830)

1 The 2021 total finance costs include a reclassification of results to conform with the current basis of presentation. A charge of €63 million has been reclassified from Other borrowings to Bonds. There is no change to total finance costs.

b Finance income

€ million	2022	2021
Interest on other interest-bearing deposits	**51**	5
Other finance income	**1**	8
	52	13

c Net change in fair value of financial instruments

€ million	2022	2021
Net change in the fair value of convertible bond	**159**	89
Net fair value losses on financial assets at fair value through profit or loss	**(35)**	–
Net fair value losses on de-recognition of financial assets and recognition of other equity investment	**(43)**	–
	81	89

d Net financing credit/(charge) relating to pensions

€ million	2022	2021
Net financing credit/(charge) relating to pensions	**26**	(2)

e Other non-operating charges

€ million	2022	2021
Gains on sale of property, plant and equipment and investments[1]	**22**	59
Charge related to equity investments (note 19)	**(3)**	–
Share of profits in investments accounted for using the equity method (note 18)	**5**	2
Realised gains on derivatives not qualifying for hedge accounting	**190**	37
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	**(82)**	47
Air Europa Holdings termination settlement payment	**–**	(75)
	132	70

1 2021 includes a gain of €24 million arising from the disposal of Compañía Auxiliar al Cargo Exprés, S.A. and Auxiliar Logística Aeroportuaria, S.A. The Group previously owned 75 per cent of the share capital of these companies and disposed of them during the fourth quarter of 2021. The disposal led to the de-recognition of €12 million of net assets from the consolidated financial statements of the Group.

10 Tax

a Tax credits/(charges)

Tax credits/(charges) recognised in the Income statement, Other comprehensive income and directly in equity:

€ million	2022 Income statement	2022 Other comprehensive income	2022 Recognised directly in equity	2022 Total	2021 Income statement	2021 Other comprehensive income	2021 Recognised directly in equity	2021 Total
Current tax								
Movement in respect of prior years	(6)	–	–	**(6)**	10	–	(1)	9
Movement in respect of current year	(64)	3	–	**(61)**	(9)	5	–	(4)
Total current tax	(70)	3	–	**(67)**	1	5	(1)	5
Deferred tax								
Movement in respect of prior years	(36)	(2)	–	**(38)**	(23)	–	–	(23)
Movement in respect of current year	105	(60)	5	**50**	518	(420)	–	98
Rate change/rate differences	17	(10)	–	**7**	78	61	–	139
Total deferred tax	86	(72)	5	**19**	573	(359)	–	214
Total tax	16	(69)	5	**(48)**	574	(354)	(1)	219

The current tax credit in Other comprehensive income relates to the fair value movements on the convertible bond of €2 million (2021: €5 million) and movements relating to employee benefit plans of €1 million (2021: €nil).

Tax recognised directly in equity relates to cash flow hedges of €5 million (2021: €nil) and share-based payment schemes of €nil (2021: €1 million).

Within tax in Other comprehensive income is a tax credit of €8 million (2021: tax charge of €123 million) that may be reclassified to the Income statement and a tax charge of €77 million (2021: tax charge of €231 million) that will not.

b Current tax asset/(liability)

€ million	2022	2021
Balance at January 1	**(5)**	53
Income statement	**(70)**	1
Other comprehensive income	**3**	5
Recognised directly in equity	**–**	(1)
Cash	**134**	(63)
Exchange movements and other	**2**	–
Balance at December 31	**64**	(5)
Current tax asset	**72**	16
Current tax liability	**(8)**	(21)
Balance at December 31	**64**	(5)

c Deferred tax asset/(liability)

€ million	Fixed assets	Right of use assets	Lease liabilities	Employee leaving indemnities and others	Employee benefit plans	Fair value gains/ losses[1]	Share-based payment schemes	Tax loss carried forward and tax credits	Other temporary differences	**Total**
Balance at January 1, 2022	(477)	(220)	19	196	62	57	11	1,573	61	**1,282**
Income statement	(194)	169	(9)	19	1	–	6	87	7	**86**
Other comprehensive income[2]	–	–	–	(17)	(12)	(46)	–	3	–	**(72)**
Recognised directly in equity	–	–	–	–	–	5	–	–	–	**5**
Exchange movements and other	(9)	7	(1)	(1)	3	(19)	–	(27)	28	**(19)**
Balance at December 31, 2022	**(680)**	**(44)**	**9**	**197**	**54**	**(3)**	**17**	**1,636**	**96**	**1,282**
Balance at January 1, 2021	(589)	(248)	21	194	298	195	10	1,090	64	1,035
Income statement	106	67	(3)	9	(11)	(14)	1	408	10	573
Other comprehensive income	–	–	–	(9)	(237)	(133)	–	20	–	(359)
Recognised directly in equity	–	–	–	–	–	–	–	–	–	–
Exchange movements and other	6	(39)	1	2	12	9	–	55	(13)	33
Balance at December 31, 2021	(477)	(220)	19	196	62	57	11	1,573	61	1,282

1 Fair value gains/losses include both the Cash flow hedge reserve and the Cost of hedging reserve, of which the movement in relation to Other comprehensive income recognised in the Cash flow hedge reserve for 2022 was €68 million (refer to note 28d).
2 Movements in Other comprehensive income relating to post-employment benefit obligations increase the Group's tax losses by €3 million (tax value) at December 31, 2022 (2021: €20 million) and have therefore been disclosed as tax loss carried forward and tax credits in the above table.

€ million	**2022**	2021
Deferred tax asset	**1,282**	1,282
Deferred tax liability	**–**	–
Balance at December 31	**1,282**	1,282

The deferred tax assets mainly arise in Spain and the UK and are expected to reverse in full beyond one year. Recognition of the deferred tax assets is supported by the expected reversal of deferred tax liabilities in corresponding periods, and projections of operating performance laid out in the management approved business plans.

d Reconciliation of the total tax charge in the Income statement

The tax (charge)/credit is calculated at the domestic rates applicable to profits/(losses) in the country in which the profits/(losses) arise. The differences between the expected tax charge (2021: credit) and the actual tax credit (2021: credit) on the profit for the year to December 31, 2022 (2021: loss) are explained below:

€ million	**2022**	2021
Accounting profit/(loss) before tax	**415**	(3,507)
Weighted average tax (charge)/credit of the Group[1]	**(102)**	683
Unrecognised losses and deductible temporary differences arising in the year	**(2)**	(193)
Disposal and write down of investments	**–**	8
Effect of tax rate changes	**17**	78
Prior year tax assets recognised	**153**	44
Effect of lower tax rate in the Canary Islands	**5**	(23)
Movement in respect of prior years	**(42)**	(13)
Non-deductible expenses	**(22)**	(15)
Other items	**9**	5
Tax credit in the Income statement	**16**	574

1 The expected tax credit is calculated by aggregating the expected tax (charges)/credits arising in each company in the Group and changes each year as tax rates and profit mix change. The 2022 corporate tax rates for the Group's main countries of operation are Spain 25% (2021: 25%), the UK 19% (2021: 19%) and Ireland 12.5% (2021: 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	2022	2021
Payroll related taxes	**522**	310
UK Air Passenger Duty	**722**	204
	1,244	514

f Factors that may affect future tax charges

Unrecognised deductible temporary differences and losses

€ million	2022	2021
Income tax losses		
Spanish corporate income tax losses	**1,596**	1,993
Openskies SASU trading losses	**405**	390
UK trading losses	**72**	72
Other trading losses	**11**	3
	2,084	2,458
Other losses and temporary differences		
Spanish deductible temporary differences	**481**	648
UK capital losses	**343**	361
Irish capital losses	**17**	17
	841	1,026

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

Unrecognised temporary differences – investment in subsidiaries and associates
No deferred tax liability has been recognised in respect of €823 million (2021: €617 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 to a material extent.

Tax rate changes
On March 3, 2021 the UK Chancellor of the Exchequer 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 Finance Bill was substantively enacted, which has led to the remeasurement of deferred tax balances and will increase the Group's future current tax charge accordingly. As a result of the remeasurement of deferred tax balances in UK entities, a credit of €17 million (2021: €78 million credit) is recorded in the Income statement and a charge of €10 million (2021: €61 million credit) is recorded in Other comprehensive income.

On October 8, 2021 Ireland 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 effect of the proposed rate change is not expected to be material over the period of the management approved business plan.

Tax policy developments
The Group is monitoring the OECD's proposed two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This proposed reform to the international tax system addresses the geographical allocation of profits for the purposes of taxation and is designed to ensure that multinational enterprises will be subject to a minimum 15 per cent effective tax rate. On December 15, 2022, the Council of the European Union formally adopted the EU Pillar Two Directive. Member States are expected to transpose the Directive into national law by the end of 2023 and effective from 2024. The Group is continuing to assess the implications of the reform and these will be determined when the relevant legislation is finalised.

g Tax-related contingent liabilities

The Group has certain contingent liabilities that could be reliably estimated, across all taxes, at December 31, 2022 amounting to €110 million (December 31, 2021: €106 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 are the following:

Merger gain
Following tax audits covering the period 2011 to 2014, the Spanish Tax Authorities issued a corporate income tax assessment to the Company regarding the merger in 2011 between British Airways and Iberia. The maximum exposure in this case is €98 million (December 31, 2021: €95 million), being the amount in the tax assessment with an estimate of the interest accrued on that assessment through to December 31, 2022.

The Company appealed the assessment to the *Tribunal Económico-Administrativo Central* or 'TEAC' (Central Administrative Tax Tribunal). On October 23, 2019, the TEAC ruled in favour of the Spanish Tax Authorities. The Company subsequently appealed this ruling to the *Audiencia Nacional* (National High Court) on December 20, 2019, and on July 24, 2020 filed submissions in support of its case. The Company does not expect a hearing at the National High Court until late 2023 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 classified this matter as a contingent liability.

IAG Loyalty VAT

In the year ended December 31, 2022 and through to the date of this report, His Majesty's Revenue and Customs (HMRC) has issued notices of VAT assessments for the 13 months ended March 2019 to Avios Group (AGL) Limited, a controlled undertaking of the Group trading as IAG Loyalty. At December 31, 2022 and through to the date of these financial statements HMRC's enquiries into IAG Loyalty's VAT position remain at an early stage. The Group has reviewed the position with its advisors and considers it has strong arguments to support its VAT accounting, including having received rulings previously from HMRC on the matter, and therefore does not consider it probable that an adverse ruling will eventuate. Given the above the Group does not consider it appropriate to record any provision. It is further not possible to estimate reliably any exposure that may arise from this matter until HMRC's enquiries are further progressed. The Group expects further developments of these matters during the remainder of 2023.

11 Earnings per share

€ million	**2022**	2021
Earnings/(losses) attributable to equity holders of the parent for basic earnings/(losses) per share	**431**	(2,933)
Income statement impact of convertible bonds	**(104)**	–
Diluted earnings/(losses) attributable to equity holders of the parent and diluted earnings/(losses) per share	**327**	(2,933)

	2022 Number '000	2021 Number '000
Weighted average number of ordinary shares in issue	**4,958,420**	4,963,945
Weighted average number of ordinary shares in issue for diluted earnings/(losses) per share	**5,344,152**	4,963,945

€ cents	**2022**	2021
Basic earnings/(losses) per share	**8.7**	(59.1)
Diluted earnings/(losses) per share	**6.1**	(59.1)

The effect of the assumed conversion of the €825 million convertible bond 2028 and outstanding employee share schemes have a dilutive impact on the earnings per share for the year to December 31, 2022 due to the reported profit after tax for the year, but are antidilutive for the year to December 31, 2021 due to the reported loss after tax for the year, and therefore have not been included in the diluted loss per share calculation for 2021.

For information relating to Adjusted earnings/(losses) per share refer to the Alternative performance measures section.

12 Dividends

The Directors propose that no dividend be paid for the year to December 31, 2022 (2021: €nil).

The future dividend capacity of the Group is dependent on the liquidity requirements and the distributable reserves of the Group's main operating companies and their capacity to pay dividends to the Company, together with the Company's distributable reserves and liquidity.

Certain debt obligations place restrictions or conditions on the payment of dividends from the Group's main operating companies to the Company, including a loan to British Airways partially guaranteed by UKEF and loans to Iberia and Vueling partially guaranteed by the *Instituto de Crédito Oficial* (ICO) in Spain; these loans can be repaid early without penalty at the election of each company. In Spain, Iberia and Vueling are not permitted to make dividend payments in the reporting period in which they are in receipt of *Expedientes de Regulación Temporal de Empleo* or 'ERTE' (Temporary Employment Regulation Records). British Airways agreed with the Trustee of its main UK defined benefit pension scheme (NAPS) as part of the triennial valuation as at March 31, 2021 that, subject to the over-funding protection mechanism, no dividends will be paid to IAG before December 31, 2023 and that any dividends paid to IAG from January 1, 2024 through to September 30, 2025, will trigger a pension contribution of 50 per cent of the amount of the dividend. Further details on the British Airways dividend restrictions agreed with NAPS are given in note 32a.

13 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2021	26,936	2,982	1,501	31,419
Additions	709	38	37	784
Modification of leases	236	(2)	(26)	208
Disposals	(3,035)	(74)	(135)	(3,244)
Reclassifications	(4)	–	(1)	(5)
Transfers to Non-current assets held for sale (note 16)	(111)	–	–	(111)
Exchange movements	1,265	181	74	1,520
Balance at December 31, 2021	25,996	3,125	1,450	30,571
Additions	3,765	61	101	**3,927**
Modification of leases	241	129	–	**370**
Disposals	(1,700)	(406)	(120)	**(2,226)**
Reclassifications	(4)	–	–	**(4)**
Transfers to Non-current assets held for sale (note 16)	(44)	–	–	**(44)**
Exchange movements	(552)	(73)	(31)	**(656)**
December 31, 2022	**27,702**	**2,836**	**1,400**	**31,938**
Depreciation and impairment				
Balance at January 1, 2021	11,571	1,282	1,035	13,888
Depreciation charge for the year	1,500	154	84	1,738
Impairment (reversal)/charge for the year[1]	(3)	19	–	16
Disposals	(2,699)	(63)	(105)	(2,867)
Modification of leases	–	–	(14)	(14)
Transfers to Non-current assets held for sale (note 16)	(91)	–	–	(91)
Exchange movements	602	81	57	740
Balance at December 31, 2021	10,880	1,473	1,057	13,410
Depreciation charge for the year	1,642	168	79	**1,889**
Impairment reversal for the year[1]	(8)	–	–	**(8)**
Disposals	(857)	(403)	(107)	**(1,367)**
Transfers to Non-current assets held for sale (note 16)	(25)	–	–	**(25)**
Exchange movements	(247)	(32)	(28)	**(307)**
December 31, 2022	**11,385**	**1,206**	**1,001**	**13,592**

1 For details regarding the impairment reversal on fleet assets refer to the Alternative performance measures section. For details regarding the operating segment in which the impairment (reversal)/charge arose, refer to note 5.

	Fleet	Property	Equipment	Total
Net book values				
December 31, 2022	**16,317**	**1,630**	**399**	**18,346**
December 31, 2021	15,116	1,652	393	17,161
Analysis at December 31, 2022				
Owned	7,242	833	338	**8,413**
Right of use assets (note 14)	7,993	684	20	**8,697**
Progress payments	1,071	113	40	**1,224**
Assets not in current use	11	–	1	**12**
Property, plant and equipment	**16,317**	**1,630**	**399**	**18,346**
Analysis at December 31, 2021				
Owned	5,736	916	330	6,982
Right of use assets (note 14)	8,626	640	37	9,303
Progress payments	748	96	26	870
Assets not in current use	6	–	–	6
Property, plant and equipment	15,116	1,652	393	17,161

The net book value of property comprises:

€ million	2022	2021
Freehold	**469**	495
Right of use assets (note 14)	**684**	640
Long leasehold improvements with a contractual life in excess of 50 years	**301**	311
Short leasehold improvements with a contractual life of less than 50 years	**176**	206
Property	**1,630**	1,652

At December 31, 2022, bank and other loans of the Group are secured on owned fleet assets with a net book value of €3,931 million (2021: €3,081 million).

14 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, 2021	14,008	893	99	15,000
Additions	240	15	–	255
Modifications of leases	236	(2)	(26)	208
Disposals	(72)	(12)	(1)	(85)
Reclassifications[1]	(759)	–	–	(759)
Exchange movements	565	55	2	622
December 31, 2021	14,218	949	74	15,241
Additions	586	28	1	**615**
Modification of leases	241	129	–	**370**
Disposals	(214)	(171)	(2)	**(387)**
Reclassifications[1]	(849)	–	(24)	**(873)**
Exchange movements	(232)	(24)	–	**(256)**
December 31, 2022	**13,750**	**911**	**49**	**14,710**
Depreciation and impairment				
Balance at January 1, 2021	4,884	198	43	5,125
Depreciation charge for the year	963	87	8	1,058
Impairment charge for the year[2]	4	16	–	20
Disposals	(71)	(4)	(1)	(76)
Modification of leases	–	–	(14)	(14)
Reclassifications[1]	(394)	–	–	(394)
Exchange movements	206	12	1	219
December 31, 2021	5,592	309	37	5,938
Depreciation charge for the year	991	93	8	**1,092**
Impairment reversal for the year[2]	(8)	–	–	**(8)**
Disposals	(191)	(170)	(1)	**(362)**
Reclassifications[1]	(528)	–	(14)	**(542)**
Exchange movements	(99)	(5)	(1)	**(105)**
December 31, 2022	**5,757**	**227**	**29**	**6,013**
Net book value				
December 31, 2022	**7,993**	**684**	**20**	**8,697**
December 31, 2021	8,626	640	37	9,303

1 Amounts with a net book value of €331 million (2021: €365 million) were reclassified from ROU assets to Owned Property, plant and equipment at the cessation of the respective leases. The assets reclassified relate to leases with purchase options that were grandfathered as ROU assets upon transition to IFRS 16, for which the Group had been depreciating over the expected useful life of the aircraft, incorporating the purchase option.
2 For details regarding the impairment (reversal)/charge on fleet assets refer to the Alternative performance measures section.

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

€ million	2022	2021
January 1	**9,637**	10,024
Additions	**639**	310
Modifications of leases	**378**	208
Repayments	**(1,886)**	(1,855)
Interest expense	**464**	400
Disposals	**(28)**	(8)
Exchange movements	**415**	558
December 31	**9,619**	9,637
Current	**1,766**	1,521
Non-current	**7,853**	8,116

b Amounts recognised in the Consolidated income statement

€ million	2022	2021
Amounts not included in the measurement of lease liabilities		
Variable lease payments	**2**	1
Expenses relating to short-term leases	**39**	26
Amounts expensed as a result of the recognition of ROU assets and lease liabilities		
Interest expense on lease liabilities	**464**	400
Gains/(losses) arising from sale and leaseback transactions	**1**	(6)
Depreciation charge for the year	**1,092**	1,058
Impairment (reversal)/charge for the year	**(8)**	20

During 2020 the IASB issued 'COVID-19 related rent concessions – amendment to IFRS 16 Leases' to provide a practical expedient to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions for those lease modifications arising as a direct result of COVID-19. During 2021, the IASB extended the period for the application of the practical expedient.

The Group has applied this practical expedient to all such modifications in the preparation of the consolidated financial statements. The net impact on the Income statement for 2022 was €nil (2021: credit of €8 million) reflecting the changes to lease payments that arose from such concessions.

c Amounts recognised in the Consolidated cash flow statement

€ million	2022	2021[1]
Cash flows arising from transactions giving rise to lease liabilities		
Total cash outflows arising from lease liabilities – aircraft	**1,699**	1,711
Total cash outflows arising from lease liabilities – other	**178**	137
Total cash inflows arising from sale and leaseback transactions – aircraft	**718**	213
Cash flows arising from transactions that do not give rise to the recognition of lease liabilities		
Total cash outflows arising from short-term leases, low-value assets and variable lease payments	**41**	27
Total cash outflows arising from asset financed liabilities	**292**	209

1 During 2022, the Group has re-presented cash flow amounts to disclose amounts arising from all contractual leases as opposed to only those that give rise to right of use assets and lease liabilities.

The Group is not exposed to future cash outflows as at December 31, 2022 and December 31, 2021, for which no amount has been recognised in relation to leases not yet commenced to which the Group is committed.

d Maturity profile of the lease liabilities

The maturity profile of the lease liabilities is disclosed in note 27f.

e 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) at December 31, 2022, for which no amount has been recognised, for potential extension options of €945 million (2021: €795 million) due to it not being reasonably certain that these leases will be extended.

f Lessor accounting

The Group leases out certain of its property, plant and equipment. The Group has classified those leases that transfer substantially all of the risks and rewards of ownership to the lessee as finance leases and those leases that do not transfer substantially all of the risks and rewards of ownership to the lessee as operating leases.

Finance leases

Rental income from finance leases recognised by the Group in 2022 was €4 million (2021: €nil). Rental income is recorded within Property, IT and other within the Income statement.

The following table sets out a maturity analysis of finance lease receipts, showing the undiscounted lease receipts to be received after the reporting date:

€ million	**2022**	2021
Within one year	**2**	4
One to two years	**6**	5
Two to five years	**–**	2
More than five years	**–**	–
Total	**8**	11

15 Capital expenditure commitments

Capital expenditure authorised and contracted but not provided for in the accounts, including outstanding aircraft commitments, at December 31, 2022 amounted to €13,749 million (December 31, 2021: €10,911 million). The outstanding aircraft commitments including the expected delivery timeframes, totalling €13,484 million (2021: €10,813 million), are as follows:

Aircraft future deliveries at December 31	**2022**[1]	2021[1]
Airbus A320 (from 2023 to 2028)	**45**	22
Airbus A321 (from 2023 to 2028)	**46**	20
Airbus A321 XLR (from 2024 to 2026)	**14**	14
Airbus A350-900 (from 2023 to 2030)	**7**	16
Airbus A350-1000 (from 2023 to 2024)	**5**	10
Boeing 777-9 (from 2026 to 2028)	**18**	18
Boeing 787-10 (from 2023 to 2024)	**7**	10
Boeing 737-8200 (from 2024 to 2025)	**25**	–
Boeing 737-10 (from 2026 to 2027)	**25**	–
Total	**192**	110

1 Capital commitments exclude options to purchase additional aircraft.

In May 2022, the Group agreed to purchase 25 Boeing 737-8200 and 25 737-10 aircraft, with 100 options to purchase further such aircraft. In addition, in July 2022, the Group agreed to exercise its option over 12 Airbus A320neos/A321neos and to purchase 25 Airbus A320neos/A321neos with 50 options to purchase further such aircraft. The determination of the split between A320neos and A321neos will be made closer to delivery. Both of these agreements were subject to shareholder approval and were subsequently approved at the Extraordinary General Meeting of the Company on October 26, 2022.

The majority of these commitments are denominated in US dollars translated at the closing exchange rate at the reporting date and include escalation clauses dependent on the timing of aircraft deliveries. Under the terms of the committed purchase agreements, the Group is required to make periodic advance payments towards the purchase price, with the commitments above stated net of advance payments that have been made at the reporting date.

The Group has certain rights to defer aircraft deliveries and to cancel commitments in the event of significant delays to aircraft deliveries caused by the aircraft manufacturers. No such rights had been exercised as at December 31, 2022.

16 Non-current assets held for sale

As at December 31, 2022, the non-current assets held for sale of €19 million represented two Airbus A321 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft were presented within the British Airways segment and are expected to exit the business during 2023.

As at December 31, 2021, the non-current assets held for sale of €20 million represented three Airbus A321 aircraft. No gain or loss was recognised on classification as non-current assets held for sale. These aircraft are presented within the Aer Lingus segment and exited the business during 2022.

17 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Software	ETS assets[2]	Other[2]	Total
Cost								
Balance at January 1, 2021	593	451	253	1,555	1,474	76	85	4,487
Additions	–	–	–	–	149	33	1	183
Disposals	–	–	–	(6)	(19)	(49)	–	(74)
Exchange movements	3	–	–	56	70	2	1	132
Balance at December 31, 2021	596	451	253	1,605	1,674	62	87	4,728
Additions	–	–	–	14	218	360	1	593
Disposals	–	–	–	(6)	(52)	(9)	–	(67)
Exchange movements	(1)	–	–	(25)	(34)	(6)	–	(66)
December 31, 2022	**595**	**451**	**253**	**1,588**	**1,806**	**407**	**88**	**5,188**
Amortisation and impairment								
Balance at January 1, 2021	249	–	–	132	836	–	62	1,279
Amortisation charge for the year	–	–	–	6	167	–	5	178
Disposals	–	–	–	–	(13)	–	–	(13)
Exchange movements	–	–	–	4	42	–	(1)	45
Balance at December 31, 2021	249	–	–	142	1,032	–	66	1,489
Amortisation charge for the year	–	–	–	6	210	–	2	218
Disposals	–	–	–	–	(50)	–	–	(50)
Exchange movements	–	–	–	(2)	(23)	–	–	(25)
December 31, 2022	**249**	**–**	**–**	**146**	**1,169**	**–**	**68**	**1,632**
Net book values								
December 31, 2022	**346**	**451**	**253**	**1,442**	**637**	**407**	**20**	**3,556**
December 31, 2021	347	451	253	1,463	642	62	21	3,239

1 The net book value includes non-UK and non-EU based landing rights of €69 million (2021: €75 million) that have a definite life. The remaining average life of these landing rights is 13 years.
2 During 2022 the Group separated the ETS assets from Other intangible assets. This change resulted in an amount of €76 million and €62 million recorded within ETS assets at January 1, 2021 and January 1, 2022, respectively. There was no net change in total intangible assets.

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**
2022					
Iberia					
January 1 and December 31, 2022	–	423	306	–	**729**
British Airways					
January 1, 2022	47	809	–	–	**856**
Additions	–	14	–	–	**14**
Disposals	–	(6)	–	–	**(6)**
Exchange movements	(1)	(23)	–	–	**(24)**
December 31, 2022	46	794	–	–	**840**
Vueling					
January 1 and December 31, 2022	28	94	35	–	**157**
Aer Lingus					
January 1 and December 31, 2022	272	62	110	–	**444**
IAG Loyalty					
January 1 and December 31, 2022	–	–	–	253	**253**
December 31, 2022	**346**	**1,373**	**451**	**253**	**2,423**

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2021					
Iberia					
January 1 and December 31, 2021	–	423	306	–	729
British Airways					
January 1, 2021	44	763	–	–	807
Disposals	–	(6)	–	–	(6)
Exchange movements	3	52	–	–	55
December 31, 2021	47	809	–	–	856
Vueling					
January 1 and December 31, 2021	28	94	35	–	157
Aer Lingus					
January 1 and December 31, 2021	272	62	110	–	444
IAG Loyalty					
January 1 and December 31, 2021	–	–	–	253	253
December 31, 2021	347	1,388	451	253	2,439

Basis for calculating recoverable amount

The recoverable amounts of the Group's CGUs have been measured based on their value-in-use, which utilises a weighted average multi-scenario discounted cash flow model. The details of these scenarios are given in the going concern section of note 2, with a weighting of 70 per cent to the Base Case and 30 per cent to the Downside Case. Cash flow projections are based on the business plans approved by the relevant operating companies covering a three-year period. Cash flows extrapolated beyond the three-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using each CGU's pre-tax discount rate.

Annually the relevant operating companies prepare and approve three-year business plans, and the Board approved the Group three-year business plan in the fourth quarter of the year. Adjustments have been made to the final year of the business plan cash flows to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group's sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated and accordingly have been excluded from the value-in-use calculations (refer to note 4). The business plan cash flows used in the value-in-use calculations also reflect all restructuring of the business where relevant that has been approved by the Board and which can be executed by management under existing labour agreements.

Key assumptions

The value-in-use calculations for each CGU reflect the ongoing uncertainty of the future implications of COVID-19 and the wider economic and geopolitical environments, including updated projected cash flows for activity from 2023 through to the end of 2025. For each of the Group's CGUs the key assumptions used in the value-in-use calculations are as follows:

	2022				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin[1]	**5-13**	**5-10**	**0-10**	**4-12**	**23-25**
ASKs as a proportion of 2019[1,2]	**90-105**	**92-107**	**113-123**	**102-127**	**n/a**
Long-term growth rate	**1.7**	**1.5**	**1.4**	**1.6**	**1.7**
Pre-tax discount rate	**10.4**	**11.2**	**12.8**	**10.1**	**13.4**

	2021				
Per cent	British Airways	Iberia	Vueling	Aer Lingus	IAG Loyalty
Operating margin[1]	3-13	2-12	2-11	0-14	22-24
ASKs as a proportion of 2019[1,2]	75-103	77-100	97-119	84-115	n/a
Long-term growth rate	1.9	1.7	1.6	1.7	1.6
Pre-tax discount rate	11.8	11.4	11.1	10.1	12.0

1 ASKs as a proportion of 2019 and operating margin are both stated as the weighted average derived from the multi-scenario discounted cash flow model.
2 In prior periods the Group applied the average ASK growth per annum as a key assumption. Given the impact of COVID-19, the Group has presented ASKs as a proportion of the level of ASKs achieved in 2019, prior to the application of the terminal value calculation.

Jet fuel price ($ per MT)	Within 12 months	1-2 years	2-3 years	3 years and thereafter
2022	**867**	**809**	**780**	**780**
2021	690	673	659	659

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

The long-term growth rate is calculated for each CGU, considering a number of data points: (i) industry publications; (ii) forecast weighted average exposure in each primary market using gross domestic product (GDP); and (iii) internal analysis regarding the long-term changes in consumer preferences and the effects on demand from the increased costs to the Group of climate change. The calculation of the long-term growth rate utilises a Base Case and a Downside Case growth rate, which is then weighted on the same basis as the cash flows detailed above of 70 per cent to the Base Case and 30 per cent to the Downside Case. The terminal value cash flows and long-term growth rate incorporate the impacts of climate change insofar as they can be determined (note 4). The airlines' network plans are reviewed annually as part of the three-year business plan preparation 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 derived from both market data and industry gearing levels derived from comparable companies. CGU-specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

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

As detailed above, the Group adjusts the final year of the three-year business plans to incorporate the medium-term impacts of climate change from the Group's Flightpath Net Zero climate strategy. These adjustments include the following key assumptions: (i) a 10 per cent level of SAF consumption out of the overall fuel mix with an assumed price of €2,275 per metric tonne; (ii) a kerosene tax of €325 per metric tonne on all intra-EU flights; (iii) for costs of carbon, prices of €130, €130, €175 and €25 for EU ETS allowances, Swiss ETS allowances, UK ETS allowances and CORSIA allowances, respectively, per tonne of CO_2 equivalents emitted; and (iv) the removal of all free ETS and CORSIA allowances.

Summary of results

At December 31, 2022 management reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Reasonable possible changes in key assumptions, both individually and in combination, have been considered for each CGU, where applicable, which include reducing the operating margin by 2 percentage points in each year, ASKs by 5 percentage points in each year, long-term growth rates in the terminal value calculation to zero, increasing pre-tax discount rates by 2.5 percentage points, changing the weighting of the Base Case and the Downside Case to be 100 per cent weighted towards the Downside Case and increasing the fuel price (both jet fuel and SAF) by 45 per cent with no assumed cost recovery. Given the inherent uncertainty associated with the impact of climate change, these sensitivities represent a reasonably possible greater impact of climate change on the CGUs than that included in the impairment models.

For the British Airways, Iberia, Vueling and Aer Lingus CGUs, while the recoverable amounts are estimated to exceed the carrying amounts by €15,432 million, €3,213 million, €1,606 million and €1,407 million, respectively, the recoverable amounts would be below the carrying amounts when applying reasonable possible changes, over the forecast period, in assumptions in each of the following scenarios:

- *British Airways:* (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 22 per cent; and (ii) if the fuel price had been 27 per cent higher without cost recovery;
- *Iberia*: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 20 per cent; and (ii) if the fuel price had been 27 per cent higher without cost recovery;
- *Vueling*: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 15 per cent; and (ii) if the fuel price had been 20 per cent higher without cost recovery; and
- *Aer Lingus*: (i) if ASKs had been five per cent lower combined with a fuel price increase without cost recovery of 7 per cent; and (ii) if the fuel price had been 14 per cent higher without cost recovery.

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

18 Investments

a Investments in subsidiaries

The Group's subsidiaries at December 31, 2022 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.

The total non-controlling interest at December 31, 2022 is €6 million (2021: €6 million).

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	**2022**	2021
Total assets	**148**	115
Total liabilities	**(104)**	(85)
Revenue	**89**	64
Profit for the year	**5**	2

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

€ million	**2022**	2021
At beginning of year	**40**	29
Additions	**–**	9
Share of retained profits	**5**	2
Dividends received	**(2)**	(1)
Exchange movements	**–**	1
	43	40

At December 31, 2022 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, 2022 and December 31, 2021 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.

19 Other equity investments

Other equity investments include the following:

€ million	2022	2021
Unlisted securities	**55**	31
	55	31

The charge relating to Other equity investments was €3 million (2021: €nil).

Investment in Air Europa Holdings
On June 15, 2022, the Group entered into a financing arrangement with Globalia Corporación Empresarial, S,A, ('Globalia'), whereby, the Group provided a €100 million seven-year unsecured loan, which was convertible for a period of two years from inception into a fixed number of the shares of Air Europa Holdings, S.L. ('Air Europa Holdings'). The loan was accounted for at fair value through the Income statement and recorded as an Other non-current financial asset.

In determining the fair value of the financing arrangement, the Group utilised the income approach, whereby, the financing arrangement was valued using observable market data by which to determine an interest rate that a market participant would require to provide a loan with the same tenor and amount. This interest rate was then used to discount back the existing contractual cash flows to derive the fair value.

On August 16, 2022, the Group exercised its exchange option with Globalia and converted the Other non-current financial asset into an Other equity investment.

Immediately prior to exercising the exchange option, the fair value of the Other non-current financial asset was €65 million, representing a decrease from inception of €35 million, which has been recorded within Net change in fair value of financial instruments in the Income statement (see note 9c).

The Group determined the fair value of the investment in Air Europa Holdings using both the market approach and the income approach, whereby the Group used both observable market data and unobservable inputs. The fair value was determined on the stand-alone basis of Air Europa Holdings without consideration of potential synergies that could be obtained if the Group were able to obtain control over the operations of Air Europa Holdings. The results of these valuation approaches resulted in a fair value of €22 million, representing a difference of €43 million from the fair value of the Other non-current financial asset prior to exercising the option. This loss, which derives from the de-recognition of the loan to Globalia prior to the recognition of the investment in Air Europa Holdings, was recorded within Net change in fair value of financial instruments in the Income statement (see note 9c).

At December 31, 2022, the fair value of the investment in Air Europa Holdings was €24 million, representing an increase of €2 million since August 16, 2022, which has been recorded within Other comprehensive income.

20 Trade and other receivables

€ million	2022	2021
Amounts falling due within one year		
Trade receivables	**1,444**	850
Provision for expected credit loss	**(114)**	(115)
Net trade receivables	**1,330**	735
Prepayments and accrued income	**870**	764
Other non-trade receivables	**356**	196
Other current receivables	**1,226**	960
Amounts falling due after one year		
Prepayments and accrued income	**337**	248
Other non-trade receivables	**25**	2
Other receivables due after one year	**362**	250

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

€ million	2022	2021
At beginning of year	**115**	125
Provided during the year	**10**	8
Released during the year	**(1)**	(11)
Receivables written off during the year	**(9)**	(10)
Exchange movements	**(1)**	3
	114	115

Trade receivables are generally non-interest-bearing and on 30 days terms (2021: 30 days).

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

December 31, 2022

€ million	**Current**	**<30 days**	**30-180 days**	**180-365 days**	**> 365 days**
Trade receivables	**719**	**509**	**91**	**25**	**100**
Expected credit loss rate	**0.3%**	**0.1%**	**1.1%**	**44.0%**	**100.0%**
Provision for expected credit loss	**2**	**–**	**1**	**11**	**100**

December 31, 2021

€ million	Current	<30 days	30-180 days	180-365 days	> 365 days
Trade receivables	498	132	94	10	116
Expected credit loss rate	0.2%	0.1%	1.1%	20.0%	95.7%
Provision for expected credit loss	1	–	1	2	111

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

€ million	**2022**	2021
Cash at bank and in hand	**3,286**	2,569
Short-term deposits maturing within three months	**5,910**	5,323
Cash and cash equivalents	**9,196**	7,892
Current interest-bearing deposits maturing after three months	**403**	51
Cash, cash equivalents and other interest-bearing deposits	**9,599**	7,943

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, 2022 the Group had no outstanding bank overdrafts (2021: €nil).

Current interest-bearing deposits have maturities in excess of three months and typically within 12 months of the reporting date and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2022 Aer Lingus held €33 million of restricted cash (2021: €35 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, 2022	Cash flows	Exchange movements	New leases and modifications	Other items	**Balance at December 31, 2022**
Bank, other loans and asset financed liabilities	9,973	386	103	–	(97)	**10,365**
Lease liabilities	9,637	(1,455)	415	1,017	5	**9,619**
Cash and cash equivalents	(7,892)	(1,316)	12	–	–	**(9,196)**
Current interest-bearing deposits	(51)	(351)	(1)	–	–	**(403)**
	11,667	**(2,736)**	**529**	**1,017**	**(92)**	**10,385**

€ million	Balance at January 1, 2021	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at December 31, 2021
Bank, other loans and asset financed liabilities	5,655	4,033	261	–	24	9,973
Lease liabilities	10,024	(1,481)	559	518	17	9,637
Cash and cash equivalents	(5,774)	(1,913)	(205)	–	–	(7,892)
Current interest-bearing deposits	(143)	91	1	–	–	(51)
	9,762	730	616	518	41	11,667

22 Trade and other payables

€ million	2022	2021
Trade creditors[1]	**2,969**	2,068
Other creditors	**1,244**	898
Other taxation and social security	**228**	176
Accruals and deferred income	**768**	570
	5,209	3,712

1 Trade creditors includes €48 million (2021: €89 million) due to suppliers that have signed up to supply chain financing programmes offered by a number of partner financial institutions. Under these programmes either or both: (i) the suppliers can elect on an invoice-by-invoice basis to receive a discounted early payment from the partner financial institutions rather than being paid in line with the agreed payment terms; and/or (ii) the Group elects on an invoice-by-invoice basis for the partner financial institution to pay the supplier in line with the agreed payment terms and the Group enters into payment terms with the partner financial institution of up to 150 days with interest incurred at 2.5 per cent.

The Group assesses the arrangement against indicators to assess if liabilities which suppliers have transferred to the partner financial institutions under the supplier financing programmes continue to meet the definition of trade creditors or should be classified as borrowings. The cash flows arising from such arrangements are reported within cash flows from operating activities or within cash flows from financing activities, in the Consolidated cash flow statement, depending on whether the associated liabilities meet the definition of trade creditors or as borrowings.

At December 31, 2022 these liabilities met the criteria of Trade creditors and are excluded from the Net debt table in note 21a.

Average payment days to suppliers – Spanish Group companies

Days	2022	2021
Average payment days for payment to suppliers	**34**	34
Ratio of transactions paid	**33**	32
Ratio of transactions outstanding for payment	**53**	78

€ million	2022	2021
Total payments made	**6,676**	3,945
Total payments outstanding	**264**	147

Information on invoices paid in a period shorter than the maximum period established in the late payment regulations – Spanish Group companies

	2022	2021
Total payments made (€ million)	**5,111**	2,623
Percentage share of total payments to suppliers	**77%**	71%
Number of invoices paid (thousand)	**110**	63
Percentage share of total number of invoices paid	**48%**	48%

23 Deferred revenue on ticket sales

€ million	Customer loyalty programmes	Sales in advance of carriage	**Total**
Balance at January 1, 2022	2,820	3,732	**6,552**
Cash received from customers[1]	–	21,000	**21,000**
Revenue recognised in the Income statement[2, 3]	(780)	(19,708)	**(20,488)**
Changes in estimates	(21)	–	**(21)**
Financing charge recognised in the Income statement	21	–	**21**
Loyalty points issued to customers[4]	662	82	**744**
Exchange movements	(72)	(92)	**(164)**
Balance at December 31, 2022[5, 6]	**2,630**	**5,014**	**7,644**
Analysis:			
Current	2,304	5,014	**7,318**
Non-current	326	–	**326**
	2,630	**5,014**	**7,644**

€ million	Customer loyalty programmes	Sales in advance of carriage	Total
Balance at January 1, 2021	2,725	2,405	5,130
Cash received from customers[1]	–	7,689	7,689
Revenue recognised in the Income statement[2, 3]	(524)	(6,518)	(7,042)
Financing charge recognised in the Income statement	37	–	37
Loyalty points issued to customers[4]	407	40	447
Exchange movements	175	116	291
Balance at December 31, 2021[5, 6]	2,820	3,732	6,552
Analysis:			
Current	2,429	3,732	6,161
Non-current	391	–	391
	2,820	3,732	6,552

1 Cash received from customers is net of refunds.
2 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.
3 Included within revenue recognised in the Income statement during 2022 is an amount of €2,183 million previously held as deferred revenue at January 1, 2022 (recognised during 2021 and previously held as deferred revenue at January 1, 2021: €780 million).
4 Included within loyalty points issued to customers at December 31, 2022 is an amount of €82 million (December 31, 2021: €40 million) classified within Sales in advance of carriage representing the cash component of the consideration paid by customers, where such consideration comprises both cash and the redemption of Avios.
5 Included within Deferred revenue on ticket sales at December 31, 2022 is an amount of €911 million (December 31, 2021: €1,400 million) relating to unredeemed vouchers (including associated taxes).
6 In the year to December 31, 2022, the Group recognised €266 million (2021: €154 million) within Other revenue related to performance obligations associated with brand and marketing services recognised on the issuance of Avios for both air and non-air partners.

The unsatisfied performance obligation under the Group's customer loyalty programmes that is classified as non-current was €326 million at December 31, 2022. Of this amount, €317 million is expected to be recognised as revenue in 1 to 5 years from the reporting date and €9 million thereafter.

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Avios. Avios 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. While Avios do not have an expiry date and can be redeemed at any time in the future, a customer's membership account is closed if there is a period of 36 months of inactivity in terms of both issuances and redemptions. 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, however, with the significant disruption caused by the COVID-19 pandemic during 2020 and 2021, the Group extended the expiry period up to 24 months after the planned travel date, depending on the operating company. During the course of 2022 with the disruption caused by the COVID-19 pandemic significantly reduced, flexible fare tickets now typically expire within 12 months after the planned travel date. In addition, the significant disruption caused by the COVID-19 pandemic led to a number of flight cancellations during both 2020 and 2021, which entitled the customer to either a refund or the issuance of a voucher for future redemption.

24 Other long-term liabilities

€ million	2022	2021
Non-current trade creditors	**147**	121
Accruals and deferred income	**53**	87
	200	208

25 Long-term borrowings

a Total borrowings

	2022			2021		
€ million	Current	Non-current	Total	Current	Non-current	Total
Bank and other loans	**822**	**5,724**	**6,546**	761	6,724	7,485
Asset financed liabilities	**255**	**3,564**	**3,819**	171	2,244	2,415
Lease liabilities	**1,766**	**7,853**	**9,619**	1,521	8,116	9,637
Other financing liabilities[1]	**–**	**–**	**–**	73	–	73
Interest-bearing long-term borrowings	**2,843**	**17,141**	**19,984**	2,526	17,084	19,610

1 Other financing liabilities recognised in 2021 included sale and repurchase agreements with regard to emission allowances and represent the amount the Group repurchased during 2022.

Long-term borrowings of the Group amounting to €3,962 million (December 31, 2021: €2,434 million) are secured on owned fleet assets with a net book value of €3,931 million (December 31, 2021: €2,938 million). Asset financed liabilities are all secured on the associated aircraft or other property, plant and equipment.

b Bank and other loans

€ million	2022	2021
Floating rate pound sterling term loan guaranteed by UK Export Finance (UKEF)[1]	**2,315**	2,358
Floating rate *Instituto de Crédito Oficial* (ICO) guaranteed loans[2]	**1,070**	1,095
€700 million fixed rate 3.75 per cent unsecured bond 2029[3]	**717**	710
€825 million fixed rate 1.125 per cent convertible bond 2028[4]	**605**	757
€500 million fixed rate 2.75 per cent unsecured bond 2025[3]	**509**	508
€500 million fixed rate 0.50 per cent bond 2023[5]	**501**	499
€500 million fixed rate 1.50 per cent bond 2027[5]	**499**	498
Floating rate euro mortgage loans secured on aircraft[6]	**143**	171
Fixed rate unsecured US dollar mortgage loan[7]	**71**	85
Fixed rate unsecured bonds[8]	**56**	138
Ireland Strategic Investment Fund (ISIF) facility[9]	**50**	149
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[10]	**10**	15
€500 million fixed rate 0.625 per cent convertible bond 2022[11]	**–**	491
Fixed rate Chinese yuan mortgage loans secured on aircraft[12]	**–**	11
	6,546	7,485
Less: current instalments due on bank and other loans	**(822)**	(761)
	5,724	6,724

1 On February 22, 2021, British Airways entered into a floating rate five-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. On November 1, 2021, British Airways entered into a further 5 year term loan Export Development Guarantee Facility of €1.1 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The further facility had not been drawn as at December 31, 2022. The loan contains a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.

2 On April 30, 2020, Iberia and Vueling entered into floating rate syndicated financing agreements of €750 million and €260 million respectively. The loans are repayable from 2023 to 2026. The ICO in Spain guarantees 70 per cent of the value of loans. The loans contain a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.

3 On March 25, 2021, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1.2 billion, €500 million due March 25, 2025 and €700 million due March 25, 2029. The bonds bear a fixed rate of interest of 2.75 per cent and 3.75 per cent per annum, payable in arrears, respectively. The bonds were issued at 100 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.

4 A senior unsecured bond convertible into ordinary shares of IAG was issued by the Group on May 11, 2021; €825 million fixed rate 1.125 per cent raising net proceeds of €818 million and due in 2028. 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 244,850,715 options at inception and at December 31, 2022 and 2021 to convert into ordinary shares of IAG. The Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG. See further details below.

5 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.

6 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 2.1 and 3.6 per cent. The loans are repayable between 2024 and 2027.

7 Fixed rate unsecured US dollar mortgage loan bearing interest between 1.38 to 2.86 per cent. The loan is repayable between 2023 and 2026.
8 Total of €200 million fixed rate unsecured bonds between 3.75 to 4.93 per cent coupon repayable between 2023 and 2027.
9 On December 23, 2020, Aer Lingus entered into a floating rate financing agreement with the Ireland Strategic Investment Fund (ISIF) for €75 million. On March 27, 2021, Aer Lingus entered into a further floating rate financing agreement with the ISIF for an additional €75 million. On March 4, 2022, Aer Lingus entered into a financing arrangement with ISIF, which subsequently extinguished the existing €150 million of facilities and replaced them with a €350 million facility that matures in March 2025. On December 13, 2022, Aer Lingus early repaid €100 million of the ISIF facility, with the €100 million being available to draw again over the tenor of the facility. The facility is secured on specific landing rights. At December 31, 2022, €300 million of this facility remained undrawn.
10 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear nil interest and are repayable between 2023 and 2028.
11 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 held an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The Group redeemed the bond at maturity in November 2022 with no conversion into ordinary shares.
12 Fixed rate Chinese yuan mortgage loans, secured on specific aircraft assets of the Group were repaid in the fourth quarter of 2022.

In addition, on March 23, 2021, the Group entered into a three-year US dollar secured Revolving Credit Facility accessible by British Airways, Iberia and Aer Lingus. On August 23, 2022, the Group extended the term of the Revolving Credit Facility by an additional 12 months through to March 2025. The amount available under the facility is $1.755 billion. As at December 31, 2022 no amounts had been drawn under the facility (2021: nil). While the Group does not forecast drawing down on the Revolving Credit Facility, should it do so, the resultant debt would be secured against specific landing rights and aircraft in the respective operating companies.

Details of the 2028 convertible bond

The €825 million convertible bond issued in 2021 provides bondholders with dividend protection and includes a total of 244,850,715 options at inception and at December 31, 2022 to convert into ordinary shares of IAG. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The Group also holds an option to redeem the convertible bond, in full or in part, in cash in the event that bondholders exercise their right to convert the bond into ordinary shares of IAG.

The convertible bond is recorded at its fair value, which at December 31, 2022 was €605 million (2021: €756 million), representing a decrease of €151 million since January 1, 2022. Of this decrease, the charge recorded in Other comprehensive income arising from credit risk of the convertible bonds was €8 million and a credit recorded within Finance costs in the Income statement attributable to changes in market conditions of €159 million.

Transactions with unconsolidated entities

On April 12, 2022, the Group entered into an asset-financing structure, under which five aircraft were financed. These transactions mature between 2032 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the Iberia Pass Through Certificates, Series 2022-1, commonly referred to as Enhanced Equipment Trust Certificates (EETCs). In doing so the Group recognised €680 million of Asset financed liabilities.

On October 21, 2022, the Group entered into an asset-financing structure, under which four aircraft were financed. These transactions mature between 2032 and 2036. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2022-1. In doing so the Group recognised €159 million of Asset financed liabilities.

In July 2021, the Group entered into an asset-financing structure, under which seven aircraft were financed. These transactions mature between 2031 and 2035. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2021-1. In doing so the Group recognised €204 million of Asset financed liabilities.

In the fourth quarter of 2020, the Group entered into an asset-financing structure, under which nine aircraft were financed. These transactions mature between 2028 and 2032. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2020-1. In doing so the Group recognised €472 million of Asset financed liabilities.

In the third quarter of 2019, the Group entered into an asset-financing structure, under which eight aircraft were financed, with the transactions maturing between 2029 and 2034. This arrangement was transacted through an unconsolidated structured entity, which in turn issued the British Airways Pass Through Certificates, Series 2019-1. In doing so the Group recognised €725 million of Asset financed liabilities.

As at December 31, 2022, Asset financed liabilities include cumulative amounts of €2,983 million (2021: €1,489 million) and the associated assets recorded within Property, plant and equipment include cumulative amounts of €3,400 million (2021: €3,029 million) associated with transactions with unconsolidated structured entities having issued EETCs.

c Reconciliation of movements of liabilities to cash flows arising from financing activities

€ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at January 1, 2022	9,973	9,637	(136)	19,474
Proceeds from borrowings	1,436	–	–	1,436
Repayment of borrowings	(1,050)	–	–	(1,050)
Repayment of lease liabilities	–	(1,455)	–	(1,455)
Settlement of derivative financial instruments[1]	–	–	1,029	1,029
Total changes from financing cash flows	**386**	**(1,455)**	**1,029**	**(40)**
Interest paid	(334)	(422)	–	(756)
Interest expense	377	464	–	841
New leases and lease modifications	–	1,017	–	1,017
Fair value movements	(151)	–	(990)	(1,141)
Other non-cash movements	11	(37)	–	(26)
Exchange movements	103	415	26	544
Balance at December 31, 2022	**10,365**	**9,619**	**(71)**	**19,913**

€ million	Bank, other loans and asset financed liabilities	Lease liabilities	Derivatives to mitigate volatility in financial liabilities	Total
Balance at January 1, 2021	5,655	10,024	429	16,108
Proceeds from borrowings	4,817	–	–	4,817
Repayment of borrowings	(784)	–	–	(784)
Repayment of lease liabilities	–	(1,481)	–	(1,481)
Settlement of derivative financial instruments[1]	–	–	(268)	(268)
Total changes from financing cash flows	4,033	(1,481)	(268)	2,284
Interest paid	(212)	(367)	(26)	(605)
Interest expense	307	393	–	700
New leases and lease modifications	–	518	–	518
Fair value movements	(69)	–	(286)	(355)
Other non-cash movements	(2)	(9)	15	4
Exchange movements	261	559	–	820
Balance at December 31, 2021	9,973	9,637	(136)	19,474

1 Gain of €1,036 million (2021: loss of €268 million) relating to derivatives not designated in hedge relationships and reported within Net cash flows from financing activities in the Cash flow statement, and a loss of €7 million (2021: €nil) relating to interest rate derivatives designated in hedge relationships and reported within Net cash flows from operating activities.

d Total loans, asset financed liabilities, other financing liabilities and lease liabilities

Million	2022	2021
Loans		
Bank:		
US dollar	**$75**	$98
Euro	**€1,273**	€1,430
Pound sterling	**£2,026**	£2,003
Chinese yuan	**-**	CNY 78
	€3,659	€3,883
Fixed rate bonds:		
Euro	**€2,887**	€3,602
	€2,887	€3,602
Asset financed liabilities		
US dollar	**$3,285**	$2,192
Euro	**€542**	€408
Japanese yen	**¥25,748**	¥8,226
	€3,819	€2,415
Other financing liabilities		
Euro	**-**	€73
	-	€73
Lease liabilities		
US dollar	**$7,621**	$7,709
Euro	**€1,239**	€1,547
Japanese yen	**¥71,994**	¥75,450
Pound sterling	**£620**	£569
	€9,619	€9,637
Total interest-bearing borrowings	**€19,984**	€19,610

26 Provisions

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims and contractual disputes provisions	ETS provisions[1]	Other provisions[1]	**Total**
Net book value January 1, 2022[1]	1,832	274	720	90	9	74	**2,999**
Provisions recorded during the year	596	14	74	47	134	31	**896**
Reclassifications	(15)	–	–	–	–	–	**(15)**
Utilised during the year	(167)	(81)	(32)	(2)	(10)	(31)	**(323)**
Release of unused amounts	(42)	(12)	(24)	(45)	–	(14)	**(137)**
Unwinding of discount	38	–	5	–	–	–	**43**
Remeasurements	27	–	(69)	–	–	–	**(42)**
Exchange differences	131	(1)	(1)	(1)	(1)	–	**127**
Net book value December 31, 2022	**2,400**	**194**	**673**	**89**	**132**	**60**	**3,548**
Analysis:							
Current	508	112	70	66	132	8	**896**
Non-current	1,892	82	603	23	–	52	**2,652**
	2,400	194	673	89	132	60	**3,548**

1 During 2022 the Group has separated the ETS provision from Other provisions. This change resulted in an amount of €9 million recorded within ETS provisions at January 1, 2022. There was no net change in total provisions.

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.

Included within the release of unused restoration and handback provisions is an amount of €7 million relating to the reversal of contractual lease provisions, which represent the estimation of the cost to fulfil the handback conditions associated with the leased aircraft that had been permanently stood down and impaired during the year to December 31, 2020, which have subsequently been stood back up with a resultant impairment reversal during the year to December 31, 2022.

The provisions are determined by discounting the future cash flows using pre-tax risk free rates specific to the tenor of the provision and the currency in which it arises. The unwinding of the discounting of the provisions is recorded as a finance cost in the Income statement (refer to note 9a).

Remeasurements arising from changes in estimates relating to the effects of both discounting and inflation are recorded in the Income statement to the extent they relate to avoidable provisions or recorded as an adjustment to the right of use asset (see note 14) for those unavoidable provisions.

Where amounts are finalised and the uncertainty relating to these provisions removed, the associated liability is reclassified to either current or non-current Other creditors, dependent on the expecting timing of settlement.

Restructuring provisions

The restructuring provision includes provisions for voluntary redundancies including the collective redundancy programme for Iberia's Transformation Plan implemented prior to 2022, 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 3.2 per cent. The payments related to this provision will continue over the next 7 years.

At December 31, 2022, €185 million of this provision related to collective redundancy programmes (2021: €270 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 (both pilots and cabin crew) who the Group expects to still be in employment by the age of 60, at which point the individuals will have the option of continuing full time employment, being placed on reserve and retaining their employment relationship until reaching the statutory retirement age (referred to as 'active'), or alternatively taking early retirement (referred to as 'inactive'). The Group is required to remunerate these employees until they reach the statutory retirement age. In determining the provision to be recognised for the proportion of employees that will elect to be inactive, the Group estimates a number of financial assumptions, including, but not limited to: (i) medium to long-term salary growth and inflation; (ii) the discount rate to apply; (iii) the rate of public social security growth; (iv) mortality rates; and (vi) staff turnover.

The provision was re-assessed at December 31, 2022 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 3.72 per cent for active employees and 3.50 per cent for inactive employees (2021: iBoxx index of 0.91 per cent and 0.00 per cent, respectively), the PERM/F-2000P mortality tables, and assuming contractual salary increases of up to 6.1 per cent in 2023 and 2.0 per cent in 2024 and then 2.0 per cent per annum thereafter derived from increases in the Consumer Price Index (CPI). At December 31, 2022, there were a total of 4,827 flight crew (December 31, 2021: 4,533) eligible for making such elections when they reach the age of 60. At December 31, 2022, there were 426 employees having reached the age of 60 who had elected to become inactive (December 31, 2021: 333). In addition, at December 31, 2022 the average length of employment of the eligible flight crew was 18 years (December 31, 2021: 20 years). This is mainly a long-term provision. Remeasurements in the valuation of this provision are recorded in Other comprehensive income. The amount relating to this provision was €611 million at December 31, 2022 (2021: €644 million).

Legal claims and contractual disputes provisions

Legal claims and contractual disputes provisions include:

- amounts for multi-party claims from groups of employees on a number of matters related to their employment, including claims for additional holiday pay and for age discrimination;
- amounts related to ongoing contractual disputes arising from the Group's operations; 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 settle the remaining claims and fines is subject to uncertainty.

ETS provisions

ETS provisions relate to the Emissions Trading Scheme for CO_2 equivalent emitted on flights within the EU, Switzerland and the United Kingdom and due to be settled in the year subsequent to the reporting date. See note 4 for further information.

27 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), credit risk and liquidity risk. The principal impacts of these on the financial statements are discussed below:

a Fuel price risk

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

The following table demonstrates the sensitivity of the Group's principal foreign exchange exposure to a reasonable possible change in the fuel price, based on current market volatility, with all other variables held constant on the result before tax and equity[1]. The sensitivity analysis has been performed on fuel derivatives (both those designated in hedge relationships and those not designated in hedge relationships) at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to December 31, 2022 and 2021.

2022			2021		
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
45	**-**	**1,402**	30	-	834
(45)	**-**	**(1,200)**	(30)	-	(520)

1 The sensitivity analysis on equity excludes the sensitivity amounts recognised in the result before tax.

During 2022, following a substantial recovery in the global price of crude oil and jet fuel, which continues to be impacted by geopolitical events in Ukraine, the fair value of such net asset derivative instruments was €87 million at December 31, 2022, representing a decrease of €201 million since January 1, 2022.

b Foreign currency risk

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

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, based on current market volatility, with all other variables held constant on the result before tax and equity[1]. The sensitivity analysis has been performed on interest-bearing liabilities, lease liabilities and derivatives (both those designated in hedge relationships and those not designated in hedge relationships) denominated in foreign currencies at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to December 31, 2022 and 2021.

	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
2022	**20**	**904**	**1,299**	**20**	**(20)**	**241**	**20**	**(58)**	**(70)**
	(20)	**(922)**	**(1,161)**	**(20)**	**18**	**(241)**	**(20)**	**58**	**70**
2021	10	255	523	10	(10)	134	10	(17)	(41)
	(10)	(260)	(481)	(10)	10	(134)	(10)	17	41

1 The sensitivity analysis on equity, excludes the sensitivity amounts recognised in the result before tax.

At December 31, 2022, the fair value of foreign currency net asset derivative instruments was €108 million, representing a decrease of €77 million since January 1, 2022. These comprise both derivatives designated in hedge relationships and those derivatives that are not designated into a hedge relationship at inception. Those derivatives not designated in a hedge relationship on inception have their mark-to-market movements recorded directly in the Income statement and recognised within Net currency retranslation (charges)/credits.

c Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits. In order to mitigate the interest rate risk, the Group's policies allow a variety of over the counter derivative instruments to be entered into.

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, based on expectations regarding forward rate movements, on the result before tax and equity[1]. The sensitivity analysis has been performed on interest rate derivatives (both those designated in hedge relationships and those not designated in hedge relationships) at the reporting date only and is not reflective of the impact had the sensitised rates been applied through the duration of the years to December 31, 2022 and 2021.

	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
2022	**150**	**-**	**6**	**150**	**5**	**17**	**150**	**(35)**	**-**
	(150)	**-**	**(7)**	**(150)**	**(4)**	**(17)**	**(150)**	**35**	**-**
2021	50	-	-	50	3	10	50	(2)	-
	(50)	-	-	(50)	(3)	(9)	(50)	2	-

1 The sensitivity analysis on equity excludes the sensitivity amounts recognised in the result before tax.

For details regarding the Group's management of interest rate benchmark reform, refer to note 27i.

d Credit risk

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

At each period end, the Group assesses the effect of counterparties' and the Group's own credit risk on the fair value of derivatives and any ineffectiveness arising is immediately recognised in the Income statement within Other non-operating expenses.

e 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 into account any guarantees in place or other credit enhancements.

At December 31, 2022 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2022**	2021
United Kingdom	**51%**	44%
Spain	**1%**	–
Ireland	**20%**	18%
Rest of eurozone	**27%**	34%
Rest of world	**1%**	4%

f 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, 2022 the Group had undrawn overdraft facilities of €53 million (2021: €53 million).

The Group held the following undrawn general and committed aircraft financing facilities:

	2022	
Million	**Currency**	**€ equivalent**
General facilities[1]		
Euro facilities expiring between January and March 2023	**€87**	**87**
US dollar facility expiring November 2023	**$50**	**47**
Euro facility expiring March 2025	**€300**	**300**
US dollar facility expiring March 2025	**$1,755**	**1,654**
Pound sterling facility expiring November 2025	**£1,000**	**1,143**
		3,231
Committed aircraft facilities		
US dollar facilities expiring between February and September 2023[2]	**$386**	**364**
US dollar facility expiring April 2023[2]	**$273**	**257**
US dollar facilities expiring between October 2023 and March 2024[3]	**$525**	**495**
		1,116

	2021	
Million	Currency	€ equivalent
General facilities[1]		
Euro facilities expiring between January and July 2022	€27	27
Euro facilities expiring March 2023	€60	60
US dollar facility expiring May 2022	$50	44
US dollar facility expiring March 2024	$1,755	1,556
Pound sterling facility expiring November 2025	£1,000	1,177
		2,864
Committed aircraft facilities		
US dollar facility expiring September 2022[2]	$635	563
US dollar facilities expiring March 2024[3]	$635	563
		1,126

1 The general facilities can be drawn at any time at the discretion of the Group subject to the provision of up to three days' notice of the intended utilisation, depending on the facility.
2 The aircraft facilities maturing in 2023 are available for specific committed aircraft deliveries.
3 The aircraft facilities maturing between October 2023 and March 2024 (2021: maturing in March 2024) are available for specific committed aircraft deliveries and require the Group to give three months' notice to the counterparty of its intention to utilise the facilities.

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 2022**
Interest-bearing loans and borrowings:						
Asset financing liabilities	(196)	(190)	(374)	(1,081)	(2,823)	**(4,664)**
Lease liabilities	(955)	(1,050)	(2,120)	(3,374)	(5,295)	**(12,794)**
Fixed rate borrowings	(64)	(523)	(78)	(1,242)	(757)	**(2,664)**
Floating rate borrowings	(227)	(146)	(455)	(3,191)	–	**(4,019)**
Trade and other payables	(5,209)	–	(200)	–	–	**(5,409)**
Derivative financial instruments (assets):						
Interest rate derivatives	42	9	12	9	–	**72**
Foreign exchange contracts	245	195	46	–	–	**486**
Fuel derivatives	122	62	13	–	–	**197**
Derivative financial instruments (liabilities):						
Interest rate derivatives	(4)	(1)	(1)	(3)	–	**(9)**
Foreign exchange contracts	(185)	(121)	(68)	–	–	**(374)**
Fuel derivatives	(42)	(59)	(10)	–	–	**(111)**
December 31, 2022	**(6,473)**	**(1,824)**	**(3,235)**	**(8,882)**	**(8,875)**	**(29,289)**

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2021
Interest-bearing loans and borrowings:						
Asset financing liabilities	(122)	(116)	(230)	(678)	(1,714)	(2,860)
Lease liabilities	(920)	(854)	(1,814)	(3,839)	(5,524)	(12,951)
Fixed rate borrowings	(151)	(529)	(578)	(690)	(2,094)	(4,042)
Floating rate borrowings	(129)	(285)	(428)	(3,368)	(16)	(4,226)
Other financing liabilities	(73)	–	–	–	–	(73)
Trade and other payables	(3,712)	–	(208)	–	–	(3,920)
Derivative financial instruments (assets):						
Interest rate derivatives	–	1	2	3	–	6
Foreign exchange contracts	227	52	46	1	–	326
Fuel derivatives	157	129	48	–	–	334
Derivative financial instruments (liabilities):						
Interest rate derivatives	(12)	(10)	(7)	(3)	–	(32)
Foreign exchange contracts	(67)	(38)	(33)	(6)	–	(144)
Fuel derivatives	(14)	(13)	(18)	–	–	(45)
December 31, 2021	(4,816)	(1,663)	(3,220)	(8,580)	(9,348)	(27,627)

g 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, 2022

€ million	Gross value of financial instruments	Gross amounts set off in the Balance sheet[1]	Net amounts of financial instruments in the Balance sheet	Related amounts not offset in the Balance sheet[1]	**Net amount**
Financial assets					
Derivative financial assets	760	(34)	726	(5)	**721**
Financial liabilities					
Derivative financial liabilities	505	(34)	471	5	**476**

1 The Group has pledged cash and cash equivalents as collateral against certain of its derivative financial liabilities. As December 31, 2022, the Group recognised €nil of collateral (2021: €nil) offset in the balance sheet and €5 million (2021: €30 million) not offset in the Balance sheet.

December 31, 2021

€ million	Gross value of financial instruments	Gross amounts set off in the Balance sheet	Net amounts of financial instruments in the Balance sheet	Related amounts not offset in the Balance sheet	Net amount
Financial assets					
Derivative financial assets	628	(8)	620	(30)	590
Financial liabilities					
Derivative financial liabilities	181	(8)	173	30	203

h 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 before exceptional items ratio. For the year to December 31, 2022, the net debt to EBITDA before exceptional items was 3.1 times (2021: minus 11.5 times). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the going concern section in note 2.

i Managing interest rate benchmark reform and associated risks

Overview

A reform of major interest rate benchmarks is being undertaken globally, including the replacement of certain interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that are expected to mature subsequent to December 31, 2022, and as such will be replaced as part of these market-wide initiatives. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

During 2020 the Group established an IBOR transition working group and project plan, led by Group Treasury. This project has and continues to consider the required changes to systems, processes, risk management and valuation models, as well as managing any accounting and tax implications. During the course of 2022, the Group, and the counterparties to the financial instruments, have transitioned the majority of such instruments to an alternative benchmark rate and in order to enable such transitions, changes to systems, processes and models have been implemented. Those financial instruments that have not transitioned at December 31, 2022 relate to those with a US dollar LIBOR component, which is not expected to convert to an alternative risk-free rate until mid-2023, subject to further consultation.

Reforms to the Euro Interbank Offered Rate (EURIBOR) methodology to enable it to meet the criteria of a risk-free rate were completed in 2019. As such the Group expects to continue to utilise financial instruments with a EURIBOR component without transitioning to an alternative benchmark rate.

Derivative and non-derivative financial instruments and hedge accounting

While the Group has transitioned a number of its derivative and non-derivative financial instruments to an alternative benchmark rate, certain interest rate swap derivative financial instruments and non-derivative financial instruments continue to have their floating legs indexed to US dollar LIBOR.

For derivative financial instruments there is no uncertainty associated with IBOR reform as at December 31, 2022, as such instruments either mature prior to the date of withdrawal of the US dollar LIBOR, or where maturity is subsequent to the date of withdrawal of the US dollar LIBOR, the final pricing date for such instruments is prior to the date of withdrawal. Accordingly, the Group does not intend to transition such instruments to an alternative benchmark and these derivatives continue to be recognised as hedging instruments in hedge relationships, with the hedged item being those non-derivative financial instruments indexed to US dollar LIBOR.

Non-derivative financial instruments predominantly relate to those lease liabilities with a US dollar LIBOR component. The Group has such leases with a limited number of counterparties for which the Group expects to transition to an alternative benchmark by June 30, 2023.

The table below provides an overview of the IBOR-related exposures as at December 31, 2022. Non-derivative financial instruments are presented on the basis of their carrying values, while derivative financial instruments are presented on the basis of their nominal amounts.

€ million	Non-derivative financial instruments – carrying value	Derivative financial instruments – nominal amount
US dollar LIBOR	461	305

28 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2022 and December 31, 2021 by nature and classification for measurement purposes is as follows:

December 31, 2022

	Financial assets				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets					
Other equity investments	–	55	–	–	**55**
Derivative financial instruments	–	–	81	–	**81**
Other non-current assets	180	–	–	182	**362**
Current assets					
Trade receivables	1,330	–	–	–	**1,330**
Other current assets	308	–	–	918	**1,226**
Derivative financial instruments	–	–	645	–	**645**
Other current interest-bearing deposits	403	–	–	–	**403**
Cash and cash equivalents	9,196	–	–	–	**9,196**

	Financial liabilities				
€ million	Amortised cost	Fair value through Other comprehensive income	Fair value through Income statement	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Lease liabilities	7,853	–	–	–	**7,853**
Interest-bearing long-term borrowings	8,692	–	596	–	**9,288**
Derivative financial instruments	–	–	84	–	**84**
Other long-term liabilities	131	–	–	69	**200**
Current liabilities					
Lease liabilities	1,766	–	–	–	**1,766**
Current portion of long-term borrowings	1,068	–	9	–	**1,077**
Trade and other payables	4,898	–	–	311	**5,209**
Derivative financial instruments	–	–	387	–	**387**

December 31, 2021

€ million	Financial assets: Amortised cost	Financial assets: Fair value through Other comprehensive income	Financial assets: Fair value through Income statement	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets					
Other equity investments	–	31	–	–	31
Derivative financial instruments	–	–	77	–	77
Other non-current assets	126	10	–	114	250
Current assets					
Trade receivables	735	–	–	–	735
Other current assets	363	–	–	597	960
Derivative financial instruments	–	–	543	–	543
Other current interest-bearing deposits	51	–	–	–	51
Cash and cash equivalents	7,892	–	–	–	7,892

€ 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					
Lease liabilities	8,116	–	–	–	8,116
Interest-bearing long-term borrowings	8,220	–	748	–	8,968
Derivative financial instruments	–	–	47	–	47
Other long-term liabilities	132	–	–	76	208
Current liabilities					
Lease liabilities	1,521	–	–	–	1,521
Current portion of long-term borrowings	996	–	9	–	1,005
Trade and other payables	3,506	–	–	206	3,712
Derivative financial instruments	–	–	126	–	126

b Fair value of financial assets and financial liabilities

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. Level 1 methodologies (market values at the balance sheet date) were used to determine the fair value of listed asset investments classified as equity investments and listed interest-bearing borrowings. The fair value of financial liabilities and financial assets incorporates own credit risk and counterparty credit risk, respectively.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

Derivative instruments are measured based on the market value of instruments with similar terms and conditions using forward pricing models, which include forward exchange rates, forward interest rates, forward fuel curves and corresponding volatility surface data at the reporting date. The fair value of derivative financial assets and liabilities are determined as follows, incorporating adjustments for own credit risk and counterparty credit risk:

- commodity reference contracts including swaps and options transactions, referenced to (i) CIF NWE cargoes jet fuel; (ii) ICE Gasoil; (iii) ICE Brent; (iv) ICE Gasoil Brent crack; (v) Jet Differential and (vi) Jet fuel Brent crack - the mark-to-market valuation prices are determined by reference to current forward curve and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate;
- currency forward and option contracts – by reference to current forward prices and standard option pricing valuation models, values are discounted to the reporting date based on the corresponding interest rate; and
- interest rate swap contracts – by discounting the future cash flows of the swap contracts at market interest rate valued with the current forward curve.

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. The fair value of the Group’s interest-bearing borrowings is adjusted for own credit risk.

Level 3: Inputs for the asset or liability that are not based on observable market data. The principal method of such valuation is performed using a valuation model that considers the present value of the dividend cash flows expected to be generated by the associated assets. For the methodology in the determination of the fair value of the investment in Air Europa Holdings, refer to note 19.

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, 2022 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	–	–	55	55	**55**
Other non-current financial assets	–	20	–	20	**31**
Derivative financial assets:					
Interest rate swaps[1]	–	66	–	66	**66**
Foreign exchange contracts[1]	–	467	–	467	**467**
Fuel derivatives[1]	–	193	–	193	**193**
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	2,925	–	2,925	**3,819**
Fixed rate borrowings	2,538	72	–	2,610	**2,967**
Floating rate borrowings	–	3,419	–	3,419	**3,579**
Derivative financial liabilities:					
Interest rate derivatives[2]	–	6	–	6	**6**
Foreign exchange contracts[2]	–	386	–	386	**386**
Fuel derivatives[2]	–	79	–	79	**79**

1 Current portion of derivative financial assets is €645 million.
2 Current portion of derivative financial liabilities is €387 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2021 are set out below:

€ million	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total	Carrying value Total
Financial assets					
Other equity investments	–	–	31	31	31
Derivative financial assets:					
Interest rate swaps[1]	–	5	–	5	5
Foreign exchange contracts[1]	–	314	–	314	314
Fuel derivatives[1]	–	301	–	301	301
Financial liabilities					
Interest-bearing loans and borrowings:					
Asset financed liabilities	–	2,583	–	2,583	2,415
Fixed rate borrowings	3,492	265	–	3,757	3,863
Floating rate borrowings	–	3,622	–	3,622	3,622
Other financing liabilities	–	73	–	73	73
Derivative financial liabilities:					
Interest rate derivatives[2]	–	31	–	31	31
Foreign exchange contracts[2]	–	129	–	129	129
Fuel derivatives[2]	–	13	–	13	13

1 Current portion of derivative financial assets is €543 million.
2 Current portion of derivative financial liabilities is €126 million.

On June 15, 2022, the Group entered into a financing arrangement with Globalia, which was classified as a Level 2 financial asset. On August 16, 2022, the Group exercised the conversion option within the financing arrangement leading to the de-recognition of the Level 2 financial asset and the recognition of an Other equity investment in Air Europa Holdings, which was recorded as an addition to a Level 3 financial asset. Refer to note 19 for further details. There have been no other transfers between levels of the fair value hierarchy during the year.

Financial assets, other equity instruments, financial liabilities and derivative financial assets and liabilities are all measured at fair value in the consolidated financial statements. Interest-bearing borrowings, with the exception of the €825 million convertible bond due 2028 which is measured at fair value, are measured at amortised cost.

c Level 3 financial assets reconciliation

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

€ million	2022	2021
Opening balance for the year	31	29
Addition of Air Europa Holdings	22	–
Additions - other	2	2
Losses recognised in Income statement	(2)	–
Gains recognised in Other comprehensive income	2	–
Closing balance for the year	**55**	31

For details regarding the valuation of Air Europa Holdings, refer to note 19.

d Hedges

Cash flow hedges

At December 31, 2022 the Group's principal risk management activities that were hedging future forecast transactions were:

- foreign exchange contracts, hedging foreign currency exchange risk on cash inflows and certain operational payments. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement, where the hedged item is recorded directly in the Income statement, to the same caption as the underlying hedged item is classified; (ii) recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability, are recorded to the Balance sheet to the same caption as the hedged item is recognised; and (iii) recognised in equity and transferred to the Income statement, where the hedged item is a financial asset or liability, at the same time as the financial asset or liability is recorded in the Income statement. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement when the future transaction is no longer expected to occur and recorded in the relevant Income statement caption to which the hedged item is classified;
- forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel expenditure. Remeasurement gains and losses on the derivatives are (i) recognised in equity and transferred to the Income statement within Fuel, oil costs and emissions charges to match against the related fuel cash outflow, where the underlying hedged item does not give rise to the recognition of fuel inventory; and (ii) recognised in equity and transferred to the Balance sheet within Inventory, where the underlying hedged item is fuel inventory. Gains and losses recorded within Inventory are recognised in the Income statement when the underlying fuel inventory is consumed, within Fuel, oil costs and emission charges. Reclassification gains and losses on derivatives, arising from the discontinuance of hedge accounting, are recognised in the Income statement within Fuel, oil costs and emissions charges when the future transaction is no longer expected to occur;
- interest rate contracts, hedging interest rate risk on floating rate debt and certain operational payments. Remeasurement gains and losses on the derivatives are recognised in equity and transferred to the Income statement within Interest expense; and
- future loan repayments denominated in foreign currency are designated in a hedge relationship hedging foreign exchange fluctuations on revenue cash inflows. Remeasurement gains and losses on the associated loans are recognised in equity and transferred to the Balance sheet, where the hedged item is a non-financial asset or liability when the loan repayments are made (generally in instalments over the life of the loan).

The amounts included in equity are summarised below:

(Gains)/losses in respect of cash flow hedges included within equity

€ million	2022	2021
Loan repayments to hedge future revenue	87	98
Foreign exchange contracts to hedge future revenue and expenditure[1]	(178)	25
Crude, gas oil and jet kerosene derivative contracts[1]	(127)	(276)
Derivatives used to hedge interest rates[1]	(46)	58
Instruments for which hedge accounting no longer applies[1, 2]	213	247
	(51)	152
Related deferred tax charge/(credit)	20	(24)
Total amount included within equity	**(31)**	128

1 The carrying value of derivative instruments recognised in assets and liabilities is analysed in parts a and b above.
2 Relates to previously terminated hedge relationships for which the underlying forecast transactions remain expected to occur.

The notional amounts of significant financial instruments used as cash flow hedging instruments are set out below, with the prior period presentation amended to reflect the current presentation:

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	**Total December 31, 2022**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.23	1.05 to 1.45	3,582	1,355	–	–	**4,937**
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.08	0.91 to 1.26	2,578	1,318	–	–	**3,896**
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling[1]	1.23	1.00 to 1.42	371	406	458	14	**1,249**
Fuel commodity price contracts to hedge future US dollar fuel expenditure[2]	718	416 to 2,200	2,935	331	–	–	**3,266**
Interest rate contracts to hedge future interest expenditure[3]	1.04	(0.03) to 3.13	2,360	504	238	9	**3,111**

1 Expenditure includes both operating and capital expenditure.
2 Notional amounts of fuel commodity price hedging instruments represent 5.4 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.
3 The hedge range for interest rate contracts is expressed as a percentage.

Notional principal amounts (€ million)	Average hedge rate	Hedge range	Within 1 year	1-2 years	2-5 years	5+ years	Total December 31, 2021
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to pound sterling[1]	1.31	1.15 to 1.45	2,606	1,030	42	–	3,678
Foreign exchange contracts to hedge future revenue and expenditure from US dollars to euros[1]	1.18	1.08 to 1.32	1,632	735	26	–	2,393
Foreign exchange contracts to hedge future revenue and expenditure from euros to pound sterling[1]	1.23	1.08 to 1.42	396	334	543	166	1,439
Fuel commodity price contracts to hedge future US dollar fuel expenditure[2]	649	395 to 737	2,386	826	–	–	3,212
Interest rate contracts to hedge future interest expenditure[3]	1.40	(0.03) to 3.13	3,099	1,080	738	60	4,977

1 Expenditure includes both operating and capital expenditure.
2 Notional amounts of fuel commodity price hedging instruments represent 5.8 million metric tonnes of jet fuel equivalent and the hedge range is expressed as the US dollar price per metric tonne, which for those products typically priced in barrels, has been determined using a conversion factor of 7.88.
3 The hedge range for interest rate contracts is expressed as a percentage.

	Amounts recognised in the Income statement					
For the year to December 31, 2022 (€ million)	**Ineffectiveness[1]**	**Discontinuance of hedge accounting**	**Recycling to the Income Statement**	**Total recognised movements**	**Fair value movements recognised in Other comprehensive income[2]**	**Amounts reclassified to the Balance sheet**
Foreign exchange contracts to hedge future revenue and expenditure	**–**	**29**	**228**	**257**	**(525)**	**43**
Crude, gas oil and jet kerosene derivative contracts	**19**	**–**	**1,299**	**1,318**	**(1,249)**	**66**
Derivatives used to hedge interest rates	**–**	**–**	**(12)**	**(12)**	**(95)**	**–**
Loan repayments to hedge future revenue	**–**	**–**	**–**	**–**	**(1)**	**(7)**
Instruments for which hedge accounting no longer applies	**–**	**–**	**–**	**–**	**–**	**(27)**
	19	**29**	**1,515**	**1,563**	**(1,870)**	**75**
Related deferred tax				**(330)**	**398**	**(1)**
Total movements recorded in the cash flow hedge reserve				**1,233**	**(1,472)**	**74**

1 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.
2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

For the year to December 31, 2021 (€ million)	Amounts recognised in the Income statement: Ineffectiveness[1]	Discontinuance of hedge accounting	Recycling to the Income Statement	Total recognised movements	Fair value movements recognised in Other comprehensive income[2]	Amounts reclassified to the Balance sheet
Foreign exchange contracts to hedge future revenue and expenditure	–	4	39	43	(178)	(24)
Crude, gas oil and jet kerosene derivative contracts	(1)	73	88	160	(737)	–
Derivatives used to hedge interest rates	–	–	(29)	(29)	21	–
Loan repayments to hedge future revenue	–	–	(15)	(15)	(120)	–
Instruments for which hedge accounting no longer applies	–	–	(54)	(54)	–	–
	(1)	77	29	105	(1,014)	(24)
Related deferred tax				(24)	166	3
Total movements recorded in the cash flow hedge reserve				81	(848)	(21)

1 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.
2 Amounts recognised in Other comprehensive income represent gains and losses on the hedging instrument.

The losses associated with the discontinuance of hedge accounting recognised in the Income statement and the subsequent fair value movements of those derivative instruments recorded in the Income statement through to the earlier of the reporting date and the maturity date of the derivative are set out below:

€ million	**2022**	2021
Gains associated with the discontinuance of hedge accounting recognised in the Income statement	**(29)**	(77)
Fair value movements subsequently recorded in the Income statement	**–**	(82)
Total effect of discontinuance of hedge accounting in the Income statement	**(29)**	(159)

The Group has no significant fair value hedges at December 31, 2022 and 2021.

29 Share capital, share premium and treasury shares

Allotted, called up and fully paid	Number of shares '000s	Ordinary share capital € million	Share premium € million
December 31, 2021: Ordinary shares of €0.10 each	4,971,476	497	7,770
December 31, 2022: Ordinary shares of €0.10 each	**4,971,476**	**497**	**7,770**

a Treasury shares

The treasury shares balance consists of shares held directly by the Group. During the year to December 31, 2022, the Group purchased 15.0 million shares at a weighted average share price of €1.51 per share totalling €23 million, which are held as Treasury shares. A total of 8.1 million shares (2021: 5.4 million) were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2022 the Group held 17.1 million shares (2021: 10.2 million) which represented 0.34 per cent (2021: 0.20 per cent) of the issued share capital of the Company.

30 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. Since 2015, awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options can be exercised. All awards since 2015 have three independent performance measures with equal weighting: Total Shareholder Return (TSR) relative to the STOXX Europe 600 Travel and Leisure Index (for 2020 awards) or MSCI European Transportation Index (for prior to 2020 awards), earnings per share, and Return on Invested Capital.

b IAG Restricted Share Plan

During 2021, the Group revised its approach to long-term incentives, replacing the existing PSP with a Restricted Share Plan (RSP) proposal under the new Executive Share Plan approved by shareholders in June 2021. The RSP was introduced to increase the alignment of both interests and outcomes between the Group's senior management and shareholders through the build-up and maintenance of senior management shareholdings and an increased focus on the long-term, sustainable performance of the Group. Awards have been made as nil-cost options, with a two-year holding period following the three-year performance period, before options vest. There are no performance measures associated with the awards, although approval at the end of the vesting period will be at the discretion of the Remuneration Committee, considering the Group's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified.

c IAG Full Potential Incentive Plan

During 2021, the Group launched the new Full Potential Incentive Plan (FPIP), which is granted to key individuals involved in the delivery of a series of transformation projects that will enable the Group to deliver business success over the medium to long term. The awards have been made as nil-cost options, vesting in 2025 and dependent on stretch performance targets for 2024 and the approval of the Board.

d 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.

e Share-based payment schemes summary

	Outstanding at January 1, 2022 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	**Outstanding at December 31, 2022 '000s**	Exercisable December 31, 2022 '000s
Performance Share Plan	24,706	–	5,273	3,094	**16,339**	3,683
Restricted Share Plan	16,198	26,796	1,911	749	**40,334**	–
Full Potential Incentive Plan	27,879	2,386	2,560	–	**27,705**	–
Incentive Award Deferral Plan	5,359	111	96	2,963	**2,411**	–
	74,142	**29,293**	**9,840**	**6,806**	**86,789**	**3,683**

The weighted average share price at the date of exercise of options exercised during the year to December 31, 2022 was £1.35 (2021: £1.78).

The Group recognised a share-based payment charge of €39 million for the year to December 31, 2022 (2021: €23 million).

31 Other reserves and non-controlling interests

For the year to December 31, 2022

€ million	Other reserves							
	Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Capital reserves[6]	**Total other reserves**	Non-controlling interest
January 1, 2022	(94)	24	(65)	62	(2,467)	867	**(1,673)**	6
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Fuel and oil costs	(1,115)	–	–	–	–	–	**(1,115)**	–
Currency differences	(90)	–	–	–	–	–	**(90)**	–
Finance costs	10	–	–	–	–	–	**10**	–
Discontinuance of hedge accounting	(22)	–	–	–	–	–	**(22)**	–
Ineffectiveness recognised in other non-operating costs	(16)	–	–	–	–	–	**(16)**	–
Net change in fair value of cash flow hedges	1,472	–	–	–	–	–	**1,472**	–
Net change in fair value of other equity investments	2	–	–	–	–	–	**2**	–
Net change in fair value of cost of hedging	–	(115)	–	–	–	–	**(115)**	–
Cost of hedging reclassified and reported in net profit	–	38	–	–	–	–	**38**	–
Fair value movements on liabilities attributable to credit risk changes	(6)	–	–	–	–	–	**(6)**	–
Currency translation differences	–	–	(53)	–	–	–	**(53)**	–
Hedges reclassified and reported in property, plant and equipment	(51)	(14)	–	–	–	–	**(65)**	–
Hedges reclassified and reported in sales in advance of carriage	35	1	–	–	–	–	**36**	–
Hedges reclassified and reported in inventory	(58)	–	–	–	–	–	**(58)**	–
Redemption of convertible bond	–	–	–	(62)	–	–	**(62)**	–
December 31, 2022	**67**	**(66)**	**(118)**	**–**	**(2,467)**	**867**	**(1,717)**	**6**

€ million	Other reserves: Unrealised gains and losses[1]	Cost of hedging reserve[2]	Currency translation[3]	Equity portion of convertible bond[4]	Merger reserve[5]	Redeemed capital reserve[6]	Total other reserves	Non-controlling interest
January 1, 2021	(867)	38	(53)	62	(2,467)	867	(2,420)	6
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net loss:								
Passenger revenue	18	–	–	–	–	–	18	–
Fuel and oil costs	(45)	–	–	–	–	–	(45)	–
Currency differences	(15)	–	–	–	–	–	(15)	–
Finance costs	23	–	–	–	–	–	23	–
Discontinuance of hedge accounting	(62)	–	–	–	–	–	(62)	–
Net change in fair value of cash flow hedges	848	–	–	–	–	–	848	–
Net change in fair value of cost of hedging	–	10	–	–	–	–	10	–
Cost of hedging reclassified and reported in net profit	–	(12)	–	–	–	–	(12)	–
Fair value movements on liabilities attributable to credit risk changes	(15)	–	–	–	–	–	(15)	
Currency translation differences	–	–	(12)	–	–	–	(12)	–
Hedges reclassified and reported in property, plant and equipment	21	(12)	–	–	–	–	9	–
December 31, 2021	(94)	24	(65)	62	(2,467)	867	(1,673)	6

1 The unrealised gains and losses reserve records fair value changes on equity investments and the portion of the amounts on hedging instruments in cash flow hedges that are determined to be effective hedges. The amounts at December 31, 2022 that relate to the fair value changes on equity instruments and to the cash flow hedge reserve were €11 million credit and €56 million credit, respectively.
2 The cost of hedging reserve records, amongst others, changes on the time value of options.
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 At December 31, 2021 the equity portion of convertible bond reserve represented the equity portion of the €500 million fixed rate 0.625 per cent convertible bond that matured in 2022. During 2022 the Group redeemed the €500 million convertible bond with no conversion into ordinary shares. On redemption, an amount of €62 million was transferred to Retained earnings.
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 Capital reserves include a Redeemed capital reserve of €70 million (2021: €70 million) associated with the decrease in share capital relating to cancelled shares and a Share capital reduction reserve of €797 million (2021: €797 million) associated with a reduction in the nominal value of the Company's share capital (note 29).

32 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 26).

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, 2022 were €251 million (2021: €200 million).

Defined benefit schemes

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.

APS has been closed to new members since 1984, but remains open to future accrual. 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.

NAPS has been closed to new members since 2003 and closed to future accrual since 2018. Following closure, members' deferred pensions are 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).

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, certain aspects of the business of the two schemes are common. APS and NAPS have developed certain joint working groups that are attended by the Trustee Board members of each scheme although each Trustee Board reaches its decisions independently. There are 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.

Triennially, the Trustees of APS and NAPS undertake actuarial valuations, which are subsequently agreed with British Airways to determine the cash contributions and any deficit payment plans through to the next valuation date, as well as ensuring that the schemes have sufficient funds available to meet future benefit payments to members. These actuarial valuations are prepared using the principles set out in UK Pension legislation. This differs from the IAS 19 'Employee benefits' valuation, which is used for deriving the Income statement and Balance sheet positions and uses a best-estimate approach overall. The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and funding levels.

During 2022, the triennial valuations, as at March 31, 2021, were finalised for APS and NAPS which resulted in a technical surplus of €343 million (£295 million) for APS and a technical deficit of €1,887 million (£1,650 million) for NAPS. The actuarial valuations performed for APS and NAPS are different to the valuation performed as at December 31, 2022 under IAS 19 'Employee Benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation performed as at March 31, 2021 compared with IAS 19 requirements used in the accounting valuation assumptions as at the reporting date. The triennial actuarial valuation of neither APS and NAPS is updated outside of the triennial valuations, making comparability between the scheme liabilities applying the principles set out in the UK Pension legislation and the requirements of IAS 19 not possible. The principal difference relates to the discount rate applied, which under the triennial actuarial valuation, aligns with a prudent estimate of the future investment returns on the assets of the respective schemes, whereas, under IAS 19, the rates are based on high quality corporate bond yields, regardless of how the assets are invested.

The triennial valuation as at March 31, 2021 for NAPS supersedes the previous agreements reached in 2020 and 2021 between British Airways and the Trustee of NAPS relating to the deferral of deficit contributions. The deferred deficit contributions have been incorporated into the deficit payment plan agreed as part of the triennial valuation as at March 31, 2021.

As part of the triennial valuation as at March 31, 2021 for NAPS, British Airways has agreed to provide certain property assets as security, which will remain in place until September 30, 2028.

Other plans

British Airways also operates post-retirement schemes in a number of jurisdictions outside of the UK. The principal scheme is the British Airways Plc Pension Plan (USA) based in the United States and referred to as the 'US Plan'. The US Plan is considered to be a defined benefit scheme and is closed to new members and to future accrual.

The majority of British Airways' other plans are fully funded, but there are also a number of unfunded plans, for which the Group meets the benefit payment obligations as they fall due.

In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

Risk associated with the defined benefit schemes

The defined benefit schemes expose the Group to a range of risks, with the following being the most significant:

- asset volatility risk - the scheme obligations are calculated using a discount rate set with reference to high quality corporate bond yields. If scheme assets underperform this yield, this will reduce the surplus / increase the deficit, depending on the scheme. Certain of the schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while creating volatility and risk in the short term;
- longevity risk – the majority of the scheme obligations are to provide benefits over the life of the scheme members. An increase in life expectancy will result in a corresponding increase in the defined benefit obligation;
- interest rate risk - a decrease in interest rates will increase plan liabilities, although this will be partially offset by an increase in the value of certain of the scheme assets;
- inflation risk – a significant proportion of the scheme obligations are linked to inflation, such that any increase in inflation will cause an increase in the obligations. While certain of the scheme assets are indexed to inflation, any expected increase in the scheme assets from inflation would be disproportionately lower than the increase in the scheme obligations; and
- currency risk – a number of scheme assets are denominated in currencies other than the pound sterling. Weakening of those currencies, or strengthening of the pound sterling, in the long term, will have the effect of reducing the value of scheme assets.

a Cash payments and funding arrangements

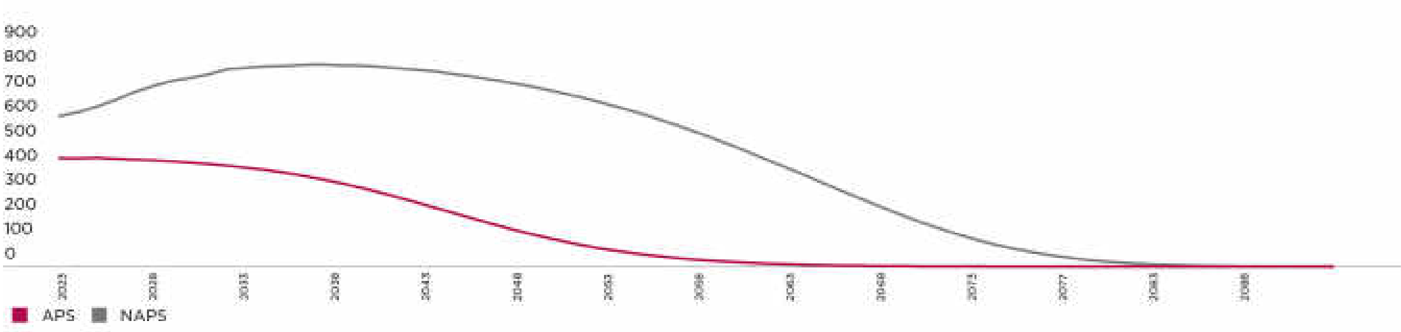
Cash payments in respect to pension obligations comprise normal employer contributions by the Group and deficit contributions based on the agreed deficit payment plan with NAPS. Total payments for the year to December 31, 2022 net of service costs made by the Group were €20 million (2021: €38 million) being the employer contributions of €22 million (2021: €41 million) less the current service cost of €2 million (2021: €3 million) (note 32b,c).

Future funding arrangements
Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2021, using assumptions and methodologies agreed between the Group and Trustee of each scheme.

In total, the Group expects to pay €1 million in employer contributions to APS and NAPS in 2023.

The following graph provides the undiscounted benefit payments to be made by the Trustees of APS and NAPS over the remaining expected duration of the schemes:

Projected benefit payments from the reporting date (€ million, unaudited)



The amounts and timing of these projected benefit payments are subject to the aforementioned risks to the schemes.

Deficit contributions
At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €1,887 million. In order to address the deficit in the scheme, the Group has also committed to deficit contribution payments through to June 30, 2023, amounting to approximately €58 million per year, increasing by €58 million each year up to June 30, 2026 and subsequently capped at €257 million per year through to May 31, 2032. The deficit contribution plan includes an over-funding protection mechanism, based on the triennial valuation methodology for measuring the deficit, whereby deficit contributions are suspended if the funding position reaches 100 per cent, with a mechanism for contributions to resume if the contribution level subsequently falls below 100 per cent, or until such point as the scheme funding level reaches 100 per cent.

During the year ended and as at December 31, 2022, given the funding level of the scheme, the NAPS funding position exceeded 100 per cent and accordingly deficit contributions were suspended. At December 31, 2022, the valuation of the funding level incorporates significant forward-looking assumptions, such that the Group currently does not expect to make further deficit contributions. Given the long-term nature of the NAPS scheme, these assumptions are subject to uncertainty and there can be no guarantee that deficit contributions will not resume in the future or that additional deficit contributions will not need to be incorporated into future triennial actuarial valuations.

At December 31, 2022, had the over-funding protection mechanism not been applied, then the asset ceiling adjustment (as detailed in note 32c) would have been €661 million higher.

At December 31, 2022, the Group is committed to the following undiscounted deficit payments, which are deductible for tax purposes at the statutory rate of tax:

€ million	NAPS[1]	Other schemes
Within 12 months	–	49
1-2 years	–	44
2-5 years	–	44
Greater than 5 years	–	–
Total expected deficit payments	–	137

1 Committed deficit contributions for NAPS are stated after the effect of the over-funding protection mechanism.

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

Under the triennial valuation of NAPS as at March 31, 2021, in the period up to December 31, 2023, no dividend payment is permitted from British Airways to IAG. In the period from January 1 to December 31, 2024, any dividends paid by British Airways will be matched by contributions to NAPS of 50 per cent of the value of dividends paid. In the period from January 1 to September 30, 2025, any dividend payment from British Airways to IAG that exceeds 50 per cent of the pre-exceptional profit after tax in each financial year will require additional payments to be made to NAPS if the scheme is not at least 100 per cent funded. All dividend restrictions cease from October 1, 2025, onwards. British Airways must maintain a minimum cash level of €1,829 million (£1,600 million) as at the date of the declaration of any dividends as well as immediately following the payment of any dividends to IAG and the associated matching contributions to NAPS. The amount of any deficit contributions and dividend matching contributions in a single financial year is limited to €343 million (£300 million).

b Employee benefit scheme amounts recognised in the financial statements

i Amounts recognised on the Balance sheet

	2022			
€ million	**APS**	**NAPS**	**Other**	**Total**
Scheme assets at fair value[1]	6,283	17,029	356	**23,668**
Present value of scheme liabilities[1]	(6,052)	(13,692)	(548)	**(20,292)**
Net pension asset/(liability)	231	3,337	(192)	**3,376**
Effect of the asset ceiling[2]	(80)	(1,168)	–	**(1,248)**
Other employee benefit obligations	–	–	(11)	**(11)**
December 31, 2022	151	2,169	(203)	**2,117**
Represented by:				
Employee benefit asset				**2,334**
Employee benefit obligation				**(217)**
Net employee benefit asset[3]				**2,117**

	2021			
€ million	APS	NAPS	Other	Total
Scheme assets at fair value[1]	8,869	25,055	446	34,370
Present value of scheme liabilities[1]	(8,333)	(22,583)	(706)	(31,622)
Net pension asset/(liability)	536	2,472	(260)	2,748
Effect of the asset ceiling[2]	(186)	(1,061)	–	(1,247)
Other employee benefit obligations	–	–	(11)	(11)
December 31, 2021	350	1,411	(271)	1,490
Represented by:				
Employee benefit asset				1,775
Employee benefit obligation				(285)
Net employee benefit obligation[3]				1,490

1 Includes Additional Voluntary Contributions (AVCs), which the Trustees hold as assets to secure additional benefits on a defined contribution basis for those members who elect to make such AVCs. At December 31, 2022, such assets were €320 million (2021: €391 million) with a corresponding amount recorded in the scheme liabilities.
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 arising on both the net pension asset and the future contractual minimum funding requirements.
3 The net deferred tax asset recognised on the net employee benefit asset (2021: asset) was €54 million at December 31, 2022 (2021: €62 million). The defined benefit obligation includes €21 million (2021: €25 million) arising from unfunded plans.

ii Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2022	2021
Defined benefit plans:		
Current service cost	**2**	3
Administrative expenses	**19**	29
	21	32
Defined contribution plans	**251**	200
Pension costs recorded as employee costs	**272**	232

€ million	2022	2021
Interest income on scheme assets	**(633)**	(432)
Interest expense on scheme liabilities	**584**	425
Interest expense on asset ceiling	**23**	9
Net financing (credit)/charge relating to pensions	**(26)**	2

iii Amounts recognised in the Statement of other comprehensive income

€ million	2022	2021
Return on plan assets excluding interest income	**9,360**	(2,495)
Remeasurement of plan liabilities from changes in financial assumptions[1]	**(10,476)**	95
Remeasurement of plan liabilities from changes in demographic assumptions[1]	**(202)**	(49)
Remeasurement of experience losses	**627**	427
Remeasurement of the APS and NAPS asset ceilings	**14**	419
Exchange movements	**6**	(14)
Pension remeasurements charged to Other comprehensive income	**(671)**	(1,617)
Deferred tax arising on pension remeasurements	**9**	217
Pension remeasurements charged to Other comprehensive income, net of tax	**(662)**	(1,400)

1 The prior year figures include a reclassification between remeasurements of plan liabilities from changes in financial assumptions to remeasurement of plan liabilities from changes in demographic assumptions to align with the current year presentation. There is no change in the total pension remeasurements charged to Other comprehensive income.

c Fair value of scheme assets

i Investment strategies

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, longevity 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. Longevity risk is managed through the use of buy-in insurance contracts, asset swaps and longevity swaps.

Along with existing contracts with Rothesay Life (as detailed in note 32c(iii)), APS is 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 basis).

The strategic benchmark for asset allocations differentiates between 'return seeking assets' and 'liability matching assets' depending on the maturity of each scheme. At December 31, 2022, the benchmark for NAPS was 31 per cent (2021: 37 per cent) in return seeking assets and 69 per cent (2021: 63 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, 2022 was 1 per cent (2021: 1 per cent) in return seeking assets and 99 per cent (2021: 99 per cent) in liability matching investments. NAPS uses Liability Driven Investments (LDIs) to effectively hedge volatility in the scheme liabilities. This is achieved through direct bond holdings as opposed to the use of derivatives and as such leverage is low. Accordingly, as at December 31, 2022, NAPS has not been required to raise additional cash or liquidate existing assets in order to fund derivative positions.

ii Movement in scheme assets

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

€ million	2022	2021
January 1	**34,370**	31,185
Interest income	**633**	432
Administrative expenses	**(13)**	(21)
Return on plan assets excluding interest income	**(9,360)**	2,495
Employer contributions[1]	**22**	41
Employee contributions	**6**	13
Benefits paid	**(1,301)**	(1,930)
Exchange movements	**(689)**	2,155
December 31	**23,668**	34,370

1 Includes employer contributions to APS of €1 million (2021: €1 million) and to NAPS of €nil (2021: €nil) of which deficit-funding payments represented €nil for APS (2021: €nil) and €nil for NAPS (2021: €nil).

iii Composition of scheme assets

Scheme assets held by the Group at December 31 comprise:

	2022				
€ million	APS	NAPS	Other	Total	2021
Return seeking investments					
Listed equities – UK	**8**	**125**	**6**	**139**	224
Listed equities – Rest of world	**1**	**883**	**163**	**1,047**	4,441
Private equities	**38**	**1,518**	**10**	**1,566**	1,643
Properties	**2**	**2,124**	**16**	**2,142**	2,481
Alternative investments	**41**	**1,837**	**3**	**1,881**	1,925
	90	**6,487**	**198**	**6,775**	10,714
Liability matching investments					
Government issued fixed bonds	**790**	**4,390**	**99**	**5,279**	10,681
Government issued index-linked bonds	**860**	**7,225**	**8**	**8,093**	8,511
Asset and longevity swaps[1]	**1,114**	**–**	**–**	**1,114**	1,716
Insurance contract[1]	**3,356**	**–**	**36**	**3,392**	4,662
	6,120	**11,615**	**143**	**17,878**	25,570
Other					
Cash and cash equivalents	**117**	**563**	**4**	**684**	1,139
Derivative financial instruments	**(47)**	**(1,650)**	**9**	**(1,688)**	(3,135)
Other investments	**3**	**14**	**2**	**19**	82
	73	**(1,073)**	**15**	**(985)**	(1,914)
Total scheme assets	**6,283**	**17,029**	**356**	**23,668**	34,370

1 The prior year scheme asset balances split between Asset and longevity swaps and Insurance contracts have been updated to reflect the current year presentation. There is no change in total scheme assets.

The fair values of the Group's scheme assets, which are not derived from quoted prices on active markets, are determined depending on the nature of the inputs used in determining the fair values (see note 28b for further details) and using the following methods and assumptions:

- private equities are valued at fair value based on the most recent transaction price or third-party net asset, revenue or earnings-based valuations that generally result in the use of significant unobservable inputs. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not updated through to the reporting date unless there are indications of significant market movements.
- properties are valued based on an analysis of recent market transactions supported by market knowledge derived from third-party professional valuers that generally result in the use of significant unobservable inputs.
- alternative investments fair values, which predominantly include holdings in investment and infrastructure funds are determined based on the most recent available valuations applying the Net Asset Value methodology and issued by fund administrators or investment managers and adjusted for any cash movements having occurred from the date of the valuation to the reporting date. The dates of these valuations typically precede the reporting date and have been adjusted for any cash movements between the date of the valuation and the reporting date. Typically, the valuation approach and inputs for these investments are not updated through to the reporting date unless there are indications of significant market movements.
- other investments predominantly includes: interest receivable on bonds; dividends from listed and private equities that have been declared but not received at the balance sheet date; receivables from the sale of assets for which the proceeds have not been collected at the balance sheet date; and payables for the purchase of assets which have not been settled at the balance sheet date.
- asset and longevity swaps - APS has a contract with Rothesay Life, entered into in 2010 and extended in 2013, which covers 25 per cent (2021: 25 per cent) of the pensioner liabilities for an agreed list of members. Under the contract, to reduce the risk of long-term longevity risk, Rothesay Life makes benefit payments monthly in respect of the agreed list of members in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt) held by the scheme and the contractual payments made by APS to Rothesay Life on the longevity swaps. The Group holds the portfolio of assets at their fair value, with the government debt held at their quoted market price and the swaps accounted for at their estimated discounted future cash flows.

During 2011, APS entered into a longevity swap with Rothesay Life, which covers an additional 21 per cent (2021: 21 per cent) of the pensioner liabilities for the same agreed list of members as the 2010 contract. Under the longevity swap, to reduce the risk of long-term longevity risk, APS makes a fixed payment to Rothesay Life each month reflecting the prevailing mortality assumptions at the inception of the contract, and Rothesay Life make a monthly payment to APS reflecting the actual monthly benefit payments to members. The cash flows are settled net each month. If pensioners live longer than expected at inception of the longevity swap, Rothesay Life will make payments to the scheme to offset the additional cost of paying pensioners and if pensioners do not live as long as expected, then the scheme will make payments to Rothesay Life. The Group holds the longevity swap at fair value, determined at the estimated discounted future cash flows.

- insurance contract - During 2018 the Trustee of APS secured a buy-in contract with Legal & General. The buy-in contract covers all members in receipt of pensions from APS at March 31, 2018, excluding dependent children, receiving a pension at that date and members in receipt of equivalent pension only benefits, who were 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.

iv Effect of the asset ceiling

In measuring the valuation of the net defined benefit asset for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available in the form of a refund or a reduction in future contributions after they are paid into the plan. The Group has determined that the recoverability of such surpluses, including minimum funding requirements, will be subject to withholding taxes in the UK, payable by the Trustee, of 35 per cent.

The future committed NAPS deficit contributions, as detailed in note 32a, are treated as minimum funding requirements under IAS 19 and are not recognised as part of the scheme assets or liabilities. The Group has determined that upon the wind up of the scheme, that if the scheme is in surplus, including the incorporation of the minimum funding requirements, then the surplus will be available as a refund or a reduction in future contributions after they are paid into the scheme. The recovery of such amounts are subject to UK withholding tax payable by the Trustee. In measuring the recoverability of the surplus for each scheme, the Group limits such measurement to the lower of the surplus in each scheme and the respective asset ceiling. The asset ceiling represents the present value of the economic benefits available upon wind up of the scheme, less the application of withholding taxes in the UK, payable by the Trustee, at 35 per cent.

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

€ million	2022	2021
January 1	1,247	761
Interest expense	23	9
Remeasurements	14	419
Exchange movements	(36)	58
December 31	**1,248**	1,247

d Present value of scheme liabilities

i Movement in scheme liabilities

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

€ million	2022	2021
January 1	31,622	30,556
Current service cost	2	3
Interest expense	584	425
Remeasurements - financial assumptions[1, 2]	(10,476)	95
Remeasurements - demographic assumptions[2]	(202)	(49)
Remeasurements of experience losses	627	427
Benefits paid	(1,301)	(1,930)
Employee contributions	6	13
Exchange movements	(570)	2,082
December 31	**20,292**	31,622

1 Included in the remeasurements from financial assumptions is an amount of €10,299 million (2021: reduction of €1,866 million) that reduces the scheme liabilities relating to changes in the discount rates and €177 million (2021: increase of €1,961 million) that reduces the scheme liabilities relating to changes in inflation rates.

2 The prior year figures include a reclassification between remeasurements of plan liabilities from changes in financial assumptions to remeasurement of plan liabilities from changes in demographic assumptions to align with the current year presentation. There is no change in total scheme liabilities.

ii Scheme liability assumptions

The principal assumptions used for the purposes of the IAS 19 valuations were as follows:

	2022			2021		
Per cent per annum	APS	NAPS	Other schemes[4]	APS	NAPS	Other schemes[4]
Discount rate[1]	**4.85**	**4.80**	**0.8-7.2**	1.80	1.90	0.3-6.5
Rate of increase in pensionable pay[2]	**3.40**	**–**	**2.0-6.0**	3.55	–	2.0-6.0
Rate of increase of pensions in payment[3]	**3.40**	**2.80**	**0.3-3.0**	3.55	2.85	2.0-3.0
RPI rate of inflation	**3.40**	**3.20**	**2.2-3.1**	3.55	3.30	1.8-2.5
CPI rate of inflation	**2.80**	**2.80**	**2.0-2.6**	2.95	2.85	1.8-2.5

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, which reflects inflationary increases, is assumed to be in line with increases in RPI.
3 It has been assumed that the rate of increase of pensions in payment, which reflects inflationary increases, will be in line with CPI for NAPS and RPI for APS as at December 31, 2022.
4 The rate of increase in healthcare costs for schemes based in the United States is based on medical trend rates of 6.25 per cent grading down to 5.00 per cent over five years (2021: 6.00 per cent to 5.00 per cent over five years).

The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2022	2021
Life expectancy at age 60 for a:		
• male currently aged 60	**27.9**	28.1
• male currently aged 40	**29.1**	29.9
• female currently aged 60	**29.3**	29.5
• female currently aged 40	**31.5**	31.9

For APS, the base mortality tables are based on the Agreed Valuation Basis (AVB) as agreed between British Airways and the trustees of APS. For NAPS, the base mortality tables are based on the most recent model published by the UK actuarial profession's Continuous Mortality Investigation (CMI), being their 2021 model. These standard mortality tables, for both APS and NAPS, incorporate adjustments specific to the demographics of scheme members, including a long-term improvement parameter of 1.00 per cent per annum (2021: 1.25 per cent). Allowance has been made with regard to the long-term uncertainty arising from the effects of COVID-19.

For schemes in the United States, mortality rates were based on the MP-2021 mortality tables incorporating adjustments for the long-term impact COVID-19 is expected to have on mortality.

At December 31, 2022, the weighted-average duration of the defined benefit obligation was 10 years for APS (2021: 12 years) and 15 years for NAPS (2021: 19 years). The weighted average duration of the defined benefit obligations was 3 to 19 years for other schemes (2021: 11 to 23 years). The weighted average duration represents a single figure for the average number of years over which the employee benefit liability discounted cash flows is extinguished and is highly dependent on movements in the aforementioned discount rates, such that with an increase in the discount rates experienced in 2022, the weighted-average duration for both schemes has reduced.

iii Sensitivity analysis

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

	Increase in scheme liabilities		
€ million	APS	NAPS	Other schemes
Discount rate (decrease of 50 basis points)[1]	**286**	**983**	**34**
Future pension growth (increase of 50 basis points)[1]	**252**	**949**	**5**
Future mortality rate (one year increase in life expectancy)	**286**	**354**	**24**

1 Sensitivities smaller than those disclosed can be approximately interpolated from those sensitivities above.

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.

33 Contingent liabilities

There are a number of legal and regulatory proceedings against the Group in a number of jurisdictions which at December 31, 2022, where they could be reliably estimated, amounted to €11 million (December 31, 2021: €22 million). The Group does not consider it probable that there will be an outflow of economic resources with regard to these proceedings and accordingly no provisions have been recorded.

Contingent liabilities associated with income taxes, deferred taxes and indirect taxes are presented in note 10.

34 Government grants and assistance

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

The Coronavirus Job Retention Scheme (CJRS) – recognised net within Employee costs

The CJRS was implemented by the Government of the United Kingdom from March 1, 2020 to August 30, 2020, where those employees designated as being 'furloughed workers' were eligible to have 80 per cent of their wage costs paid up to a maximum of £2,500 per month.

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

Such costs were paid by the Government to the Group in arrears. The Group was obliged to continue to pay the associated social security costs and employer pension contributions.

The Temporary Wage Subsidy Scheme (TWSS) and the Employment Wage Subsidy Scheme (EWSS) – recognised net within Employee costs

The TWSS was implemented by the government of Ireland from March 1, 2020 to August 30, 2020, where those employees designated as being furloughed workers were eligible to have 85 per cent of their wage costs paid up to a maximum of €410 per week. This scheme was replaced with the EWSS from September 1, 2020 and ran through to April, 2022. For those qualifying employees (earning less than €1,462 per week), the government reimbursed wage costs up to a maximum of €203 per week. Such costs were paid by the government to the Group in arrears.

The total amount of the relief received under the CJRS, the TWSS and the EWSS by the Group during 2022 amounted to €11 million (2021: €286 million).

Temporary Redundancy Plan (ERTE) – no recognition in the financial statements of the Group

The ERTE was implemented by the government of Spain from March 1, 2020 and ran through to February 28, 2022. Under this plan, employment was temporarily suspended and those designated employees were paid directly by the government and there was no remittance made to the Group. The Group was obliged to continue to pay the associated social security costs.

Had those designated employees not been temporarily suspended during 2022, the Group would have incurred further employee costs of €3 million (2021: €269 million).

The Ireland Strategic Investment Fund (ISIF) – recognised within Long-term borrowings

On December 23, 2020, Aer Lingus entered into a financing arrangement for €75 million. On March 27, 2021, Aer Lingus entered into a further financing arrangement to extend the total amount to €150 million. On March 4, 2022, Aer Lingus entered into a financing arrangement with ISIF, which subsequently extinguished the existing €150 million of facilities and replaced them with a €350 million facility that matures in March 2025. On December 13, 2022, Aer Lingus repaid €100 million of this financing arrangement with the amount repaid available to be redrawn through to March 2025. The facility is secured on specific landing rights. At December 31, 2022 €300 million of the facility remained undrawn.

The UK Export Finance (UKEF) – recognised within Long-term borrowings

On February 22, 2021, British Airways entered into a 5-year term loan Export Development Guarantee Facility of €2.3 billion (£2.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The facility is unsecured.

On November 1, 2021, British Airways entered into a further 5-year term loan Export Development Guarantee Facility of €1.1 billion (£1.0 billion) underwritten by a syndicate of banks, with 80 per cent of the principal guaranteed by UKEF. The facility is unsecured. At December 31, 2022 the facility remained undrawn.

35 Related party transactions

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

€ million	2022	2021
Sales of goods and services		
Sales to associates[1]	5	6
Sales to significant shareholders[2]	141	16
Purchases of goods and services		
Purchases from associates[3]	61	49
Purchases from significant shareholders[2]	113	69

Receivables from related parties		
Amounts owed by associates[4]	1	1
Amounts owed by significant shareholders[5]	25	5
Payables to related parties		
Amounts owed to associates[6]	-	3
Amounts owed to significant shareholders[5]	26	2

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €4 million (2021: €5 million) and €1 million (2021: €1 million) to Serpista, S.A. and Multiservicios Aeroportuarios.
2 Sales to and purchases from significant shareholders related to interline services with Qatar Airways.
3 Purchases from associates: Consisted primarily of €35 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2021: €33 million), €14 million of handling services provided by Dunwoody (2021: €8 million) and €13 million of maintenance services received from Serpista, S.A. (2021: €8 million).
4 Amounts owed by associates: Consisted primarily of €1 million of services provided to Multiservicios Aeroportuarios, Serpista, Dunwoody and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2021: €1 million).
5 Amounts owed by and to significant shareholders related to Qatar Airways.
6 Amounts owed to associates: €nil (2021: €3 million).

During the year to December 31, 2022 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 €2 million (2021: €6 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.

During the course of 2022, the Group renewed its loyalty currency exchange agreement with Qatar Airways, where Avios could be exchanged for points within the Qatar Airways' loyalty programme, the Privilege Club. In addition, in renewing the agreement, IAG Loyalty licensed the Avios brand name for use within the Privilege Club.

During the course of 2022, the Group provided a long-term shareholder loan of €12 million ($14 million) to LanzaJet, Inc., a company which specialises in the generation of Sustainable Aviation Fuels of which the Group has a 16.7 per cent equity interest, classified as an associate and presented within Investments accounted for using the equity method in the Balance sheet.

For the year to December 31, 2022, the Group has not made any provision for expected credit loss arising relating to amounts owed by related parties (2021: €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, 2022, the only significant shareholder of the Group was Qatar Airways.

At December 31, 2022 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €nil (2021: €nil).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2022 and 2021 is as follows:

€ million	Year to December 31 2022	2021
Base salary, fees and benefits		
Board of Directors		
Short-term benefits	**4**	3
Share-based payments	**1**	–
Management Committee		
Short-term benefits	**15**	11
Share-based payments	**2**	1

For the year to December 31, 2022 the Board of Directors includes remuneration for one Executive Director (December 31, 2021: one Executive Director). The Management Committee includes remuneration for 14 members (December 31, 2021: 14 members).

The Company provides life insurance for the Executive Director and all members of the Management Committee. For the year to December 31, 2022 the Company's obligation was €38,000 (2021: €35,000).

At December 31, 2022 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €5 million (2021: €9 million).

No loan or credit transactions were outstanding with Directors or officers of the Group at December 31, 2022 (2021: €nil).

36 Post balance sheet events

On February 23, 2023, the Group entered into an agreement to acquire the remaining eighty per cent of the share capital of Air Europa Holdings that it had not previously owned. On successful completion of the transaction, 54,064,575 ordinary shares of the Company (which represented €100 million at the date of the agreement) will be transferred to and €100 million in cash will be paid to Globalia, with a further €100 million paid on both the first and second anniversary of completion.

In addition, the Group has agreed to pay a break-fee to Globalia of €50 million should: (i) the relevant approvals, detailed below, not be forthcoming within 24 months of entering into the agreement; or (ii) the Group terminates the agreement at any time prior to completion.

The acquisition is conditional on Globalia receiving approval from the syndicated banks that provide the loan agreements that are partially guaranteed by the Instituto de Crédito Oficial (ICO) and Sociedad Estatal de Participaciones Industriales (SEPI) in Spain. The acquisition is also subject to approval by relevant competition authorities. Until the completion of these approvals, the acquisition does not meet the recognition criteria under IFRS 3 Business combinations, and no accounting has been made for the transaction in these consolidated financial statements.

The execution of the agreement has not impacted the fair value of the 20 per cent shareholding in Air Europa Holdings as detailed in note 19. The fair value of the non-controlling equity interest in Air Europa Holdings will be remeasured to reflect the transaction price upon successful completion of the transaction.

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, may differ to definitions given by regulatory bodies applicable to the Group and may differ to similarly titled measures presented by other companies. 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'.

During 2022, other than enhancing the definition and reconciliation associated with the net debt to EBITDA before exceptional items detailed in note e, the Group has made no changes to its pre-existing disclosures and treatments of APMs compared to those disclosed in the Annual Report and Accounts for the year to December 31, 2021.

The impact of and the recovery from the COVID-19 pandemic has significantly changed the basis on which the Board, Management Committee and external parties monitor the performance of the Group. In this regard measures relating to Levered free cash flow, Net debt to EBITDA before exceptional items and Return on capital employed do not provide the level of meaningful additional information that they have done in the past. However, the Group continues to present these APMs for consistency and they will become more prominent and relevant subsequent to the recovery from the COVID-19 pandemic.

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

a Profit/(loss) after tax before exceptional items

Exceptional items are those that in the Board's and management's view need to be separately disclosed by virtue of their size or incidence to supplement the understanding of the entity's financial performance. The Management Committee of the Group uses financial performance on a pre-exceptional basis to evaluate operating performance and to make strategic, financial and operational decisions, and externally because it is widely used by security analysts and investors in evaluating the performance of the Group between reporting periods and against other companies.

Exceptional items in the year to December 31, 2022 and 2021 include: significant changes in the long-term fleet plans that result in the reversal of impairment of fleet assets, legal re-imbursements, significant discontinuation of hedge accounting, and reversal of significant restructuring events recorded in prior reporting periods.

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

	Year to December 31					
€ million	**Statutory 2022**	**Exceptional items**	**Before exceptional items 2022**	Statutory 2021	Exceptional items	Before exceptional items 2021
Passenger revenue[3]	**19,458**	**-**	**19,458**	5,835	5	5,830
Cargo revenue	**1,615**	**-**	**1,615**	1,673	-	1,673
Other revenue	**1,993**	**-**	**1,993**	947	-	947
Total revenue	**23,066**	**-**	**23,066**	8,455	5	8,450
Employee costs[4]	**4,647**	**-**	**4,647**	3,013	(18)	3,031
Fuel, oil costs and emissions charges[3]	**6,120**	**-**	**6,120**	1,781	(154)	1,935
Handling, catering and other operating costs	**2,971**	**-**	**2,971**	1,308	-	1,308
Landing fees and en-route charges	**1,890**	**-**	**1,890**	923	-	923
Engineering and other aircraft costs[5]	**2,101**	**-**	**2,101**	1,085	(7)	1,092
Property, IT and other costs[1]	**950**	**(23)**	**973**	758	-	758
Selling costs	**920**	**-**	**920**	434	-	434
Depreciation, amortisation and impairment[2]	**2,070**	**(8)**	**2,078**	1,932	(21)	1,953
Currency differences	**141**	**-**	**141**	(14)	-	(14)
Total expenditure on operations	**21,810**	**(31)**	**21,841**	11,220	(200)	11,420
Operating profit/(loss)	**1,256**	**31**	**1,225**	(2,765)	205	(2,970)
Finance costs	**(1,017)**	**-**	**(1,017)**	(830)	-	(830)
Finance income	**52**	**-**	**52**	13	-	13
Net change in fair value of financial instruments	**81**	**-**	**81**	89	-	89
Net financing credit/(charge) relating to pensions	**26**	**-**	**26**	(2)	-	(2)
Net currency retranslation charges	**(115)**	**-**	**(115)**	(82)	-	(82)
Other non-operating credits[6]	**132**	**-**	**132**	70	(75)	145
Total net non-operating costs	**(841)**	**-**	**(841)**	(742)	(75)	(667)
Profit/(loss) before tax	**415**	**31**	**384**	(3,507)	130	(3,637)
Tax	**16**	**(2)**	**18**	574	(25)	599
Profit/(loss) after tax for the year	**431**	**29**	**402**	(2,933)	105	(3,038)

€ million	Statutory 2022	Exceptional items	Before exceptional items 2022	Statutory 2021	Exceptional items	Before exceptional items 2021
	Three months to December 31					
Passenger revenue[3]	**5,438**	**-**	**5,438**	2,695	-	2,695
Cargo revenue	**399**	**-**	**399**	499	-	499
Other revenue	**549**	**-**	**549**	340	-	340
Total revenue	**6,386**	**-**	**6,386**	3,534	-	3,534
Employee costs[4]	**1,230**	**-**	**1,230**	914	(18)	932
Fuel, oil costs and emissions charges[3]	**1,720**	**-**	**1,720**	732	(1)	733
Handling, catering and other operating costs	**828**	**-**	**828**	520	-	520
Landing fees and en-route charges	**499**	**-**	**499**	325	-	325
Engineering and other aircraft costs[5]	**594**	**-**	**594**	383	-	383
Property, IT and other costs[1]	**280**	**-**	**280**	218	-	218
Selling costs	**249**	**-**	**249**	154	-	154
Depreciation, amortisation and impairment[2]	**539**	**-**	**539**	548	(8)	556
Currency differences	**(39)**	**-**	**(39)**	18	-	18
Total expenditure on operations	**5,900**	**-**	**5,900**	3,812	(27)	3,839
Operating profit/(loss)	**486**	**-**	**486**	(278)	27	(305)
Finance costs	**(294)**	**-**	**(294)**	(218)	-	(218)
Finance income	**41**	**-**	**41**	8	-	8
Net change in fair value of financial instruments	**(51)**	**-**	**(51)**	85	-	85
Net financing credit/(charge) relating to pensions	**7**	**-**	**7**	(4)	-	(4)
Net currency retranslation charges	**190**	**-**	**190**	(19)	-	(19)
Other non-operating credits[6]	**(130)**	**-**	**(130)**	(31)	(75)	44
Total net non-operating costs	**(237)**	**-**	**(237)**	(179)	(75)	(104)
Profit/(loss) before tax	**249**	**-**	**249**	(457)	(48)	(409)
Tax	**(17)**	**-**	**(17)**	146	-	146
Profit/(loss) after tax for the period	**232**	**-**	**232**	(311)	(48)	(263)

The rationale for each exceptional item is given below.

1 Partial reversal of historical fine

The exceptional credit of €23 million for the year to December 31, 2022 relates to the partial reversal of the fine, plus accrued interest, initially issued by the European Commission, in 2010, to British Airways regarding its involvement in cartel activity in the air cargo sector and that had been recognised as an exceptional charge. The exceptional credit has been recorded within Property, IT and other costs in the Income statement with no resultant tax charge arising. The cash inflow associated with the partial reversal of the fine was recognised during 2022.

2 Impairment reversal of fleet and associated assets

The exceptional impairment reversal of €8 million for the year to December 31, 2022 relates to six Airbus A320s in Vueling, previously stood down in the fourth quarter of 2020 and subsequently stood up in the second and third quarters of 2022. The exceptional impairment reversal was recorded within Right of use assets on the Balance sheet and within Depreciation, amortisation and impairment in the Income statement.

The exceptional impairment reversal of €21 million, recorded in 2021, includes an amount of €14 million relating to the reversal of aircraft impairment and an amount of €7 million relating to the reversal of engine impairment. The aircraft impairment reversal 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. The engine impairment reversal relates to certain engines which had been fully impaired during 2020 having been leased to a third party in the fourth quarter of 2021. Of the exceptional impairment reversal, €8 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.

There is no cash flow impact and there has been a tax charge of €2 million on the recognition of the impairment reversal (2021: charge of €1 million).

In the year to December 31, 2021:

3 Discontinuation of hedge accounting

The exceptional credit of €159 million, recorded in 2021, arose from a combination of the discontinuance of hedge accounting in the year to December 31, 2021 and the fair value movement on those relationships where hedge accounting was discontinued in the year to December 31, 2020, but for which the underlying hedging instrument had not matured at January 1, 2021. This was represented by credit of €162 million relating to fuel derivatives and an expense of €8 million related to the associated fuel foreign currency derivatives. The credit to Passenger revenue of €5 million relates to the discontinuation of hedge accounting of the associated foreign currency derivatives on forecast revenue.

The cash outflow impact associated with the discontinuance of hedge accounting was €nil in the year to December 31, 2022 (2021: €338 million). The related tax charge in 2021 was €26 million.

4 Restructuring costs

The exceptional credit of €18 million, recorded in 2021, relates to the reversal of restructuring provisions that have been released unutilised. There was no cash flow impact relating to the exceptional restructuring credit in 2021 and the related tax charge was €3 million.

5 Engineering and other aircraft costs

The exceptional credit of €7 million, recorded in 2021, relates to the reversal of contractual lease provisions for those aircraft in Vueling that were stood up during 2021, where the estimated costs to fulfil the hand back conditions will be recognised over the remaining operating activity of the aircraft. The exceptional credit was recorded within Engineering and other aircraft costs. There was no cash flow impact relating to the exceptional credit in 2021 and there was no tax impact on the recognition of this credit.

6 Air Europa Holdings termination agreement

The exceptional charge of €75 million, recorded in 2021, represents the amount agreed with Globalia to terminate the agreements signed on November 4, 2019 and January 20, 2021 under which Iberia had agreed to acquire the issued share capital of Air Europa Holdings. The exceptional charge was recorded within Other non-operating charges in the Income statement and was settled prior to December 31, 2021. The related tax credit was €5 million. The Group recognised the cash outflow impact of the termination agreement in 2021.

The table below provides a reconciliation of the statutory to pre-exceptional condensed alternative income statement by operating segment for the years to December 31, 2022 and 2021:

	Year to December 31, 2022														
	British Airways (£)			**British Airways (€)**			**Iberia**			**Vueling**			**Aer Lingus**		
€ million	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	9,215	–	9,215	10,790	–	10,790	4,042	–	4,042	2,584	–	2,584	1,679	–	1,679
Cargo revenue	1,060	–	1,060	1,245	–	1,245	347	–	347	–	–	–	80	–	80
Other revenue	755	–	755	886	–	886	1,122	–	1,122	14	–	14	10	–	10
Total revenue	11,030	–	11,030	12,921	–	12,921	5,511	–	5,511	2,598	–	2,598	1,769	–	1,769
Employee costs	2,100	–	2,100	2,464	–	2,464	1,161	–	1,161	370	–	370	393	–	393
Fuel, oil costs and emissions charges	2,929	–	2,929	3,432	–	3,432	1,313	–	1,313	739	–	739	539	–	539
Depreciation, amortisation and impairment	1,084	–	1,084	1,272	–	1,272	371	–	371	206	(8)	214	146	–	146
Other operating costs	4,595	(19)	4,614	5,391	(23)	5,414	2,284	–	2,284	1,088	–	1,088	646	–	646
Total expenditure on operations	10,708	(19)	10,727	12,559	(23)	12,582	5,129	–	5,129	2,403	(8)	2,411	1,724	–	1,724
Operating profit	322	19	303	362	23	339	382	–	382	195	8	187	45	–	45
Operating margin (%)	2.9%		2.7%				6.9%		6.9%	7.5%		7.2%	2.6%		2.6%

€ million	Year to December 31, 2022					
	IAG Loyalty (£)			**IAG Loyalty (€)**		
	Statutory	**Exceptional items**	**Before exceptional items**	**Statutory**	**Exceptional items**	**Before exceptional items**
Passenger revenue	569	–	569	676	–	676
Other revenue	274	–	274	325	–	325
Total revenue	843	–	843	1,001	–	1,001
Employee costs	50	–	50	56	–	56
Depreciation, amortisation and impairment	7	–	7	8	–	8
Other operating costs	546	–	546	655	–	655
Total expenditure on operations	603	–	603	719	–	719
Operating profit	240	–	240	282	–	282
Operating margin (%)	28.4%		28.4%			

€ million	Year to December 31, 2021														
	British Airways (£)			British Airways (€)			Iberia			Vueling			Aer Lingus		
	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	2,321	5	2,316	2,715	6	2,709	1,724	–	1,724	1,011	–	1,011	307	(1)	308
Cargo revenue	1,097	–	1,097	1,275	–	1,275	394	–	394	–	–	–	65	–	65
Other revenue	281	–	281	328	–	328	666	–	666	5	–	5	4	–	4
Total revenue	3,699	5	3,694	4,318	6	4,312	2,784	–	2,784	1,016	–	1,016	376	(1)	377
Employee costs	1,471	(11)	1,482	1,708	(13)	1,721	723	(5)	728	200	–	200	180	–	180
Fuel, oil costs and emissions charges	830	(109)	939	967	(125)	1,092	519	(9)	528	198	(9)	207	89	(10)	99
Depreciation, amortisation and impairment	979	(6)	985	1,134	(7)	1,141	350	–	350	227	(13)	240	140	–	140
Other operating costs	2,188	–	2,188	2,550	–	2,550	1,412	–	1,412	624	(7)	631	305	–	305
Total expenditure on operations	5,468	(126)	5,594	6,359	(145)	6,504	3,004	(14)	3,018	1,249	(29)	1,278	714	(10)	724
Operating loss	(1,769)	131	(1,900)	(2,041)	151	(2,192)	(220)	14	(234)	(233)	29	(262)	(338)	9	(347)
Operating margin (%)	(47.8)%		(51.4)%				(7.9)%		(8.4)%	(23.0)%		(25.8)%	(90.0)%		(92.1)%

€ million	Year to December 31, 2021					
	IAG Loyalty (£)			IAG Loyalty (€)		
	Statutory	Exceptional items	Before exceptional items	Statutory	Exceptional items	Before exceptional items
Passenger revenue	215	–	215	252	–	252
Other revenue	162	–	162	186	–	186
Total revenue	377	–	377	438	–	438
Employee costs	33	–	33	37	–	37
Depreciation, amortisation and impairment	6	–	6	7	–	7
Other operating costs	225	–	225	263	–	263
Total expenditure on operations	264	–	264	307	–	307
Operating profit	113	–	113	131	–	131
Operating margin (%)	29.9%		29.9%			

b Adjusted earnings/(loss) per share (KPI)

Adjusted 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	2022	2021
Profit/(loss) after tax attributable to equity holders of the parent	a	431	(2,933)
Exceptional items	a	29	105
Profit/(loss) after tax attributable to equity holders of the parent before exceptional items		**402**	(3,038)
Income statement impact of convertible bonds		(104)	–
Adjusted profit/(loss)		**298**	(3,038)
Weighted average number of shares used for basic earnings/(loss) per share	11	4,958	4,964
Weighted average number of shares used for diluted earnings/(loss) per share	11	5,344	4,964
Basic earnings/(loss) per share (€ cents)		**8.7**	(59.1)
Basic earnings/(loss) per share before exceptional items (€ cents)		**8.1**	(61.2)
Adjusted earnings/(loss) per share before exceptional items (€ cents)		**5.6**	(61.2)

c Airline non-fuel costs per ASK

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

€ million	Note	2022 Reported	ccy adjustment	2022 ccy	2021
Total expenditure on operations	a	21,810	(1,104)	20,706	11,220
(Add)/less: exceptional items in operating expenditure	a	(31)		(31)	(200)
Less: fuel, oil costs and emission charges	a	6,120	(505)	5,615	1,935
Non-fuel costs		15,721	(599)	15,122	9,485
Less: Non-flight specific costs		1,716	(84)	1,632	815
Airline non-fuel costs		14,005	(515)	13,490	8,670
ASKs (millions)		263,592		263,592	121,965
Airline non-fuel unit costs per ASK (€ cents)		**5.31**		**5.12**	7.11

d Levered free cash flow (KPI)

Levered free cash flow represents the cash generated, and the financing raised, by the businesses before shareholder returns and is defined as the net increase in cash and cash equivalents taken from the Cash flow statement, adjusting for movements in Current interest-bearing deposits 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 cash generating ability of the Group that is available to return to shareholders, to improve leverage and/or to undertake inorganic growth opportunities.

€ million	2022	2021
Net Increase in cash and cash equivalents	**1,316**	1,913
Less: Decrease in other current interest-bearing deposits	351	(91)
Levered free cash flow	**1,667**	1,822

e Net debt to EBITDA before exceptional items (KPI)

To supplement total borrowings as presented in accordance with IFRS, the Group reviews net debt to EBITDA before exceptional items 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 against internal and external security analyst and investor benchmarks. During 2022 the Group has amended the name of the APM to clarify that the EBITDA element is before exceptional items, however the determination of the calculation of the APM has not changed.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits. Net debt excludes supply chain financing arrangements which are classified within trade payables (note 22).

EBITDA before exceptional items is defined as operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment.

The Group believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. It is a measure of the profitability of the Group and of the core operating cash flows generated by the business model.

€ million	Note	**2022**	2021
Interest-bearing long-term borrowings	25	**19,984**	19,610
Less: Cash and cash equivalents	21	**(9,196)**	(7,892)
Less: Other current interest-bearing deposits	21	**(403)**	(51)
Net debt		**10,385**	11,667
Operating profit/(loss)	a	**1,256**	(2,765)
Add: Depreciation, amortisation and impairment	a	**2,070**	1,932
EBITDA		**3,326**	(833)
Add: Exceptional items (excluding those reported within Depreciation, amortisation and impairment)	a	**(23)**	(184)
EBITDA before exceptional items		**3,303**	(1,017)
Net debt to EBITDA before exceptional items		**3.1**	(11.5)

f Return on invested capital (KPI)

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

Invested capital is defined as the average of property, plant and equipment and software intangible assets over a 12-month period between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets.

€ million	Note	**2022**[1]	2021
EBITDA before exceptional items	e	**3,303**	(1,017)
Less: Fleet depreciation multiplied by inflation adjustment		**(1,944)**	(1,777)
Less: Other property, plant and equipment depreciation		**(247)**	(257)
Less: Software intangible amortisation		**(210)**	(167)
		902	(3,218)
Invested capital			
Average fleet value[2]	13	**15,717**	15,241
Less: Average progress payments[3]	13	**(910)**	(729)
Fleet book value less progress payments		**14,807**	14,512
Inflation adjustment[4]		***1.18***	*1.16*
		17,435	16,893
Average net book value of other property, plant and equipment[5]	13	**2,037**	2,106
Average net book value of software intangible assets[6]	17	**640**	640
Total invested capital		**20,112**	19,639
Return on Invested Capital		**4.5 %**	(16.4)%

1 The 2022 RoIC calculation excludes the effect of the €29 million credit recorded in Depreciation, amortisation and impairment in the Income statement relating to the de-designation of hedge accounting (refer to note 6).
2 The average net book value of aircraft is calculated from an amount of €15,116 million at December 31, 2021 and €16,317 million at December 31, 2022.
3 The average net book value of progress payments is calculated from an amount of €748 million at December 31, 2021 and €1,071 million at December 31, 2022.
4 Presented to two decimal places and calculated using a 1.5 per cent inflation (December 31, 2021: 1.5 per cent inflation) rate over the weighted average age of the fleet at December 31, 2022: 11.3 years (December 31, 2021: 10.6 years).
5 The average net book value of other property, plant and equipment is calculated from an amount of €2,045 million at December 31, 2021 and €2,029 million at December 31, 2022.
6 The average net book value of software intangible assets is calculated from an amount of €642 million at December 31, 2021 and €637 million at December 31, 2022.

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

The following table represents the main average and closing exchange rates for the reporting periods. Where 2022 figures are stated at a constant currency basis, they have applied the 2021 rates stated below:

Foreign exchange rates

	Weighted average		Closing	
	2022	2021	**2022**	2021
Pound sterling to euro	**1.17**	1.15	**1.14**	1.18
Euro to US dollar	**1.05**	1.20	**1.06**	1.13
Pound sterling to US dollar	**1.23**	1.38	**1.21**	1.33

h Liquidity

The Board and the Management Committee monitor liquidity in order to assess the resilience of the Group to adverse events and uncertainty and develop funding initiatives to maintain this resilience.

Liquidity is used by analysts, investors and other users of the financial statements as a measure to the financial health and resilience of the Group.

Liquidity is defined as Cash and cash equivalents plus Current interest-bearing deposits, plus Committed general undrawn facilities and committed aircraft undrawn facilities.

€ million	Note	**2022**	2021
Cash and cash equivalents	21	**9,196**	7,892
Current interest-bearing deposits	21	**403**	51
Committed general undrawn facilities	27f	**3,231**	2,864
Committed aircraft undrawn facilities	27f	**1,116**	1,126
Overdrafts and other facilities	27f	**53**	53
Total liquidity		**13,999**	11,986

Subsidiaries

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
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 Euroflyer 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 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 Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	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	Call centre	England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Former airline	England	99%
Avios Group (AGL) Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Management of airline loyalty programmes	England	86%[1]

Iberia

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027	Cargo transport	Spain	100%
Iberia LAE México SA de CV Xochicalco 174, Col. Narvarte, Alcaldía Benito Juárez, Mexico City, 03020	Merchandise storage, security and custody services	Mexico	100%
Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%[2]
Iberia México, S.A.* Calle Montes Urales 424, Colonia Lomas de Chapultepec V, Mexico City, 11000	Storage and custody services	Mexico	100%
Iberia Operadora UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%[1]
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
Iberia Desarrollo Barcelona, S.L.* Avenida de les Garrigues 38-44, Edificio B, El Prat de Llobregat, Barcelona, 08220	Airport infrastructure development	Spain	75%
Avios Group (AGL) Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Management of airline loyalty programmes	England	14%[1]

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	Trustee	Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, IM1 4LZ	Dormant	Isle of Man	100%
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100%[3]
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
Aer Lingus (UK) Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, Co. Antrim, BT3 9JH	Airline operations	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, HM 12	Insurance	Bermuda	100%
Santain Developments Limited Dublin Airport, Dublin	Dormant	Republic of Ireland	100%

IAG Loyalty

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%
IAG Loyalty Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Dormant	England	100%
IAG Loyalty Retail Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	Retail services	England	100%

IAG Cargo

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

Vueling

Name and address	Principal activity	Country of incorporation	Percentage of equity owned
Yellow Handling, S.L.U Carrer de Catalunya 83 Viladecans, Barcelona 08840	Ground handling services	Spain	100%
Vueling Airlines, S.A.* Carrer de Catalunya 83 Viladecans, Barcelona 08840	Airline operations	Spain	99.5%

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%[4]
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%[2]
Veloz Holdco, S.L.U. Carrer de Catalunya 83 Viladecans, Barcelona 08840	Holding company	Spain	100%

* Principal subsidiaries

1 The Group holds 100% of both the nominal share capital and economic rights in Avios Group (AGL) Limited, held directly by British Airways Plc, which owns 86% and Iberia Operadora UK Limited which owns 14%.

2 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.

3 The Group holds 49.75% of the total number of voting rights and the majority of the economic rights in Aer Lingus Group DAC. The remaining voting rights, representing 50.25 per cent, correspond to a trust established for implementing the Aer Lingus nationality structure.

4 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, are held by 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, Jose Martí Airport, Havana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 1 ½, Jose Martí Airport, Havana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2ª planta, Madrid, 28050	Spain	49%
Dunwoody Airline Services Limited Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	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 Flat 10, 28 Cranley Gardens, London, SW7 3DD	England	23%
LanzaJet 520 Lake Cook Road, Suite 680, Deerfield, Illinois, 60015	USA	16.7%

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)
Air Europa Holdings S.L.[1] Carretera Arenal - Llucmajor, km 21.5 Llucmajor, 07620	Spain	20%	EUR	24	–
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	73	2
The Airline Group Limited 5th Floor, Brettenham House South, Lancaster Place, London, WC2N 7EN	England	16.7%	GBP	208	–
Travel Quinto Centenario, S.A. Calle Alemanes 3, Sevilla, 41004	Spain	10%	EUR	–	–
i6 Group Limited Farnborough Airport, Ively Road, Farnborough, Hampshire, GU14 6XA	England	7.4%	GBP	4	(1)
NAYAKJV1, S.L. C/ d'Osona, 2, El Prat de Llobregat, 08820	Spain	5%	EUR	–	–
Monese Limited Eagle House 163 City Road, London, EC1V 1NR	England	4.8%	GBP	18	(28)

1 The Shareholder funds and result before tax of Air Europa Holdings S.L. represent the data for the year to December 31, 2021 and are prepared under Spanish GAAP. The Group does not have access to any financial information

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 23, 2023, 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, 2022 prepared in accordance with the applicable international accounting standards, offer a true and fair 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 23, 2023

Javier Ferrán Larraz
Chairman

Luis Gallego Martín
Chief Executive Officer

Giles Agutter

Peggy Bruzelius

Eva Castillo Sanz

Margaret Ewing

Maurice Lam

Heather Ann McSharry

Robin Phillips

Emilio Saracho Rodríguez de Torres

Lucy Nicola Shaw

AIRCRAFT FLEET

Number in service with Group companies[1]

	Owned	Finance lease	Operating lease	**Total December 31, 2022**	Total December 31, 2021	Changes since December 31, 2021	Future deliveries	Options[2]
Airbus A319ceo	8	-	33	**41**	39	2	-	-
Airbus A320ceo	42	21	136	**199**	190	9	-	-
Airbus A320neo	2	35	23	**60**	50	10	45	50
Airbus A321ceo	11	3	30	**44**	51	(7)	-	-
Airbus A321neo	-	2	14	**16**	14	2	46	-
Airbus A321 LR	-	-	8	**8**	8	-	-	-
Airbus A321 XLR	-	-	-	**-**	-	-	14	14
Airbus A330-200	-	1	15	**16**	18	(2)	-	-
Airbus A330-300	4	4	12	**20**	18	2	-	-
Airbus A350-900	-	6	9	**15**	9	6	7	16
Airbus A350-1000	3	10	-	**13**	8	5	5	36
Airbus A380	2	10	-	**12**	12	-	-	-
Boeing 737-8200	-	-	-	**-**	-	-	25	100
Boeing 737-10	-	-	-	**-**	-	-	25	-
Boeing 777-200	38	2	3	**43**	43	-	-	-
Boeing 777-300	5	4	7	**16**	16	-	-	-
Boeing 777-9	-	-	-	**-**	-	-	18	24
Boeing 787-8	-	10	2	**12**	12	-	-	-
Boeing 787-9	1	8	9	**18**	18	-	-	-
Boeing 787-10	-	4	-	**4**	2	2	7	6
Embraer E190	9	-	12	**21**	23	(2)	-	-
Group total	**125**	**120**	**313**	**558**	**531**	**27**	**192**	**246**

1 During the year to December 31, 2022, the Group has changed the basis in which it presents the aircraft fleet table.

Aircraft are reported based on their contractual definitions as opposed to their accounting determination. For accounting purposes, while all operating leases are presented as lease liabilities, finance leases are presented as either lease liabilities or asset financed liabilities, depending on the nature of the individual arrangement. Refer to note 2 for further information.

2 The options to purchase 100 Boeing 737 aircraft allow for flexibility in the choice of variant.

As well as those aircraft in service the Group also holds 18 aircraft (December 31, 2021: 29) not in service.